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**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR EGYPT**

**As approved by the Board of Directors at its meeting on 8 February 2017**

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## EXECUTIVE SUMMARY

Egypt is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement establishing the Bank.

Since the Bank started its activities in Egypt in 2012, the country has undergone a difficult transition. Several reform steps have been taken, notably the ratification of a new Constitution, which enshrines many important principles of democratic rule. At the same time, sharp divisions have arisen, leading to a transfer of power and episodes of violence that interrupted the transition process. In the period from mid-2013 to the end of 2015, Egypt implemented a democratic roadmap, which culminated in parliamentary elections which contributed to improved stability in the country. While several important milestones have been reached, further reforms are needed to embed the application of democratic principles more firmly, including consolidating democratic institutions and practices, improving levels of governance and transparency, reinforcing inclusiveness, rule of law and the protection of freedom for all citizens.

Following strong economic growth in FY2014/15, economic activity has slowed down due to a number of headwinds and employment remains low, particularly among women and youth. External imbalances are growing, on the back of a slowdown in global trade, lower tourism earnings as well as declining petroleum exports and remittances. This has put international reserves under pressure. The recent liberalisation of the exchange rate will improve the functioning of the foreign exchange market, increase competitiveness and attract foreign investment. In addition, a US\$12bn three-year IMF Extended Fund Facility for Egypt was approved in November 2016, which will help cover part of Egypt's total external financing gap, thus helping to cushion foreign reserves. While the government has made some positive steps towards consolidating the fiscal deficit – most notably including subsidy reforms – further progress is needed to reduce current expenditure in order to create room for more growth-enhancing spending, and keep public debt under control. On the structural side, notable reform measures have been adopted since 2014, particularly in the energy sector as well as the general business environment. However, challenges remain that constrain private sector development. These include: policy uncertainty, low access to finance, burdensome business regulations and an uneven playing field, a lack of adequate market-based incentives in the energy and infrastructure sectors, as well as underdeveloped domestic value chains.

Egypt's fast growing population exerts significant pressure on resources and public services. On top of the already high unemployment rate, Egypt would require an average annual GDP growth rate of 4 per cent just to absorb the new entrants. The fiscal deficit meanwhile provides the government with little headroom for catalysing economic growth in the medium term. Therefore, a competitive and inclusive private sector, supported by sustainable and more commercially-run infrastructure, and enabled by a fair and more conducive business environment, will have to become the key engine of economic growth and job creation. In this context, the following strategic orientations are proposed to guide EBRD's engagement in Egypt in the forthcoming strategy period:

- **Priority 1: Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People:** Many segments of the Egyptian private sector are characterised by low levels of competitiveness and productivity, thus restricting private sector development, including integration into international and domestic value chains. Consequently, only a small share of Egyptian firms export to global markets. While most firms suffer from challenging access to finance, SMEs are disproportionately affected by financing constraints, in particular women-led businesses. An additional key challenge for private sector development is the mismatch between the provisions of the education system and job market requirements. In this context, the Bank will support private sector corporates and SMEs through direct debt and equity investments, as well as through business advisory. The Bank will promote integration of local companies and SMEs into local value chains through backward and forward linkage, and will also seek to support export-oriented companies. Additionally, EBRD will seek to facilitate SMEs access to finance by continuing to provide dedicated SME credit lines to local banks including for energy efficiency and women entrepreneurs. In its engagement, the Bank will aim to increase inclusion by supporting women's access to economic opportunities and youth training programmes.
- **Priority 2: Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation:** Private sector participation in transport, municipal and energy infrastructure has been limited and these sectors suffer from underinvestment, leading to irregular or low quality of service provision. Additionally, subsidies, low tariffs and a lack of incentives to control costs and inefficiencies, constrain operational and financial sustainability across sectors. Egypt's demographic dynamics compound these challenges, putting additional pressure on the aging infrastructure. In the energy sector, the Bank will support the power sector's transition to a more efficient, transparent and private sector-led commercial model, as well as promote gas market reforms. It will also finance modernisation and improved efficiencies of municipal infrastructure, as well as promote commercial practices by championing the use of public service contracts and encouraging PPPs with a view to bolster private sector participation in the provision of municipal services. In addition, it will support its clients in becoming more responsive to the needs of women and youth. In the rail sector, the Bank will assist reforms, in particular the unbundling and commercialisation of freight operations.
- **Priority 3: Support Egypt's Green Economy Transition:** Egypt has developed an energy intensive economy relative to its regional peers, being among the top five EBRD countries in terms of annual carbon emissions. Meanwhile, an undiversified power generation base limited generation capacity, rapid growth in power demand and gas supply shortages have given rise to supply concerns. While laws and regulations dealing with energy efficiency have improved, they remain patchy and unevenly implemented. Additionally, Egypt is highly exposed to the effects of climate change, including already experiencing chronic water shortages. The Bank will support Egypt's efforts in diversifying its energy mix by financing renewable energy projects, and will support energy efficiency investments across sectors, including through SME energy efficiency credit lines. Additionally, the Bank will seek to improve water efficiency through modernising water supply and waste water

management, as well as through a pilot irrigation programme. The Bank will complement these investments with policy dialogue, including supporting the regulatory and contractual framework for renewable energy investments and regulation to incentivise the reduction of gas flaring.

- **Priority 4: Strengthen Governance and Level the Playing Field for all Businesses:** Improved governance standards are needed for a leaner and more transparent institutional environment that encourages entrepreneurship and private sector investment, promotes transparency and accountability of the public sector, and contributes to a level playing field. The state sector plays a significant role in the economy, and there is room for improvement in the governance standards of the public administration. The lack of clarity about the role and responsibility of the state as an economic referee with overlapping or unclear boundaries creates uncertainties which affect the general business climate and private sector development. Regulatory enforcement remains insufficient to ensure a level playing field, while non-tariff measures distort competition in several segments of the economy. In the private sector, weak corporate governance, in particular among second tier corporates, is a drag on general competitiveness and limits firms' financing options. To support improved governance in both the public and private sector, and in close coordination with other IFIs active in the field of economic governance, the Bank will aim to supplement its investment in both the state and private sectors with appropriate public and corporate governance programmes. The Bank will also provide capacity building to relevant institutions to improve competition, promote investment and policy delivery. Progress on governance issues will provide support to the Bank's activities under the other three priorities of this country strategy.

Across all these strategic orientations the Bank will aim at promoting **gender equality and youth inclusion**. Youth unemployment remains high at 37 per cent and Egypt has one of the lowest female labour force participation rates globally, at just 24 per cent, while also exhibiting gender gaps with respect to access to finance and firm ownership. In this context, EBRD will seek to mainstream gender and youth inclusion components across its investments and policy dialogue.

## 1 OVERVIEW OF THE BANK'S ACTIVITIES

### 1.1 The Bank's current portfolio

Private sector ratio: 72.7 per cent, as of 31 December 2016

Sector Group	Sector Team	Portfolio no of operations	Portfolio (€m)	% Portfolio	Op Assets	% Op Assets
<b>Energy</b>	Natural Resources	5	240	12%	97	11%
	Power and Energy	2	369	18%	34	4%
		<b>7</b>	<b>609</b>	<b>30%</b>	<b>130</b>	<b>15%</b>
<b>Financial Institutions</b>	Depository Credit (banks)	10	701	35%	479	55%
	Insurance, Pension, Mutual Funds	0	0	0%	0	0%
	Leasing Finance	0	0	0%	0	0%
	Non-depository Credit (non-bank)	0	0	0%	0	0%
		<b>10</b>	<b>701</b>	<b>35%</b>	<b>479</b>	<b>55%</b>
<b>Industry, Commerce &amp; Agribusiness</b>	Agribusiness	6	209	10%	125	14%
	Equity Funds	4	37	2%	7	1%
	Information & Communications Technologies	0	0	0%	0	0%
	Manufacturing & Services	7	117	6%	116	13%
	Property and Tourism	1	3	0%	0	0%
		<b>18</b>	<b>366</b>	<b>18%</b>	<b>248</b>	<b>29%</b>
<b>Infrastructure</b>	Municipal & Environmental Infrastructure	3	202	10%	8	1%
	Transport	1	126	6%	1	0%
		<b>4</b>	<b>328</b>	<b>16%</b>	<b>9</b>	<b>1%</b>
<b>Summary</b>		<b>39</b>	<b>2,003</b>	<b>100%</b>	<b>866</b>	<b>100%</b>

Source: EBRD

### 1.2 Implementation of the previous strategic directions

During the reporting period, Egypt has been faced with significant political uncertainties, security issues and economic challenges. Despite these adverse developments, the Bank has invested €2.3 billion in 42 operations since the beginning of its activities in Egypt in 2012. Its engagement was guided by the Country Assessment for Egypt, approved by the Board on 31 October 2012, with the following priorities:

**1. Financing and improving conditions for investments in the private sector with particular emphasis on SMEs, to support transition and job creation:** The Bank successfully supported Egypt's private **corporates** and promoted best operational standards and efficiencies through engagements in the manufacturing, services and pharmaceutical sectors for an aggregate amount of €160 million. A number of the Bank's projects in these sectors included support to improvements in corporate governance resulting e.g. in the establishment of internal audit functions and strengthened financial and non-financial disclosure at client level and across many engagements, the Bank strongly emphasised supporting **resource efficiency**. For instance, EBRD helped a cement company reduce its dependence on heavy fuel oil and gas

through a significant growth in the use of alternative fuel, coupled with no increase in CO2 emissions. The Bank's investments in the cement industry were accompanied by a robust policy dialogue with the Ministries of Industry & Trade and Environment to assist in the development of a countrywide low-carbon road map for the cement industry.

Since the beginning of its activities in Egypt in 2012, the Bank's **Advice for Small Business** was able to gain credibility, resulting in strong demand for its services. To date, the team signed 502 advisory projects, out of which 160 were with women-led SMEs. Clients reported an average increase in turnover of 23 per cent and employment growth of 11 per cent. EBRD, through support from the MENA Transition Fund, has also assisted the Social Fund for Development in the promotion and support of small businesses and women entrepreneurs in particular through strengthening the capacity of the SFD to support the MSME sector in Egypt with a particular focus on promoting women entrepreneurship.

**2. *Enhancing the agribusiness value chain to improve food security, strengthen the distribution chain, and develop a sector that accounts for a high share of employment:*** during the reporting period, EBRD financed the enhancement of the **agribusiness** value chain through seven investments for a total of €257 million, including supporting food producers to help modernise farming practices or upgrading processing facilities and logistics. Investments included, for example a local currency loan to an Alexandria-based leading diversified food producer, as well as financing for one of Egypt's leading private sugar companies, including capacity building and process modernisation of local suppliers to support backward linkages. Considering that Egypt is the largest global wheat importer, the Bank and FAO carried out a comprehensive review of the challenges related to import wheat supply chain. In conjunction, the Bank and FAO worked with private sector grain traders to establish Egypt's first private sector grain traders' association which could become a main platform for public-private dialogue in improving efficiencies in the sector.

**3. *Modernising the financial sector so that it can contribute more fully to economic growth by strengthening its capacity and diversifying the range of financial products offered, including risk capital:*** the Bank helped broadening the **access to finance for MSMEs** through six on-lending SME credit facilities for a total of €388 million with local partner banks (NBE, QNB, NBK, Audi Bank, Bank of Alexandria). When appropriate, SME loans were accompanied by capacity-building technical assistance targeted at both financial intermediaries and SMEs. The Bank has successfully launched two additional facilities with NBE, one Woman in Business credit line and another debt facility focused on energy efficiency financing, including for SMEs, both of which are new products in the Egyptian banking market. In support of cross-border trade, the Bank signed five TFP agreements, the uptake of which has been strong: as of end-2016 the TFP ABI stood at €143 million, the largest volume in EBRD's countries of operations in 2016. Training workshops for Egyptian banks, including in cooperation with the Egyptian Banking Institute, were also organised on a number of topics such as trade finance, SME risk management and AML/CFT (e.g. 175 loan officers were trained in energy efficiency and renewable energy financing).

After the Bank was able to conclude its first EGP/US\$ swap in Egypt with the NBE, six projects were financed in local currency, for an aggregate counter value of €71.51 million. General subdued credit demand combined with higher EBRD funding cost in EGP than local banks has however limited further uptake of the swap line so far.

In support of capital market development, EBRD and the African Development Bank provided a US\$6 million technical support programme jointly funded by the MENA Transition Fund, to the Central Bank of Egypt to modernise its clearing, settlement and depository system for government securities which will contribute to the development of a corporate bond market, including the development of a yield curve for government securities.

**4. Increasing the role of cleaner fuels and renewable energy, including solar energy, and improving energy efficiency so as to support energy security and enhance economic competitiveness:** in the **power sector**, EBRD assisted the Egyptian Electricity Holding Company in the construction of a new combined cycle gas-fired power plant with state-of-the-art technology, which is set to become the most energy and water efficient plant in the country. The Bank also supported the conversion of two existing power plants from an open cycle facility to combined cycle gas turbine, which will increase their aggregate capacity by 50 per cent, and result in a 58% increase in efficiency. The loans were accompanied by technical assistance to help improve the corporate governance standards of the holding company and increase stakeholder engagement. Jointly with IFC, the Bank has been leading the policy dialogue to assist the authorities in developing a legal and contractual framework geared for both private sector led and financed renewables projects (including ensuring its bankability with appropriate risk allocations), initially focused on the solar feed-in-tariff programme announced by the government at the end of 2014.

The Bank actively supported private sector investment in the **natural resource sector**. EBRD financed six privately owned mid-size oil production and servicing companies for an aggregate total of €278 million. The Bank's engagement supported increased competition in a sector dominated by a small number of large international operators. In addition, the projects had positive environmental and social impacts, including the cleaning of an old oil spillage, the reduction of petroleum gas flaring and inclusion of local SMEs into local value chains. On the policy side, the Bank worked together with the Ministry of Petroleum and the Egyptian General Petroleum Company to quantify the annual amount of associated petroleum gas flaring in the country and identify possible ways to reduce it. Separately, the Bank is facilitating a technical support programme to identify and provide solutions to improve energy efficiencies of a number of Egyptian refineries.

Overall, as a result of the Bank's sustainable energy activities between 2013 and 2016, CO<sub>2</sub> emissions have been reduced by 5,043 ktCO<sub>2</sub>/year, and resulted in 67,366,482 GJ/year energy savings.

**5. Supporting reform and commercialisation of the transport, fuels and power sectors, focussing on the mobilisation of private sector infrastructure investment; and upgrading and expanding municipal infrastructure:** in the **transport sector** the Bank provided support to the modernisation of the Egyptian National Railways' ('ENR') rolling stock through a €126 million loan to mobilise modern and energy efficient trainsets. Through the project ENR outsources the maintenance of the rolling stock to the private sector and improves safety levels for women passengers, including through improved lighting at stations and increased security in trains. Through its Infrastructure Project Preparation Facility framework, the Bank provides support to the Ministry of Transport in the preparatory work for developing an important logistical centre (6<sup>th</sup> of October City dry port linking up with the Port of Alexandria), which will include preparing the project for an international tender.



A key objective for the EBRD has been the upgrading and improvement of service delivery in the **municipal infrastructure sector**. Jointly with EIB, the Bank supported the expansion of a **wastewater** treatment plant in the Kafr El Sheikh governorate, which will enable the Kafr El Sheikh Water and Sanitation Company to provide first time sanitation to close to half a million people with an additional 4.7 million m<sup>3</sup> of wastewater treated according to standards expected to reduce the incidence of water borne diseases. The Bank also approved a multi-year €750 million investment envelope underpinning an ‘Integrated Approach’ to Cairo’s **urban transport** sector to help reduce Cairo’s high levels of congestion. As part of the first project under this approach, EBRD financed the procurement of 13 modern metro trains, reducing CO<sub>2</sub> emissions by 60 ktCO<sub>2</sub>/year, coupled with increased private sector involvement in the sector through the introduction of a long term supply and maintenance contract. In addition, the project promotes youth inclusion by encouraging private sector contractors to open on-site training programmes for young people, helping enhancing their skills and overall employability levels.

The Bank closely engaged with the Central PPP Unit as part of the Ministry of Finance, including support for the preparation and tendering of a Public Private Partnership programme to develop and operate Nile River Buses services, which will be the first major PPP transaction in urban transport in Egypt. The Bank further signed a MoU with the Ministry of Irrigation for the development of the national irrigation sector in Egypt. Lastly, the Bank signed a tripartite MoU with the Cairo Governorate and the Ministry of Environment to assist in the development of the **solid waste sector** in Greater Cairo, possibly on a PPP basis.

### 1.3 Key lessons

Four years of active engagement in Egypt have provided the Bank with invaluable first-hand experience on the ground and insights into Egypt’s operating environment and its transition specificities as compared to EBRD’s traditional countries of operations. The Bank’s start-up was complicated by significant political developments and instability. Private sector growth was additionally challenged by the adverse economic environment, including through regular gas and power cuts during the period 2012-2013 and, increasingly, foreign exchanges shortages. This particularly challenging operating environment, as well as the state’s unclear direction in relation to private sector led infrastructure development, did have an impact on the Bank’s efforts to ramp-up its private sector business, EBRD’s main objective in Egypt. In spite of these obstacles, the Bank was able to manage a private portfolio share of circa 65 per cent, coupled with increasing its overall annual business investment from €155 million in 2013 to €780 million in 2015.

Egypt’s limited integration into the global financial system and the consequential disconnect between sovereign and corporate pricing has been a particular challenge for the Bank, leading to lengthy pricing negotiations, pipeline attrition and delays in signings. This was aggravated by the high EGP liquidity and low loans to deposits ratio of Egyptian banks, as well as the underdeveloped corporate bond market, all of which added pressure on EBRD’s pricing model and created challenges for the Bank in developing its private sector business in Egypt. On the equity side, EBRD considered a number of projects, but to-date only one such investment has materialized. This was primarily due to valuation expectations significantly above international benchmarks, as a result of substantial investment appetite from regional wealth funds and local private equity firms, scarcity of equity transactions on offer due to

economic conditions, cultural reluctance of family-owned businesses to relinquish control and increasing overvaluation of the exchange rate during the strategy period.

Privatisation in Egypt has a negative connotation due to the perception of favouritism related to a number of privatisations in the 1990s and 2000s. This has prevented the Bank from meaningfully promoting privatisations as a tool for market reform, similar to the approach in its traditional countries of operations. In the Egyptian context, the Bank has thus opted for a more gradual and realistic approach, such as promoting initial reforms through corporatisation of public utilities and, on a case by case basis, PPP structures. EBRD's conditionalities were relatively new to the authorities, which required substantial investment in educating Egyptian public utility companies on EBRD's distinctive mandate and added value, coupled with the benefits of higher levels of transparency and accountability. A more recent challenge for private sector engagement in public infrastructure projects has been the fact that some well-developed infrastructure and energy projects involving the private sector have not proceeded as planned, sending a potential confusing message to investors. In addition, with the public administration keen to move fast to meet high expectations, the government has shown more recently a preference for direct awards for public sector works which are perceived to be faster in execution and lack complexities such as public procurement processes. The Bank will therefore in the upcoming period continue to engage in policy dialogue to promote, on a case by case basis, the financial and operational benefits of well-structured and executed private sector led infrastructure projects. The authorities have recently announced partial privatisations of selected state-owned companies and banks for which the Bank stands ready to consider providing support.

The Egyptian public administration consists of 34 ministries and is oversized, complex with unclear delineation of responsibilities. An early engagement with both political and operational levels in the administration has proven to be key, coupled with allocating substantial time and efforts to ensure progress on policy dialogue, as well as on public sector projects. The Bank's dedicated approach (including developing strong relations with the Ministry of International Cooperation and the consecutive EBRD Governors since 2012) facilitated a number of ambitious (on-going) policy dialogue initiatives (e.g., reduction of associated petroleum gas flaring, development of a low carbon road map for the Egyptian cement industry and review of the tariff methodology of Cairo metro).

## **2 OPERATIONAL ENVIRONMENT**

### **2.1 Political context**

- Since the uprising in 2011, Egypt has undergone a difficult transition. Several reform steps have been taken, notably the ratification of a new Constitution. The latter enshrines many important principles of democratic rule, such as a separation of powers, an independent judiciary and checks and balances, the conduct of executive and parliamentary elections, and a new Law on Political Rights that limits the executive's ability to influence elections.
- At the same time, sharp divisions have arisen, leading to a transfer of power and episodes of violence that interrupted the transition process. In the period from mid-2013 to the end of 2015, Egypt implemented a democratic roadmap, which culminated in parliamentary elections. Stability has been largely restored inside the country. The implementation of the democratic roadmap took place against the

backdrop of a significant deterioration of stability in neighbouring countries and the spread of militant groups in several countries in the region.

- While several important milestones have been reached, further reforms are needed to embed the application of democratic principles more firmly. In the coming years, it will be important to consolidate democratic institutions and practices and reinforce inclusiveness, rule of law and the protection of freedoms for all citizens. The low turnout in the 2015-parliamentary election and general trends within the activist groups indicate disenchantment within some social segments.
- Though the Egyptian political system is effectively presidential, the parliament has wide powers of legislation and supervision over the executive. Since its election, the parliament has assertively invoked its powers with regard to rejecting several laws and demanding the changing of others. This strengthens checks and balances in the political landscape. But it could delay some reforms put forward by the executive.
- The Egyptian administration has already introduced serious reforms, most notably in the politically-sensitive energy sector. While the pace of reforms had slowed down in the year before the parliamentary election, the IMF programme approved in November 2016 has provided an effective anchor. The administration remains determined to put forward further reforms targeting key areas and sectors..
- The administration has launched a number of mega-projects, including an expansion of the Suez Canal and the development of the Suez Canal Economic Zone, a logistical hub in its region, comprising four industrial zones and six ports. A successful publicly-subscribed US\$8 billion bond offering and a major investment conference in March 2015 demonstrated strong local and Arab interest in investing in the country. However, the first phases of the execution of some of these projects have faced challenges. International investors' interest in these projects remains subdued, relative to local expectations. In addition to overall sentiment and perceptions of risk towards the Arab world, this subdued interest is also a function of challenges in the country's investment climate and foreign exchange challenges. In light of an expansive state role in leading and undertaking these mega projects, there are also questions concerning the engagement of the private sector in them.
- Several terrorist attacks, primarily in Sinai, have damaged the tourism sector. Foreign direct investments continue to be low, relative to pre-2011 levels. These factors, while prompting the executive to expedite economic reforms, also generate significant pressures and make decision-makers place a higher weight on maintaining stability.

## 2.2 Macroeconomic context

**Economic activity continues to be primarily driven by private consumption, with exports dragging on growth.** GDP growth reached 4.2 per cent in FY2014/15 - up from 2.2 per cent in FY 2013/14 – thanks to policy reforms, financial support from Gulf countries and a more stable political situation. Private consumption remained the key driver of growth, though also notable was a rebound in investment after six continuous quarters of contraction from mid-2012. However, weak net exports were a drag on growth, reflecting declining petroleum exports and steady erosion of competitiveness through real exchange rate appreciation. Growth stood at 4.3 per cent in the first three quarters of FY2015/16, with private consumption continuing to be the key driver of growth and net exports remaining the key drag on economic activity. Unemployment remains high at 12.5 per cent (as of June 2016), with even higher youth and women unemployment rates of 37 per cent and 26 per cent respectively.

**External imbalances are growing.** Egypt's current account deficit widened to 3.6 per cent of GDP in FY2014/15 (up from 0.9 per cent of GDP the previous year) and has continued to expand in FY2015/16. The slowdown in global trade has adversely affected exports and Suez Canal receipts have fallen in dollar terms; tourism earnings have dropped sharply following multiple security incidents since 2015; oil exports have declined as a result of a shift to lower value crude (as opposed to product) exports due to limited refining capacity and have also been hit by the fall in global oil prices; and official transfers (mainly from the GCC countries) have fallen back from a peak of 3.9 per cent of GDP in FY2013/14 down to 0.8 per cent of GDP in FY2014/15. As a result, international reserves were below the critical threshold of three months' worth of imports in FY2014/15. Declining FX receipts, together with the central bank's measures to clampdown on the parallel FX market, have, until recently, resulted in significant FX shortages. These adversely impact the private sector's ability to import, plan, produce, or repatriate profits.

**The recent liberalisation of the exchange rate will improve the functioning of the foreign exchange market, boost reserves and increase competitiveness.** Following on from a 13 per cent devaluation of the EGP in March 2016 and the announcement by the Central Bank of Egypt of a shift to a more flexible exchange rate regime, the EGP was allowed to float in November 2016. As of mid-November, the exchange rate stood at EGP 15.7 per USD. The exchange rate liberalisation is a positive step that will support reducing foreign exchange shortages; boost export competitiveness; strengthen the official reserve position; increase the flexibility of the economy in response to external shocks; and bolster investor confidence. The Egyptian stock-market reacted positively to the liberalisation, which was also accompanied by an increase in the policy interest rate by 300 basis points to 14.75 per cent. Tighter monetary policy is intended to mitigate already-high price pressures. Inflation stood at around 14 per cent in October 2016, well above SEMED peers.

**The fiscal deficit remains elevated, with high and rising public debt.** The fiscal deficit of the general government reached 11.7 per cent in FY 2014/2015, compared to 12.1 per cent in FY 2013/2014. The government has made some positive steps towards consolidation – most notably reforming energy subsidies and introducing a modern broad-based value-added tax ('VAT') which expands the tax base and is expected to raise additional revenues of 1.0 to 1.1 per cent of GDP. In addition, excise rates on tobacco and alcohol products have been increased. However, a tax on capital gains was suspended and more efforts are needed to contain public debt and reduce fiscal rigidity. On the expenditure side, large structural components of government spending have complicated deficit reduction plans. Debt service payments are on the rise; and concerns over inflation have led to revisions of the schedule for electricity tariff rises, stretching the deadline for the phasing out of subsidies to 2020 instead of 2019. Moreover, the deficit needs to be brought down while simultaneously increasing growth-enhancing expenditure on health and education, in line with constitutional commitments. Notably, however, a Civil Service Law that overhauls public sector compensation was finally approved in July 2016 albeit with amendments. As a result of elevated fiscal deficits, total government debt (domestic and external) reached 84 per cent of GDP at year-end FY2014/15 and is expected to continue to increase.

**A US\$12bn three-year IMF Extended Fund Facility for Egypt was approved in November 2016.** IMF funding will help cover part of Egypt's total external financing gap, which is estimated at US\$25-27bn over the next three years, thus helping to cushion foreign reserves. The IMF programme supports the authorities' economic reform programme to improve the functioning of foreign exchange markets; bring down the budget deficit and

public debt levels; and raise growth through supporting the government's reform efforts to improve the business environment, deepen labour markets, simplify regulations and promote competition. Strengthening the social safety net to protect the vulnerable during the process of adjustment is a cornerstone of the programme.

### Egypt: Main macroeconomic indicators

		2011	2012	2013	2014	2015
GDP growth	%, y-o-y	1.8	2.2	2.1	2.2	4.2
CPI inflation	%, avg.	11.0	8.7	6.9	10.1	11.0
Government balance	% of GDP	-9.8	-10.0	-13.4	-12.1	-11.7
Current account balance	% of GDP	-2.6	-3.7	-2.2	-0.9	-3.6
Net FDI [neg. sign = inflows]	% of GDP	0.9	-1.4	-1.3	-1.4	-1.9
External debt	% of GDP	15.2	12.5	16.4	15.6	14.9
Gross reserves*	% of GDP	7.5	5.5	6.4	5.2	5.2
Private sector credit	% of GDP	30.0	28.1	26.9	26.4	26.8
Nominal GDP	US\$ bn	243	273	268	297	315
GDP per capita	US\$	3017	3313	3172	3420	3539
Unemployment	Per cent	12.0	12.7	13.2	13.0	N/A

*Note: All figures are for the fiscal year (Jul-Jun), except gross reserves, private sector credit and unemployment which correspond to the calendar year.*

### 2.3 Structural reform context

**Reforms have been enacted to the general business environment.** Amendments to the Investment Law have been approved that improve the framework for investors' dispute resolution, though implementation of the law remains a challenge and much remains to be done. The amendments also attempted to streamline investment procedures by authorising the General Authority for Investment ('GAFI') to act as a one-stop-shop for investors, though this has also created additional confusion over the extent of GAFI's mandate and also obscured the land allocation process to investors. Separately, the Competition Law was amended to strengthen the independence and effectiveness of the Egyptian Competition Authority ('ECA'), although many shortcomings remain. Other notable reforms include the country's first microfinance law, which addresses regulatory gaps and enables microfinance institutions to expand their outreach; a new law on pledges over moveable assets that is expected to increase access to finance for SMEs; as well as reforms, some of them distortive, enacted by the Central Bank of Egypt to reduce loan concentration risks in the banking sector and to increase the MSMEs share in local banks' portfolios through a wide range of regulatory measures, including capital relief related to commercial bank's SME portfolios. In addition, the authorities have announced the privatisation of three banks and sales of public assets in other sectors are also being considered.

**Significant reform measures have been adopted in the energy sector.** Bold energy subsidy reforms have been introduced to bring energy prices closer to cost recovery levels. The prices of key hydrocarbons were raised by more than 50 per cent on average in July 2014 and another 40 per cent on average in November 2016. In addition, electricity tariffs have been increased for both commercial and residential use under a plan to eliminate power

subsidies by 2018. The Egyptian government also made headway in the repayment of arrears owed to international oil companies since 2011. In the power sector, a new Electricity Law was approved in 2015 that would gradually liberalise the electricity transmission market towards a competitive model where private sector producers can sell electricity directly to consumers at market prices. There has also been progress in incentivising renewables uptake in order to tap into Egypt's significant potential in solar and wind energy. A comprehensive Renewable Energy Law was passed in 2014 that allowed for the approval by the cabinet of feed-in tariffs for purchasing electricity from solar and wind renewable sources, which has been an important step to attract private investors into the sector.

**However, in both the energy and infrastructure sectors, the lack of adequate market-based incentives continues to hold back the private sector's participation and much needed investments.** In the energy sector, contractual uncertainty, payment arrears, and relatively uncompetitive pricing by dominant state actors (e.g. EGPC) have until recently impeded the private sector's willingness to proceed with the significant investment needed for further exploration and development of natural resources. However, there have recently been moves in the right direction allowing for a case by case approach. Similarly, transport and municipal infrastructure tends to be state-run and service provision is characterised by the absence of market-based mechanisms for pricing and delivery of services. In both the energy and infrastructure sectors, regulated tariffs are low and often below cost recovery levels (although there have been recent rises as a result of reforms). This constrains the operational and financial sustainability of state-owned enterprises, leading to insufficient maintenance and investment and hence efficiency losses. As well as continuing with tariff reforms, governance reforms to commercialise public service provision are critical to improve operational and financial sustainability, facilitate greater private sector participation, unlock higher investment and deliver much-needed improvements in service quality.

**The authorities have announced plans to offer shares in state-owned assets in the financial and energy sectors.** In March 2016, the CBE governor announced that Egypt will offer a substantial minority stake in Arab African International Bank and in Banque du Caire, both to be listed on the Egyptian Stock Exchange. The authorities have also announced plans to offer shares on the stock market in a number of partly state-owned energy, petrochemical and fertilizer companies. The announcements are a welcome development, as no state-owned companies have been listed on the exchange since 2005.

## 2.4 Business environment and legal context

### *Business environment*

**The private sector is constrained by a legacy of complex and burdensome business regulations and an uneven playing field.** Industrial licensing and land allocation processes are particularly cumbersome while insolvency procedures are lengthy and do not encourage entrepreneurship. Firm-level surveys such as the World Bank-EBRD MENA Enterprise Survey (MENA ES) 2013-15 and the WEF's Global Competitiveness Report point to instability, corruption, and competition from informal sector as being among the primary concerns of Egyptian firms. Additionally, policy uncertainty – in particular FX management issues – has emerged as one of the key challenges. Egyptian entrepreneurs reported that informal payments were expected when obtaining electrical connections (40.9 per cent), construction permits (32.2 per cent) or operating licenses (65 per cent), being the highest in

SEMED according to MENA ES. Informality is another top high concern cited by Egyptian firms, with almost half of the surveyed firms reporting that they competed against unregistered or informal firms (compared to 40 per cent across SEMED). The size of Egypt's informal economy – estimated around 40 per cent of GDP<sup>1</sup> – is a reflection of the high costs associated with formalisation and interaction with the complicated regulatory environment. Obtaining operating licenses is particularly time-consuming, taking 139 days – over four times the MENA average.<sup>2</sup>

**Regulatory enforcement remains insufficient to ensure a level playing field for all firms.** Despite the recent strengthening of competition policy, the enforcement capabilities of the Egyptian Competition Authority remain constrained by a lack of clarity over its jurisdiction, limited technical and budgetary resources and a reliance on courts which may not have the relevant competencies to assess competition cases. The opacity of laws and regulations and insufficient or overlapping supervisory powers weaken overall accountability and allow uneven implementation of regulation. This insufficient level playing field resulting from these various impediments distorts the competitive environment including firm entry and exit. This is compounded by important corporate governance shortcomings in both the public and the private sector (among family-owned firms in particular). In addition, companies with links, primarily to the supply sector of the armed forces, operate in some economic sectors. Because of legacy issues in the previous half century, the armed forces have control over land in different parts of the country.

**Regional disparities in the business environment and in economic performance persist.** The north (Lower Egypt) is historically more advanced and richer than the less developed south (Upper Egypt), with better access to credit, availability of skilled labour and quality of infrastructure in Lower Egypt. Additionally, procedures and regulatory implementation are often not harmonized across regions, with entrepreneurs facing different practices depending on where they establish their business. For instance, dealing with construction permits can require from 13 (Suez) to 23 (Fayoum) procedures. In order to achieve more inclusive growth, agriculture needs to be modernised to benefit rural areas, greater investment in regional infrastructure should be made, and business environment obstacles at the governorate level should be addressed.

### *Legal Context*

**Egypt continues to upgrade its legislation in the commercial sector.** Further efforts are needed to make it compliant with international standards and best practice.

**On a positive note, the legislative framework regulating Public Private Partnerships ('PPP') is generally satisfactory** and the current PPP framework should allow PPP projects to proceed at the national level across all sectors. The PPP legal framework is considered to be in line with international standards and best practice. The 2016 Law on Public Procurement introduces procedures that enhance transparency and reduce discretion in public procurement, however the consistent application and enforcement of the law by the involved procurement entities remains unseen.

**Egypt's corporate governance legislation should be strengthened** to clearly distinguish the roles, responsibilities and rights of board members, audit committees, executive directors,

<sup>1</sup> African Development Bank Working Paper "Addressing Informality in Egypt", 2016

<sup>2</sup> World Bank, Doing Business (2016)

independent directors and shareholders in listed companies. Although the law offers shareholders a number of basic rights, it is silent on cumulative voting and on the right to nominate board members. A voluntary Code of Corporate Governance is in place but its implementation in practice needs to be further encouraged and strengthened.

In 2014, EBRD published a new Secured Transactions Assessment, which examined the practices and effectiveness of collateralising different types of assets to establish the secured creditors' rights in the EBRD region. In this assessment, Egypt scored slightly higher than the overall average of all countries of operations, reflecting an above-average framework for taking pledges and mortgages, with however some notable challenges on enforcement procedures. The EBRD Factoring Survey (2016) identified significant areas of Egypt's factoring regulatory and institutional framework which need upgrading. The general insolvency regime in Egypt is outdated and comprehensive reform is necessary. Moreover, EBRD's Insolvency Office Holders (IOH) Assessment (2014) has revealed that Egypt has a weak legal framework for the IOH profession.

**As regards to the court system, lengthy duration of cases and cumbersome procedures discourage firms from going to court to resolve a dispute.** However, the recent introduction of economic circuits dealing with commercial disputes has somewhat reduced the length of judicial proceedings in commercial cases. The Egyptian judiciary has also started adopting e-justice and open publication of judgements. While higher courts' rulings are generally published, lower courts lag behind in publication practice. To address this issue, the government has launched an online fee-based service, providing access to court decisions for the general public.

See Annex 4 for a more detailed assessment of the legal environment in specific areas relevant to the Bank's investment strategy.

## 2.5 Access to finance

**Low access to finance remains a constraint to private sector development, especially for SMEs.** Only 7 per cent of new investments and working capital is financed through the banking sector in Egypt. This compares to 23 per cent in the SEMED region and 26 per cent globally. The shortcomings of the legal and financial infrastructure are key contributors to the limited access to finance in Egypt. Frameworks governing creditor rights and bankruptcy procedures are not fully adequate, and the coverage of credit information systems remains low. Informality is another obstacle that limits access to finance. Although banks are permitted to lend up to EGP 50,000 to unregistered businesses, few banks work in this segment. Finally, the increasing share of domestic credit provision to the public sector risks crowding out the private sector's access to finance. These factors led to a situation where banks are increasingly risk averse to private sector lending and do not apply standard credit risk and cash flow analysis to lending decisions. Instead they rely on collateral requirements which are often difficult to meet by private sector companies.

**SMEs continue to be disproportionately affected by financing constraints.** MSMEs loans comprise only 6 per cent of total bank loans, representing around 1 per cent of GDP, which delineates the severity of financing constraints in this segment. Women led SMEs face more challenges than men led SMEs to access finance. The Central Bank of Egypt has recently launched a new initiative which will provide subsidised lending for banks and oblige them to provide EGP 200 billion in loans to SMEs over a period of four years at a 5 per cent interest



rate. However, there are concerns about a potential weakening of banks' asset quality given the high credit risks of SMEs. In addition, a newly adopted law has introduced a cost-effective system that allows for pledging of movable assets and centralised registration of security. However, the full implementation and consequent outcomes of these recent steps remain to be seen.

There are more than 400 microfinance institutions in Egypt (though so far few have formally registered under the new Micro Finance Law) and they are estimated to have reached only 20-50 per cent of the eligible demand in this segment. Non-banking financial institutions such as leasing and factoring companies are also playing a small role albeit with limited resources, and are mostly used by large companies and financial firms.

**The domestic equity capital markets are below peers in terms of development.** The Egyptian Stock Exchange (EGX) is government-owned and comprises two segments: the main market, with 221 listed companies as of December 2015 and a total market capitalisation of US\$55.6 billion or 18 per cent of GDP (of which EGX 30 represented 49 per cent in February 2016), and NILEX for small and medium capitalisations with only 31 listed companies and total market capitalisation of US\$130 million. The underutilisation of the equity markets stems from *inter alia* the absence of an adequate investor base, as well as lack of appropriate incentives and knowledge of the benefits of equity finance. Domestic debt markets are dominated by government issuances, with limited private sector participation and low overall secondary market activity, partly because of inconsistent and insufficient market regulations. Efforts to modernise the regulatory frameworks, especially those on disclosures and documentation, and to build an institutional investor base are needed to build up these markets.

## 2.6 Social context

Egypt ranks 108<sup>th</sup> out of 188 countries on the UNDP 2015 Human Development Index ('HDI'), placing it in the category of countries with 'medium human development'. Life expectancy at birth in Egypt is 71.1 years, with a gender gap of 4.4 years in favour of women. The population in Egypt is expected to increase to reach 140 million people by 2050, mainly due to high (but declining) fertility rates remaining well above replacement levels as forecasted by the UN.

In Egypt, quality of education as well as deploying skills and talent effectively into the work force remain as key challenges. Public effort on education expenditure remains low at 10.4 per cent compared to other countries in the SEMED region (25.3 per cent in Tunisia, 17.5 per cent in Morocco). Despite some recent positive changes in the governance structure of the system for technical and vocational education and training ('TVET'), several overarching issues such as low efficiency of the system, unresponsiveness to skills demand and unattractiveness of vocational programmes for many students remain. Reform has been slow under the current political transition and there is still a lack of a coherent consensus or overarching vision on future reform. Matching workers' skills with employers' immediate needs is often impeded by rigidities within local labour markets and information asymmetries. Consequently, youth unemployment in Egypt stands at 37 per cent, the highest in the SEMED region (32 per cent in Jordan, 35 per cent in Tunisia and 20 per cent in Morocco) as of 2014 and skills mismatches are further manifested in high long-term unemployment and workforce underutilisation.

In 2014, female labour force participation in Egypt stood at 24 per cent, one of the lowest rates globally, but similar to other countries in the SEMED region. Informality remains a challenge with two-thirds of women working in the private sector in Egypt being in informal jobs<sup>3</sup>. According to the 2015 Business Environment and Enterprise Performance Survey (BEEPS) just 5.7 per cent of firms surveyed in Egypt had women among the owners; and 7.1 per cent of firms had female top managers. Collateral is cited by women-led businesses as one of the main problems to access finance. Cultural factors limit women's access to land ownership, which plays a major limiting role in collateral accumulation. Egyptian women represent only a small proportion of land-owners: 2.7 per cent in Lower Egypt, 9.3 per cent in Upper Egypt, and 6.4 per cent in the border provinces.<sup>4</sup> Financial inclusion levels are generally low in Egypt, where only 18 per cent of men and 9.2 per cent of women hold an account in a financial institution (2014).<sup>5</sup>

Lastly, regional and urban/rural gaps in wealth and inequality in Egypt<sup>6</sup> are accompanied by regional gaps in child-poverty, with higher concentrations in rural areas and Upper Egypt. 30 per cent of children in rural areas live in households that are poor compared to 12.6 per cent in urban areas.<sup>7</sup> The WHO reports that health indicators vary regionally between Lower Egypt and Upper Egypt, and, in each region, discrepancies are pronounced between rural and urban populations.<sup>8</sup>

## 2.7 Resource efficiency and climate change context

With a net energy import deficit and a concentration of energy intensive industries, Egypt's economy is six times more energy intensive than the EU-28 average. It is among the top five EBRD countries in terms of annual greenhouse gas ('GHG') emissions and among the top eleven fastest growing emitters in the world. This is due to the historical availability of fossil fuels and subsidised fuels, which led to the development of energy intensive industries, such as fertiliser, steel, cement, chemical and petrochemicals. The industrial sector is the main final energy user, representing 35 per cent of the country's energy demand, followed by transport (28 per cent) and residential (22 per cent)<sup>8</sup>. Despite its vast potential, renewable energy remains largely untapped in Egypt with only 1 per cent of electricity generation stemming from non-hydro renewables<sup>9</sup>.

With a growing population, rapid urbanisation and industrial growth, it has become vital for Egypt to strategically and effectively manage the use of energy and resources. Alternative fuels from agricultural waste and anaerobic digestion of municipal solid waste are currently unexploited and thus have great potential for development. Egypt's cement industry offers especially good opportunities for alternative fuels, already satisfying up to 80 per cent of cement installations' energy consumption in advanced countries.

<sup>3</sup> World Bank Investment Climate Survey, 2008.

<sup>4</sup> [http://www2.ohchr.org/english/bodies/cedaw/docs/ngos/CEWLAEgypt\\_45.pdf](http://www2.ohchr.org/english/bodies/cedaw/docs/ngos/CEWLAEgypt_45.pdf)

<sup>5</sup> <http://databank.worldbank.org/data/reports.aspx?source=1228>

<sup>6</sup> Verme, Paolo, et al. Inside Inequality in the Arab Republic of Egypt: Facts and Perceptions Across People, Time, and Space. World Bank Publications, 2014.

<sup>7</sup> Global Study on Child Poverty and Disparities. Building the Social Infrastructure for Egypt's Future. UNICEF; 2010. <http://www.unicef.org/egypt>

<sup>8</sup> WHO. Building the knowledge base on the social determinants of health: Review of seven countries in the Eastern Mediterranean Region. Geneva, WHO Regional Publications; 2008. EMRO series 31

<sup>9</sup> International Energy Agency, 2013 data; note that chemical/petrochemical sector is accounted under "non-energy use" thus industry + 10%

The Government adopted a National Energy Efficiency Action Plan ('NEEAP') for the period of 2012-2015, which focuses mainly on the power sector, establishing a cumulative energy efficiency target of 5 per cent, and creating an Energy Efficiency Unit within the Council of Ministers to develop strategies and related policies. Despite these efforts, adequate energy efficiency regulations are lacking in the current policy framework and there's still room for improvement.

Egypt is highly exposed to the effects of climatic variability and climate change, with significant implications for private sector development. The country already experiences chronic water scarcity and the situation is forecasted to worsen as a consequence of climate change with precipitation declining by 1.2 per cent per year and average temperatures increasing by 3.3 per cent in the long-run. The agricultural sector uses 86 per cent of abstracted water, followed by households (8 per cent) and industry (6 per cent).

The lack of a comprehensive legal framework on water use and water management exacerbates Egypt's vulnerability to climate change, especially in the agricultural sector. Significant investments are needed to upgrade and modernise public irrigation systems, including through private sector participation and targeted finance to support the introduction of improved technologies and practices, such as soil regeneration, changing cultivars and crop patterns. The absence of detailed efficiency strategies for the agricultural sector, wastewater and desalinated water limit the use of a wider range of resources for irrigation and industrial consumption. Reduced availability of water, as well as extreme heat caused by climate change, expose power generation and transmission, as well as residential and commercial buildings, to risks.

Egypt has significant regulatory gaps in materials efficiency and waste management. There is no dedicated waste framework legislation in line with international best practices, nor an industrial waste policy or other secondary regulations on recyclables. It is estimated that 60 per cent of the total annual waste generated is collected (by informal and formal sectors), but only 20 per cent of it is recycled and/or disposed of properly.<sup>10</sup> The Government has started addressing the issue through the establishment in 2015 of the Waste Management Regulatory Authority (WMRA) with the role to catalyse the development of the solid waste management sector, as a national centre of competence. Currently the informal sector has an important contribution to waste management in Egypt, especially the Zaballeen community that is estimated to collect 10 per cent of the country's waste.

The Egyptian government submitted its intended nationally determined contributions ('INDC') to the UNFCCC on 16 November 2015, committing to adopt actions promoting climate resilience, energy and resource efficiency and use of renewables to address the country's serious climate challenges, although without a measurable emissions reductions target.

## **2.8 Activities of international organisations and areas of cooperation and complementarity with EBRD**

Egypt has historically received strong support from international financial institutions, Arab funds and international donors, with many IFIs having a substantial exposure to the country. IFIs engagement in Egypt is extensive, but it is in line with the challenges Egypt will face in the coming strategy period, where continued IFIs cooperation is expected to provide the needed support to the government's reform programs.

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<sup>10</sup> <https://www.giz.de/en/worldwide/22230.html>

Overall coordination has been effective through formal and informal meetings, including regular sectoral development partnership groups. EBRD's private sector focus, its deep and wide sectoral experience and expertise which allows it to meaningfully contribute to policy dialogue, its fast approval cycle, as well as its hands-on project preparation and execution capacity (supported by a strong local presence) are widely seen as being complimentary to the activities of other IFIs.

IFC, jointly with EBRD, has traditionally the strongest focus on the private **corporate sector** with investments in manufacturing and services, real estate and ICT. IFC has also engaged in policy dialogue with the IT Industry Development Agency to help enhance the skills of prospective ICT workers and improve the employability of graduates. In addition to the EBRD, both the IFC and the Islamic Development Bank ('IsDB') offer trade finance facilities.

**SMEs** in Egypt are supported by a number of programmes: EIB has provided a SME credit line to the National Bank of Egypt and IFC to the National Bank of Kuwait and the Arab African International Bank. USAID, through the Egyptian-American Enterprise Fund also aims to provide access to finance to SMEs. In an effort to reach micro enterprises, the World Bank, the Agence Française de Développement ('AFD') and the OPEC Fund for International Development ('OFID') provide finance through the Social Fund for Development. The World Bank has also been engaging in policy dialogue to strengthen the regulatory and institutional framework of the microfinance sector in Egypt. Furthermore, the EU runs a programme to facilitate the development of MSMEs in sectors with potential for inclusive growth, which includes a policy dialogue to improve the regulatory environment for MSMEs and a grant facility scheme to enable MSME's access to business development services.

- *EBRD's tailored SME products for banks (finance and capacity building), its small business advisory services (which have proved very well suited to the Egyptian context), its Women in Business knowledge, as well as its in-house energy efficiency platform for SMEs, provide the Bank with a competitive edge in the SME sector and all add value to the existing IFIs engagement in the sector. EBRD will coordinate its activities in the SME sector with other IFIs, including through the Development Partners Group's subgroup for Micro, Small and Medium Enterprises. The Bank will also develop co-financing opportunities with other IFIs, including with IFC.*

Most IFIs are active in supporting Egypt's **infrastructure** sector, mostly through sovereign loans. EIB, World Bank, EU, Kreditanstalt für Wiederaufbau ('KfW'), African Development Bank ('AfDB') and USAID are all engaged in the water and wastewater sector. The Bank early on during its engagement in Egypt co-financed the Kafr el Sheikh Wastewater Treatment Plant with EIB (with grant-support from the EU). The World Bank also engages in policy dialogue to strengthen the national water and wastewater sector framework, whereas IFC has been providing support on the implementation of PPPs. While IFIs have no active investments yet in the solid waste sector, KfW has started to engage in a capacity building programme in this field. In the urban transport sector, EBRD is the first institution to have developed an integrated policy and investment approach, under which it has co-financed the Cairo Metro with EIB. In addition to EBRD's and the World Bank's engagement with the Egyptian National Railways ('ENR'), the Kuwait Fund and the Arab Fund for Economic and Social Development ('AFESD') are providing support to modernise signalling and control on

ENR's railway line between Banha and Port Said.

- *EBRD will continue to cooperate closely with IFIs, in particular EIB, EU and the WB, on infrastructure projects to improve the quality and sustainability of public municipal services. The Bank will also continue to cooperate with the World Bank on policy dialogue in the urban transport sector.*

Traditionally IFI support to Egypt has been focused on supporting the development of **electric power** generation (about half of the World Bank and EIB's activities have been in the sector). The Bank was able to co-finance two power generation projects with EIB, the AfDB, IsDB, the Saudi Fund for Development and the Arab Fund for Economic and Social Development. In the area of **resource efficiency**, EBRD has worked closely with IFC in particular to assist the Egyptian authorities in the development of a private sector led renewable framework. The EU is engaged in policy dialogue to foster reform in the renewable energy and water sectors. During the reporting period, in the **natural resource** sector, EBRD and IFC have been the main financiers to the oil producing private sector due to the specific skills needed to assess and structure reserve-based lending projects. To date, EBRD and IFC have successfully co-financed three projects in the natural resource sector.

- *EBRD will further build on these relationships and where possible co-finance larger energy investments. In particular, the Bank will continue its close cooperation with IFC in the natural resource sector as well its policy dialogue with the Ministry of Electricity and NREA on the renewable framework. In addition, EBRD is developing jointly with the EIB and AFD a Sustainable Energy Finance Facility to be extended to a number of local banks, which will benefit from EU grant support. The Bank further stands ready to work with IFI co-financiers to support the NREA's FiT programmes or large scale BOT or similar type of structures for renewables.*

Several institutions are active in strengthening **governance in public utilities** as well as improving the business environment in the country. The World Bank, EU, USAID and GIZ all provide capacity building in public utility management with a focus on water and wastewater as well as solid waste. In the private sector, IFC has been providing corporate governance training to the banking sector and SMEs. Additionally, a number of IFIs are aiming to improve Egypt's **economic governance**. IFC is supporting the streamlining of business registration as well as the establishment of alternative dispute mechanism to reduce the time to settle commercial disputes. The World Bank and the AfDB are providing budget support to the government with a focus on supporting fiscal consolidation (including the increase of Egypt's tax base through the adoption of a VAT law) as well as improving economic regulations with a focus on investment laws as well as streamlined and transparent industrial license requirements. Additionally, the EU's Single Support Framework for Egypt includes a focus on economic governance in order to increase transparency, predictability and fairness of the business environment.

- *The Bank will ensure it is additional vis-à-vis existing IFIs efforts in the areas of corporate and economic governance. EBRD will therefore focus on specific areas or topics where it can complement other IFIs and where the Bank can leverage its core capabilities. In its work on strengthening governance in public utility companies, it will focus on the urban transport, railway and power sectors, which is expected to be highly complementary to other IFIs that have a strong focus on governance in the water, wastewater and solid waste sectors. As one of the main IFIs with experience*

*and dedication to the private corporate sector, the Bank will also endeavour to promote improved governance programmes for privately owned Egyptian companies. The Bank will also focus on improving public procurement and the insolvency legislation and regulation in areas where other IFIs are currently not engaged in.*

### 3 STRATEGIC ORIENTATIONS

#### 3.1 Strategic Directions

**Egypt's fast growing population and high unemployment pose significant socio-economic challenges and require *inter alia* sustained economic growth supported by a vibrant private sector and strong FDIs.** Egypt's population is estimated to reach 140 million people by 2050, exerting significant pressure on resources and services including energy, water and transport. Given an already high unemployment rate, Egypt would require an average annual GDP growth rate of 4 per cent just to absorb the new entrants<sup>11</sup>. The fiscal deficit meanwhile provides the government with little headroom for catalysing economic growth in the short and medium term. Therefore, a competitive and inclusive private sector, supported by a well-developed and service oriented infrastructure and enabled by a fair, stable and conducive business environment, will have to become the key engine of sustainable economic growth and job creation. In this context, the following strategic orientations are proposed to guide EBRD's engagement in Egypt in the forthcoming strategy period:

- **Priority 1: Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People.** Many segments of the Egyptian private sector are characterised by relatively low levels of competitiveness and productivity, restricting private sector development, including integration into international and domestic value chains. Consequently only a small share of Egyptian firms export to global markets. While most firms suffer from challenging access to finance, SMEs are disproportionately affected by financing constraints, in particular women-led businesses. Contributing factors include weaknesses in the legal framework, low levels of financial literacy and widespread informality. An additional key challenge for private sector development is the mismatch between the provisions of the education system and job market requirements. In this context, the Bank will support private sector corporates and SMEs, through direct debt and equity investments, as well as through business advisory. These activities will, *inter alia*, improve operating standards, support export growth and increase domestic competition. The Bank will promote the integration of local companies and SMEs into local value chains through backward and forward linkages, and will seek opportunities to support export-oriented companies. Additionally, EBRD will seek to facilitate SMEs' access to finance by continuing to provide dedicated SME credit lines to local banks, including for energy efficiency and women entrepreneurs. In its engagement, the Bank will aim to increase inclusion by supporting women's access to economic opportunities and youth vocational training programmes.

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<sup>11</sup> Based on EBRD calculations

- **Priority 2: Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation:** Private sector participation in transport, municipal and energy infrastructure has been limited and these sectors suffer from underinvestment, leading to irregular or low quality of service provision. Additionally, subsidies, low tariffs and a lack of incentives to control costs and inefficiencies constrain operational and financial sustainability across sectors. Egypt's demographic dynamics compound these challenges, putting additional pressure on the aging infrastructure. In the energy sector, the Bank will support the power sector's transition to a more efficient, transparent and private sector led commercial model, as well as promote gas market reforms. It will also finance modernisation and improved efficiencies of the municipal infrastructure, as well as promote commercial practices by championing the use of public service contracts, encouraging PPPs and reviewing tariff methodologies with a view to bolster private sector participation in the provision of municipal services. In addition, the Bank will support its clients in becoming more responsive to the specific requirements of women users and enhance youth inclusion through the promotion of inclusive procurement practices, offering on-site training opportunities to young trainees, where possible. EBRD will also continue to implement its integrated approach to the urban transport system of Greater Cairo, including by financing the development of greener high-capacity public transport and promoting private sector participation to improve sustainability. In the rail sector, the Bank will assist reforms, including the unbundling and commercialisation of freight operations.
- **Priority 3: Support Egypt's Green Economy Transition:** Egypt has developed an energy intensive economy relative to its regional peers, being among the top five EBRD countries in terms of annual carbon emissions. Meanwhile, undiversified power generation base (over 90 per cent of it is thermal), insufficient generation capacity, rapid growth in power demand and gas supply shortages have given rise to supply concerns. While laws and regulations dealing with energy efficiency have improved, they remain patchy and unevenly implemented. Additionally, Egypt is highly exposed to the effects of climate change, including already experiencing chronic water shortages. The Bank will support Egypt's on-going efforts in diversifying its energy mix by financing renewable energy projects and will support energy efficiency investments across sectors, including through SME energy efficiency credit lines. Additionally, the Bank will seek to improve water efficiency through modernising water and waste water treatment plants, desalination plants (including PPPs) as well as through a pilot irrigation programme. The Bank will complement these investments with policy dialogue, including supporting the regulatory and contractual framework for renewable energy investments and regulation to incentivise the reduction of gas flaring.
- **Priority 4: Strengthen Governance and Level the Playing Field for all Businesses:** Improved governance standards are needed to deliver a leaner and more transparent institutional environment that encourages entrepreneurship and private sector investment, promotes transparency and accountability of the public sector and which contributes to a level playing field. The state sector plays a significant role in the economy, and there is room for improvement in the governance standards of the public administration (including public utilities). There is some confusion about the role and responsibility of the state as an economic referee with overlapping or unclear boundaries creates uncertainties which adversely affect the general business climate

and private sector development. Regulatory enforcement remains insufficient to ensure a level playing field, while non-tariff measures distort competition in several segments of the economy. In the private sector, weak corporate governance, in particular among second tier corporates, is a drag on general competitiveness and limits firms' financing options. To support improved governance in both the public and private sector, and in close coordination with other IFIs active in the field of economic governance in Egypt, the Bank will aim to supplement its investment in both the state and private sectors with appropriate governance programmes. The Bank will also provide capacity building to relevant institutions to improve competition and policy delivery and will continue to work with the Ministry of Finance on the development of a transparent and modern public procurement framework. Progress on governance issues will provide support to the Bank's activities under the other three priorities of this country strategy.

Across all these strategic orientations the Bank will aim at promoting **gender equality and youth inclusion**. Youth unemployment remains high at 37 per cent, and Egypt has one of the lowest female labour force participation rates globally, at just 24 per cent, while also exhibiting large gender gaps with respect to access to finance and firm ownership. In this context, EBRD will seek to mainstream gender and youth inclusion components across its investments and policy dialogue.

### 3.2 Key challenges and Bank activities

#### **Priority 1: Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People**

##### Transition challenges

- Poor export performance and low competitiveness are characteristic for many Egyptian firms. Key contributing factors include: a real exchange rate appreciation since 2004, the large size of the local market offering attractive opportunities for growth and thus shifting firms' focus locally, lack of supporting structures for SMEs to facilitate their penetration into global markets, as well as mostly uncompetitive local product quality for exports. Improving competitiveness in the existing activities will require further equipment and skills upgrade, in particular through FDIs, towards knowledge-intensive activities or high-value services.
- Several factors hold back the development of domestic value chains. A weak contractual environment and public enforcement mechanisms of quality and safety standards have been identified as major concerns that push Egyptian firms to more vertically integrated forms of production or high import dependency, limiting positive spill-overs in the domestic value chain. When existent, local suppliers are mostly present in low value-added activities of the value chain.
- SMEs are particularly challenged in accessing finance, with their share of loans representing only 5 per cent of the total, compared to a non-GCC MENA average of 15 per cent<sup>12</sup>. Current regulation is not sensitive enough to MSME needs and realities, in particular in relation to financial reporting requirements and collateral policies. In addition, bankruptcy procedures are outdated, lengthy and bureaucratic.

<sup>12</sup> McKinsey (2013) "SME Banking Opportunity in MENA".



- Economic inclusion remains a significant challenge and a constraint on the country's long term growth potential. Youth unemployment stands at 37 per cent and constitutes a serious social issue, explained in part by the significant mismatch between provisions of the education system and job market requirements. Women's participation in the labour market is one of the lowest in EBRD countries of operation and women occupying only 15 per cent of the private sector paid jobs. In addition, women led-SMEs face greater challenges than men to access finance.

#### Operational focus

- The Bank will provide direct support to domestic and foreign private sector corporates and selected SMEs (through its Small Business Initiative platform) through direct debt and equity investments, with a view to improve operating standards, introduce new technologies and processes, support exports, industrial development and increase competition. Recent liberalisation of the exchange rate regime is expected to improve the attractiveness of potential equity opportunities, whereby the Bank will focus on targets with growth potential, supported by strong management and/or sponsors, coupled with opportunities for corporate governance improvements. In addition, where possible, the Bank will link its projects with the introduction of work-based training opportunities for young people.
- To support the development of integrated local value chains *inter alia* in the agribusiness and manufacturing natural resources sectors, the Bank will promote backward and forward integration by providing finance to domestic anchor investors (e.g. local manufacturing, export-oriented or food processing companies, developers, or oil producers in remote areas). The Bank's finance will be supported by its Advice for Small Businesses to facilitate local SMEs integration into the anchor investor's value chain through improving, *inter alia*, administrative organisation, quality of products and processes, as well as governance (including social) standards.
- The Bank will provide support to the Egyptian private equity industry as a potential source for growth capital and strategic support to local enterprises. The Bank will consider investing in local, as well as regional (with an Egypt focus), private equity-, infrastructure-, real estate- and venture capital funds and it will work with the private sector industry to identify areas to improve the legal or regulatory environment.
- To complement its investment, EBRD will provide assistance to SMEs through its Advice for Small Businesses services to improve, *inter alia*, quality standards and operational efficiencies, develop marketing strategies including for export, and support women entrepreneurs. The Bank aims to improve its reach to SMEs in Egypt's second city of Alexandria and the Northern Delta region through a new Advice for Small Businesses branch to be opened in Alexandria.
- To facilitate SMEs' access to bank debt finance, the Bank will continue to provide dedicated SME credit lines, including expanding its import and export trade finance facilities, coupled with SME business development training programmes to its existing partner banks, and capacity building programmes to SME sub-borrowers. It also aims to extend its reach by developing banking relations with new partner banks and exploring opportunities for new products (e.g., subordinated debt to local banks). In addition, the Bank will promote the development of SME access to finance beyond Cairo and Alexandria. It will also develop focused SME energy efficiency finance facilities (jointly with IFI partners and supported by the EU grants) to local banks allowing SMEs to finance small scale renewable projects or energy efficiency investments. Lastly, the Bank stands ready to consider financing alternative financial intermediaries such as in microfinance, leasing and factoring.

- In order to enhance competition and private sector, the Bank will explore opportunities to support possible privatisations of state-owned banks and other public enterprises, through strategic equity investments.
- To support women's economic participation in the labour force, EBRD will continue to work with its corporate clients on the promotion of equal opportunities best practices. The Bank will also continue to roll out its Women in Business programme, which includes finance, advice and networking opportunities for women.

#### Policy dialogue

- The Bank stands ready to engage with the authorities to provide support to reforming the bankruptcy and insolvency legal and regulatory framework.
- The Bank will carry on its policy dialogue with the Social Fund for Development ('SFD') under the MENA Transition Fund on developing an SME policy paper that will support SFD's 'National Strategy for MSMEs' and support the SFD in its implementation thereof. Further to the approval of the micro-finance law, the Bank stands ready to support further regulatory developments in support of micro-finance institutions which could contribute to the reduction of the levels of informality in the country.
- The Bank will continue its policy support to the Central Bank of Egypt to modernise its clearing, settlement and depository system for government securities. It will also support the development of the corporate bond market, working notably with the Egyptian Financial Supervisory Authority, through the development of a short term debt framework, advisory on the development of an enabling environment for the establishment of fixed income funds, as well as capacity building specifically focused on credit and fixed income markets in the form of e-learning.
- To support youth inclusion, the Bank will promote the development of training provision benchmarked against international and national standards (including the Egyptian National Qualifications Framework) and requirements with a particular focus on vocational training delivered through private sector providers or partnerships between national education providers (e.g. universities) and the private sector. Potential sectors include natural resources, public transport, property and tourism.

**Priority 1: Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People**

	<b>CHALLENGES</b>	<b>OBJECTIVES</b>	<b>ACTIVITIES</b>	<b>TRACKING INDICATORS</b>
1.1	Competitiveness of Egyptians firms remains below international levels in many segments, including as related to operational and quality standards, while limited local value chain integration results in lower value added, opportunity losses and higher import dependency	<b>Improve productivity and competitiveness through promotion of best operational and management practices, and integration of SMEs into value chains by strengthening backward and forward linkages</b>	<ul style="list-style-type: none"> <li>• Direct financing to private corporates and SMEs with focus on improving operating standards, introducing new technologies and processes, incl. for exports</li> <li>• Investments in value chain development, (focus on agribusiness, manufacturing and natural resource sectors)</li> <li>• Advice for Small Businesses on improved quality standards, operational efficiencies, export readiness, and value chain integration</li> <li>• Direct investment into private equity and venture capital funds</li> <li>• Policy dialogue with the SFD on developing and implementing a National MSME Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Number of projects successfully introducing higher standards and operating models (<i>Baseline – 0</i>)</li> <li>• Number of companies supported through projects that strengthen backward and forward linkages (<i>Baseline – 0</i>)</li> </ul>
1.2	Access to finance by SMEs remains a challenge, due <i>inter alia</i> to structural issues such as weak credit information, inflexible collateral policies and outdated bankruptcy procedures, as well as lack of incentives to formalize	<b>Facilitate SME's access to finance by promoting more tailored products and addressing some of the impediments in the financial infrastructure</b>	<ul style="list-style-type: none"> <li>• Targeted SME credit lines, including sustainable energy finance, women entrepreneurs, and trade finance, complemented by capacity building</li> <li>• Investment in support of leasing/factoring and microfinance industry development</li> <li>• Explore opportunities to support privatisation of state-owned banks</li> <li>• Advisory to reform insolvency procedures</li> <li>• Policy support on sovereign and corporate bonds markets development</li> </ul>	<ul style="list-style-type: none"> <li>• Total number/volume of MSME sub-loans provided by client banks (incl. in local currency and related to resource efficiency) (<i>Baseline – established at project approval</i>)</li> <li>• Improvement in the insolvency resolution regulatory framework as a result of Bank's policy dialogue (<i>Baseline – N/A</i>)</li> </ul>
1.3	Unequal economic opportunities - manifested in particular in low female force participation and high youth unemployment – hold back Egypt's growth potential	<b>Increase economic opportunities for women and young labour market entrants by supporting female entrepreneurship and addressing skills mismatch between labour market and private sector demand</b>	<ul style="list-style-type: none"> <li>• Women in Business Programme, including finance, advice for women entrepreneurs and networking support.</li> <li>• Support vocational and technical training for young people and women with initial focus on natural resources, property &amp; tourism and urban transport</li> </ul> <p>Promote equal opportunities best practices with corporate clients.</p>	<ul style="list-style-type: none"> <li>• MSME sub-loans provided by client banks to women entrepreneurs, and productivity change in women-led SMEs benefiting from ASB</li> <li>• Number of youth and women accessing training to acquire skills due to Bank's support (<i>Baseline - 0</i>) and qualitative account of sustainable training mechanisms created (<i>Baseline – N/A</i>)</li> </ul>
Context indicator: Δ Business sophistication index ( <i>Baseline 2015: score 3.7 / rank 89th</i> ). Source: <i>Global Competitive Index (WEF)</i>				

## Priority 2: Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation

### Transition challenges

- Private sector participation in the infrastructure and energy sectors has been limited, despite Egypt's relatively good public private partnership regulatory framework ('PPP'). This is the result of a lack of track record, capacity and experience to develop PPPs.
- In the power sector in particular, private participation remains restricted to three IPPs implemented in the late 1990s. The sector is centralised with dominant state-owned enterprises, and tariffs are regulated and remain below cost recovery levels. Electricity generation is doubly-subsidised, with both explicit fiscal transfers and implicit subsidies in the form of artificially cheap fuel inputs, making it financially unsustainable. The gas transmission sector is fully state-owned, with private sector involvement limited to gas distribution. As a consequence there are limited commercial incentives for efficiency in the provision of energy supply.
- In the municipal sector, low tariffs and a lack of incentives to control costs and inefficiencies adversely affect operational and financial sustainability and consequently the quality of service provision. In urban transport in particular, service quality has been on a declining trend for most modes of public transport as necessary maintenance and new investments have been chronically deferred. Weaknesses in the regulatory framework undermine efficiency, safety and quality of service provision.
- As with urban transport, the water and wastewater sector is under financial pressure, suffers from underinvestment, weak governance and inefficiency. As a result, water supply and wastewater treatment infrastructure is often in a state of disrepair, leading to heavy leakage, inefficient pumping and degraded water quality. Nevertheless, the authorities are moving in the right direction with regards to putting the sector on a more sustainable financial footing. A five-year tariff plan has been adopted and the second scheduled increase in tariffs took place in January 2016.
- Road congestion is a major problem, both in urban areas and overland, caused by the dominance of road travel by private vehicle, poor traffic management, an inadequate supply of well-designed public transport, low road usage pricing, and high fuel subsidies. Railways could be an alternative to roads for freight transport, but are currently operated inefficiently with low environmental performances, due to underinvestment and the state-owned rail incumbent's reliance on low fare passenger traffic.
- Lack of safety and high levels of harassment reported in public transport is recognised as a factor restricting women's freedom of movement in Egypt and a factor in low female labour participation. In Egypt, 87 per cent of women surveyed do not feel safe on public transport and 69 per cent were dissuaded from using the train to commute to work because of security concerns.

### Operational focus

- The Bank will finance modernisation and expansion of municipal infrastructure in water, wastewater, solid waste and street lighting. A particular focus will be on the commercialisation of municipal utilities through, *inter alia*, the introduction of Public Service Contracts (PSC) with identified key performance indicators focused on improved efficiencies, the implementation of IFRS and corporate development programmes. In addition, the Bank will promote private sector-led development of municipal services where feasible, including through PPPs on a case by case basis. Where relevant, projects will incorporate stakeholder engagement programmes to ensure they address the needs of different user groups, in particular women.

- The Bank will support the development of a modernized urban transport system in Cairo and Alexandria. In Cairo, it will continue to implement its *Integrated Approach to Cairo Urban Transport* under which it is financing the development of greener high-capacity public transport (e.g. metro, bus, tram and Nile ferries) in the Greater Cairo area. The Bank will promote greater corporatisation and improved efficiencies of utilities through introducing PSCs, increasing private sector involvement in supply and maintenance contracts and encouraging PPP structures when deemed feasible. In addition, the Bank will explore opportunities to support interregional public transport and urban transport outside Cairo, and selectively promote the use of PSCs and PPPs.
- The Bank will continue to support the on-going reforms by the Egyptian National Railways through investment and policy dialogue, including supporting the unbundling and commercialisation of its freight operations through better cost coverage and improving its competitive position against more carbon intensive modes of freight transport, such as road. The Bank will also promote private sector participation in the rail sector through supporting the development of a rolling stock supply and maintenance framework.
- The Bank will work with its clients and the authorities to improve gender responsiveness of the rail services and urban transport by promoting best practices in gender-responsive and safe transport, as well as equal opportunities.
- The Bank will support improved internal and external connectivity by financing projects contributing to a modern and efficient logistics network such as port expansions and linkages, dry port development, supply vessels, warehouses, industrial zones and logistical terminals, including as part of the Suez Canal Economic Zone development, with a focus on projects that support the development of the private sector, including possible PPPs.
- In the power sector, the Bank will support the sector's transition to a more efficient and transparent model, both through the commercialisation of state-owned companies and the introduction of private providers, in particular in generation.

#### Policy dialogue

- The Bank will continue to roll-out its *Integrated Approach to Cairo Urban Transport* which, in addition to commercialising of operators focuses on (i) strengthening the Greater Cairo Transport Regulatory Authority; (ii) improving carbon emissions profile and (iii) supporting equal opportunities practices and introducing international best practices on youth-inclusive procurement, and stands ready to provide assistance to the Egyptian authorities in support of tariff reforms in the urban transport sectors.
- The Bank will continue to provide policy advisory support to the Egyptian authorities to improve the legal, regulatory and operational framework for greater private sector involvement in infrastructure financing, with a focus on river transport (for freight and passenger transit), urban solid waste, and the port/dry port sectors.
- The Bank will continue to support the commercialisation of the Egyptian Electricity Holding Company through promoting adoption of IFRS accounting standards. The Bank will cooperate with other institutions, in particular the World Bank and the EU, to support unbundling of the Egyptian Electricity Transmission Company, together with the introduction of network tariffs and consequent reforms.
- The Bank will support the Egyptian authorities in domestic gas market reforms, including developing a framework for third-party access to gas transmission infrastructure, as well as improve price transparency across the value chain and introduction of cost reflective pricing for gas.

## Priority 2: Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	In the municipal sector, low tariffs and a lack of incentives to control costs adversely affect operational and financial sustainability and consequently the quality of service provision. Private sector participation remains low	<b>Improve operating practices of municipal public services focused on financial sustainability, including through the use of increased private sector participation</b>	<ul style="list-style-type: none"> <li>Investments in municipal sector with a focus on water, waste water, solid waste and street lighting, to support corporatisation through <i>inter alia</i> PSCs with KPIs and implementation of IFRS.</li> <li>Implement the Integrated Approach for Greater Cairo Urban Transport to finance greener high-capacity public transport, strengthen the regulator, support improved operational and energy efficiencies, and foster youth inclusion and gender equality.</li> <li>Support private sector participation in municipal services, including through PPPs on case by case and policy advice</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of improvements in efficiency and service delivery at client level (e.g. labour productivity, profitability, formalised collection systems) (<i>Baseline</i> – established at projects approval)</li> <li>Number of operations and qualitative account of infrastructure services successfully outsourced to private sector (e.g. maintenance contracts, concession, lease of assets, ESCOs) (<i>Baseline</i> – 0)</li> </ul>
2.2	High domestic transportation costs, due to <i>inter alia</i> a rail sector in need of reform and a fragmented port system, hinder efficient distribution of resources and contribute to disproportionate concentration of economic activity in metropolitan areas	<b>Contribute to improving Egypt's connectivity and logistics performance, by fostering reforms in the rail sector, and supporting private sector solutions in ports and logistics</b>	<ul style="list-style-type: none"> <li>Support corporatisation of ENR, including unbundling and commercialisation of its freight segment</li> <li>Invest in the development of logistical hubs / ports</li> <li>TC to improve the safety and accessibility of transport services to women</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of progress in unbundling of ENR's freight operations (e.g. legal and operational) as a result of the Bank's activities</li> <li>Evidence of improved safety and accessibility (including of perception) of rail services to women (<i>Baseline</i> – <i>N/A</i>)</li> </ul>
2.3	The power and gas sector are centralised with dominant state-owned enterprises. As a consequence there are limited commercial incentives for efficiency in the provision of energy supply.	<b>Promote commercial practices in the power and gas sector and increase share of private sector operators</b>	<ul style="list-style-type: none"> <li>Investments and policy dialogue in support of commercialisation of state-owned companies and private providers in power generation</li> <li>Advisory on gas market reform, including third-party access and pricing transparency</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of successful creation/strengthening of targeted legal and institutional framework (e.g. framework for third party access to LNG/gas) (<i>Baseline</i> – <i>N/A</i>)</li> </ul>
Context indicator: Egypt's Logistic Performance Index ( <i>Baseline 2014</i> – 62 <sup>nd</sup> )				

### Priority 3: Support Egypt's Green Economy Transition

#### Transition challenges

- Egypt has developed an energy intensive economy relative to its regional peers, and is among the top five EBRD countries of operation in terms of annual carbon emissions. This has been driven historically by the availability of oil and gas resources and of fuel subsidies, leading to a concentration of Egypt's industry on energy intensive sectors, and limited incentives for resource efficiency. Additionally, the prioritisation of gas for power sector installations more recently has pushed industrial sectors towards the use of coal and pet coke, escalating the carbon intensity of the economy. While laws and regulations dealing with energy efficiency have improved, there remain gaps in the regulation and its implementation.
- Significant progress in reducing energy subsidies has been made since 2014. Partial reforms of oil and gas prices were introduced in July 2014, aimed at reducing the subsidy burden and facilitating investment and market opening. The pace of tariff reforms may have however lost some momentum.
- The inability to fully utilise the country's world-class hydrocarbon proven resource base relates to investment climate issues in recent years, including concerns about cases of contracts in the sector not being adhered to, irregular payments flows, as well as uncompetitive gas pricing. These issues have had an adverse impact on attracting investments and external finance towards further exploration and development of producing deposits.
- Egypt is highly exposed to the effects of climatic variability and climate change. The country already experiences chronic water scarcity. As a result of unsustainably high water consumption growth, Egypt now has less than 800 cubic metres of sustainable water availability per capita per year, below the UN's water poverty line of 1,000 cubic metres per capita per year. The situation is projected to worsen as a consequence of climate change and population growth.
- Resource efficiency in terms of recycling is low, even among large international companies, due to a combination of weak regulation and limited robust supply chains for technology and service providers. Improved financial and technical capacities, as well as more robust enforcement of regulations are needed to support project viability.

#### Operational focus

- The Bank will support the Egyptian government's on-going efforts to diversify its energy mix, by providing financing for renewable projects, including through dedicated investment funds. The Bank will also support supply-side energy efficiency by financing high efficiency conventional gas-fired power generation. Depending on the direction and pace of sector reforms, the Bank also stands ready to support modernisation of the electricity transmission and distribution networks, which have the potential to deliver significant energy efficiency benefit, with a focus on strong private sector engagement or PPP types of finance arrangements when deemed appropriate and feasible.
- In the state-dominated oil and gas sector, the Bank will support increased competition and production levels by providing finance to medium-sized private sector operators with a particular focus on energy efficiency (e.g. gas flaring reduction, waste heat recovery from gas compressor stations), improvements of environmental, health and safety standards, integration of local SMEs into the value chain, as well as promotion of women employment in the sector. The Bank will also finance selectively projects in the midstream oil and gas subsector, including state-owned, when compelling

energy efficiency improvements can be made, like reducing greenhouse gas emissions, improving efficiency of the country's refineries and recovering power from the gas transmission network.

- The Bank will consider financing alternative fuels and energy efficiency investments across sectors, including (i) developing a waste recycling supply chain for high energy intensive industries to reduce emissions, as well as the dependence on fossil fuels, including by developing and implementing a low carbon path strategy for the cement industry, (ii) exploring the potential for utilising agricultural biomass residues for bio-energy production and (iii) exploring bankable energy efficiency investments in the tourism industry.
- Jointly with IFI partners, the Bank will provide energy efficiency finance facilities to local banks supported by donor grants to incentivise sub-borrowers to invest in energy saving technologies. In addition, the Bank will explore opportunities to finance emerging ESCO schemes.
- To improve water efficiencies, the Bank will seek to finance the construction or modernisation of existing water- and wastewater treatment plants. To achieve further water savings EBRD will also seek to contribute to improved Irrigation methods and systems in the agricultural sector (considering agriculture represents 86 % of total water usage) coupled with promoting increased private sector involvement.

#### Policy dialogue

- The Bank will continue to engage with the authorities on the regulatory and contractual framework for renewable investments. The Bank will also explore opportunities to support the development of market based tender structures, aimed at exploiting Egypt's large renewable potential.
- The Bank will engage with the authorities to provide legal advisory support on improving the energy efficiency legislation.
- The Bank will support Egypt in the implementation of its COP21 commitment and engage to support the Egyptian authorities in prioritising and determining the enabling policies to promote climate change mitigation and adaptation, including through reduction of water usage and improvement of water efficiencies. As part of this agenda, the Bank will continue its support to regulate gas flaring and incentivise recovery of associated gas. This will include engaging the country in international initiatives such as the Zero Gas Flaring by 2030 initiative.
- The Bank will continue to support the authorities in improving the Environmental, Health, and Safety standards for the oil and gas industry, including the ongoing effort on raising occupational health and safety standards; improving management of biodiversity and establishing world-class oil spill response capability.



### Priority 3: Support Egypt's Green Economy Transition

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
3.1	Lack of diversification of the generation base, limited power capacity and gas shortages have created energy supply issues	<b>Support the diversification of Egypt's energy mix towards a more sustainable model</b>	<ul style="list-style-type: none"> <li>Finance renewable energy projects (solar / wind) supported by policy dialogue on investment framework</li> <li>Provide finance for mid-size private sector operators in natural resources, with a focus on energy efficiency (e.g., gas flaring) and improved environment health and safety standards, supported by policy advisory</li> </ul>	<ul style="list-style-type: none"> <li>Change in renewable energy generated with the Bank's support in MWh/y (<i>Baseline – 0; Δ for 2013-2015: 0MWh/y</i>)</li> </ul>
3.2	Egypt has developed an energy intensive economy relative to its peers, and is among the top five EBRD countries of operation in terms of annual carbon emissions	<b>Help Egypt mitigate climate change, including through improved energy and material efficiencies and more attractive framework for resource efficiency investments</b>	<ul style="list-style-type: none"> <li>Energy efficiency credit lines through local banks, jointly with other IFIs</li> <li>Energy efficiency investments / promotion of alternative fuels across sectors, incl. (i) developing a waste recycling supply chain for high energy intensive industries (e.g. cement industry) and (ii) use of agricultural biomass residues for bio-energy production</li> <li>Identify and support emerging ESCO opportunities</li> <li>Policy dialogue to support energy efficiency legislation.</li> </ul>	<ul style="list-style-type: none"> <li>Volume of energy savings achieved through Bank investments based on EBRD methodology in GJ/y (<i>Baseline – 0; Volume for 2013-2015 67,170,721 GJ/y</i>)</li> <li>CO2 emissions reduction as result of the Bank's operation in kCO2/y (<i>Baseline – 0; Reduction 2013-2015: 5,013.8 kCO2 /y</i>)</li> </ul>
3.3	Egypt already experiences chronic water scarcity and the situation is projected to worsen as a consequence of climate change and population growth	<b>Support water efficiency, in particular in the agribusiness sector</b>	<ul style="list-style-type: none"> <li>Invest in wastewater treatment and desalination plants (including with a focus on improved water efficiencies) with a focus on corporatisation and PPPs where possible</li> <li>Invest in irrigation projects focused on improving water and energy efficiencies</li> <li>Policy dialogue supporting implementation of Egypt's COP21 commitment, including on reduction of water usage and improvement of water efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>Volume of water savings achieved through Bank investments in m<sup>3</sup>/y (<i>Baseline – 0; Volume for 2013-2015: 17,552 m<sup>3</sup>/y</i>)</li> </ul>
Context indicator: Δ in Egypt's carbon emission intensity ( <i>Baseline 2013 - 1.43 kgCO2/ 2005 USD GDP</i> ). Source IEA				

## Priority 4: Strengthen Governance and Level the Playing Field for all Businesses

### Transition challenges

#### *Economic governance and investment climate*

- Regulatory enforcement needs to be improved to ensure a level playing field for all firms. Despite recent progress in strengthening the competition policy framework, the enforcement capabilities of the Egyptian Competition Authority remain constrained by a lack of clarity over its jurisdiction, limited technical and budgetary resources and rely on courts which may not have the relevant competencies to assess competition cases. The complexity of laws and regulations and overlapping supervisory powers weaken accountability and allow uneven implementation of regulation, notably when it comes to public utilities or agreements that protect an undefined “public interest”, which may still be exempted from competition regulation.
- Competition in the manufacturing sector is distorted and faces barriers to entry due to a wide array of (often unclear) non-tariff measures such as license and registration requirements for importers, traceability, product quality requirements – of which Egypt has one of the highest frequencies in the world.
- Lengthy case durations and cumbersome procedures discourage firms from going to court to resolve business disputes, though reforms are slowly proceeding. The introduction of economic circuits dealing with commercial disputes has decreased the length of judicial proceedings in commercial cases, yet Egypt remains 155th globally in the ease of enforcing business contracts<sup>13</sup>.
- Women entrepreneurs in Egypt face even greater difficulties to resolve commercial disputes: on average resolving overdue payment dispute take 8 months longer for women led-businesses than men<sup>14</sup>.
- Egyptian public procurement regulation dates back to policy standards from the 1980s and needs to be updated. A 2013 EBRD public procurement assessment reported gaps in transparency, integrity and accountability in public procurement processes.<sup>15</sup>

#### *Governance in private and public companies*

- Current shortcomings in corporate governance, in particular in family-run businesses and a lack of transparency limit firms’ financing options and hold back FDI.
- Corporate governance regulations need to be strengthened to clearly distinguish the roles, responsibilities and rights of board members, audit committees, executive directors, independent directors and shareholders in listed companies. In listed companies, female board participation remains low with only 7 per cent of women on the boards of the 10 largest listed companies.<sup>16</sup>
- Transparency and accountability of public utilities’ managerial and operational structures needs to be improved to increase the quality of service delivery, improve economic efficiency, bolster financial sustainability and improve governance standards.

<sup>13</sup> World Bank (2016) Doing Business

<sup>14</sup> IFC (2010) “Gender Dimensions of Investment Climate Reform: A Guide for Policy Makers and Practitioners”

<sup>15</sup> EBRD (2013) “Public Procurement Sector Assessment - Review of laws and practice in the SEMED region”

<sup>16</sup> EBRD Corporate Governance assessment, 2016

Operational focus (*Governance in private and public companies*)

- As part of its investments in the corporate sector, the Bank will assess the corporate governance standards of its clients to identify possible shortcomings and will develop corporate governance improvement programmes accordingly, with a focus on reinforcing checks and balances, strengthening risk management, improving reporting and disclosure, clarifying stakeholder relations and reporting of non-financial information. The Bank will also promote women's presence on boards of listed companies and, on a case by case basis, provide capacity building, working with its private sector clients as well as the authorities, which have launched several initiatives in that area.
- In addition, the Bank's Advice for Small Businesses will provide support to SMEs on implementing international standards of corporate governance and improve their financial transparency, including financial management, planning and reporting.
- In the public municipal, transport and energy sectors, the Bank will conduct public governance standards assessments to help public utilities improve governance and transparency in areas such as stakeholder relations, dissemination of information, board structures, internal controls and compliance. In addition, the Bank stands ready to support the development of sub-sovereign public procurement improvement programmes, for instance for public utilities, including with youth inclusion elements encouraging contractors to introduce on-site training where possible.
- In sectors with a concentration of a limited number of dominant players (e.g. in the natural resources sector), the Bank will foster competition through providing finance to smaller local or foreign direct investors.

Policy dialogue (*Economic governance and investment climate*)

- The Bank will engage with the Egyptian authorities to provide capacity building and technical assistance in the field of competition and policy delivery to relevant institutions. It will also seek to assist in the development of a governance programme for the Suez Canal Economic Zone Authority, jointly with the OECD.
- The Bank will provide policy advice and capacity building to promote more transparent and more accountable public procurement processes. This includes support in drafting legislation and operational policies for modernising public procurement system in Egypt. In addition, the Bank will assist with the development of a concept for a comprehensive eProcurement scheme for the public sector, aimed at increasing the accessibility by SMEs (including outside of larger urban centres) of public tenders, to improve the competitive environment and increase public sector's supplier diversity.
- The Bank will engage with the authorities to discuss the provision of selected judicial training programmes to support the private sector business environment, for instance with a focus on arbitration to help reduce the time required to resolve commercial disputes.
- The Bank will conduct targeted research to identify women entrepreneurs' obstacles to access dispute resolution and develop policy recommendations.

### Priority 4: Strengthen Governance and Level the Playing Field for all Businesses

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
4.1	Shortcomings in corporate governance, in particular in family-run businesses and a lack of transparency limit firms' financing options and hold back FDI	<b>Support improvements in governance practices in the corporate sector and SMEs which can be a catalyst for improved governance levels in the country</b>	<ul style="list-style-type: none"> <li>Private sector investments with corporate governance programmes (e.g. risk management, shareholders' rights, reporting)</li> <li>Policy dialogue to promote women participation on listed companies' boards and on a case by case basis provide capacity building</li> <li>Advice to Small Businesses on implementing international standards of corporate governance and financial transparency</li> </ul>	<ul style="list-style-type: none"> <li>Number of projects successfully introducing higher corporate governance and business standards by clients (<i>Baseline – 0</i>)</li> </ul>
4.2	Transparency and accountability of public utilities' managerial and operational structures need to be improved to increase the quality of service deliveries, improve economic efficiencies and bolster financial sustainability	<b>Support the implementation of robust governance structures in public utilities with improved transparency and stakeholder engagement</b>	<ul style="list-style-type: none"> <li>Direct investments in public utilities projects (e.g. municipal, transport) supported by TCs to improve corporate governance (e.g. internal controls, compliance)</li> <li>Support sub-sovereign public procurement improvements e.g. in public utilities, including with youth inclusion elements where possible</li> </ul>	<ul style="list-style-type: none"> <li>Number of public utilities projects successfully introducing higher governance standards (<i>Baseline – 0</i>)</li> </ul>
4.3	Economic governance needs further improvement to deliver a leaner and more transparent institutional environment. Regulatory enforcement needs to be improved to ensure a level playing field, while non-tariff measures distort competition in several segments of the economy.	<b>Foster the development of a level playing field, with a focus on competition policy, judicial capacity and public procurement</b>	<ul style="list-style-type: none"> <li>Capacity building and technical assistance to relevant institutions to improve competition and policy delivery</li> <li>Support growth of smaller operators in sectors with a concentration of dominant players</li> <li>Provide legal advisory support in public procurement reform, including eProcurement improving access by SMEs</li> <li>Advisory on judicial capacity building and targeted research to identify women entrepreneur's obstacles to access dispute resolution</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative account of specific improvements in business environment as a result of the Bank's policy dialogue (e.g. procurement practices, capacity building to improve competition, access to justice for women entrepreneurs) (<i>Baseline - N/A</i>)</li> </ul>
Context indicator: $\Delta$ in Regulatory Quality Indicator ( <i>Baseline 2014 - 25 Percentile Rank</i> ). Source: Worldwide Governance Indicators				

### 3.3 Potential Risks to Country Strategy implementation

EBRD's ability to implement its strategy will be influenced by a number of factors outside the Bank's control. Where feasible, the Bank will work to address and mitigate these risks through proactive and sustained engagement with its clients, IFI partners and the government.

- While the **political situation** has been broadly stabilising, social and political tensions persist with recurring episodes of political conflicts. In particular the security situation in the north of the Sinai Peninsula remains challenging. Political instability can have a negative impact on Egypt's ability to attract foreign direct investments and the recovery of the tourist industry. This could consequently impact the country's growth outlook and investment plans of local companies, limiting therefore the Bank's opportunities to invest in projects and support the Egyptian economy.
- **Macroeconomic stability** remains precarious: a prolonged slowdown in global trade and escalation of the regional turmoil would weigh further on the external position, while international reserves are already under severe pressure. The fiscal position remains weak (a budget deficit of nearly 13 per cent of GDP in FY2014/15), with high and rising public debt levels (nearly 94 per cent of GDP at end of March 2016), a slow pace of consolidation and high dependency on foreign financial support. A decline in the macroeconomic situation will have a negative impact on investors' confidence and therefore imposes a risk to the Banks's strategy implementation.
- **Priority 1:** The Bank's ability to provide FX loans to the tradable corporate sector is currently constrained by the FX shortages companies are faced with. Particularly affected are those companies which depend on import of raw materials and intermediate products and which cannot get sufficient FX, as FX is prioritised for strategic items (e.g. food and medicines). As a result, most manufacturers are currently operating at below capacity production volumes, with little investment activity which restricts the demand for finance. In addition, the introduction of tariff and non-tariff measures to reduce imports to safeguard FX reserves could create protective barriers in certain sectors and affect the level playing field, therefore constraining the Bank's engagement in certain sectors.
- **Priority 2:** The Bank's ability to develop and finance PPPs in Egypt will depend on the selection of PPP projects by the authorities, the continuing political support from the authorities for private sector delivery of public infrastructure (e.g. water & wastewater, power) coupled with the operational capacity to execute PPPs. Delay to implement required key institutional reforms in the urban transport sector will slow down the development of the Bank's pipeline, as these reforms are required to guarantee the financial sustainability of utilities in the sector. The Bank's ability to provide support to the development of the Suez Canal Economic Zone will depend on the ultimate legal, regulatory and governance (including tendering processes) environment of the Suez Canal Economic Zone Authority as well as on the development of private sector-led projects in the zone supported by robust feasibility studies.
- **Priority 3:** The level of the Bank's engagement to finance resources efficiency projects and to provide energy efficiency SME loans to local banks will be to a large extent dependent on the continuation of the reforms in the energy sectors (e.g. fuel

and electricity subsidies), which will provide the necessary incentives to companies (including SMEs) to consider resource efficient investments. The Bank's engagement in the renewable sector will be linked to the continuation of the government's support for the regulatory and contractual framework such as the feed-in-tariff and/or competitive tendering mechanisms. The Bank's focus on developing a waste supply chain will depend on the continuation of energy reforms as well as the development of pricing levels for waste.

- **Priority 4:** The authorities' continuous commitment to implement and enforce reforms in the areas of competition policy, public procurement and improved levels of transparency and accountability of public utilities will be critical for the Bank's ability to make progress in these areas. The Bank's efforts to improve the corporate governance standards will be subject to the needs identified as well as the priorities of its clients, including SMEs. With regard to public sector projects, the Bank will be dependent on the buy-in of the authorities as well as on the progress made on existing public sector governance projects.

### 3.4 Environmental and Social Implications of Bank Proposed Activities

Egypt has ratified more than 60 international conventions concerning environmental and social issues and has further reiterated its commitments by signing the Paris Agreement at the COP21 meeting in December 2015, as well as developing its Sustainable Development Strategy, Egypt 2030 vision framework, which includes livelihood improvement and environmental protection targets. However, the environmental and social performance of the country remains an area in need of strengthening. The absence of linkages between sustainable exploitation of environmental capital and economic development and a lack of local capacities and awareness are the main factors influencing this performance.

All sectors where EBRD is active in Egypt have significant environmental, health and safety as well as social challenges. In order to mitigate associated risks and maximise benefits, EBRD will continue to provide capacity building to its clients and encourage improved Environmental and Social ('E&S') governance through appropriate mobilisation of TC funds with a special focus on the following areas:

- **Water Resources** - Egypt is a water scarce country and struggles to adequately cover the country's domestic, agricultural, industrial, and other basic developmental water needs. A major challenge to maintaining the quality of the drinking water supply systems is the degradation of raw water supplies at the source caused by direct discharge of untreated sewage and industrial wastes into waterways as well as from the excessive use of chemical fertilizers and pesticides. Lack of informed decisions related to water availability and renewability have led to poor water management, increasing stress on resources and decreasing access to water especially for vulnerable groups. Strategic assessments of the sustainability of water resources and its E&S impacts are required prior to investment decisions.
- **Coastal Zones** - Climate change is expected to have an adverse impact on coastal zone management, with a sea level rise likely to involve inundation of about 10-12 per cent of the Delta's low land. The main challenges include flooding and excessive salination, which among other impacts could cause displacement of more than 5 million people and increase unemployment. Egypt's coastal areas including the Nile Delta and the Red Sea coral reefs

boast high levels of biodiversity, which are especially sensitive to long-term climate change. Projects located in the marine environment will therefore need to make careful consideration to biodiversity baseline surveys, impact assessments and management plans, to mitigate potential impacts and comply with the Bank's PR6. Further, conservation actions at the project level, including capacity building, and the strengthening of national/regional management plans are essential to preserve maritime habitats.

- *Land use* – According to the UN report on combating desertification and drought, Egypt loses around 30,000 acres of agricultural land every year due to urbanization and rapid population growth. In order to avoid degradation of soil fertility and soil contamination the Bank will require compliance with EBRD's Environmental and Social Policy and engage in awareness raising and capacity building initiatives. In projects where economic or physical resettlement may be needed, the EBRD will undertake a full due diligence of the expropriation and compensation process to ensure compliance with PR5.
- *Transport* – Egypt's rapid population growth is exerting pressure on the country's transportation network, particularly in the Greater Cairo area, where the demand for mobility has greatly outpaced the capacity of the existing public transportation system. The gap has been filled primarily with privately-owned and operated shared taxis and the use of private cars, increasing congestion and air pollution. Road traffic accidents have reportedly been responsible for more than 12,000 deaths every year. In terms of rail safety, high numbers of third party fatalities occur on a regular basis, mainly due to level crossings and informal crossing points. Through its projects the Bank will continue to increase regulatory and public sector capacity and raise awareness of road safety and traffic management.
- *Health and Safety (H&S)* – The health and safety of communities and workers in Egypt have faced challenges with awareness, resources, and adapted procedures. The Bank will continue supporting its clients through TCs to reduce the H&S risks across all sectors.
- *Labour and Working Conditions*- Egypt has ratified all eight core ILO conventions, as well as other international standards. The challenges related to labour conditions in Egypt are mainly related to adequate enforcement of the law. Due to high levels of poverty, child labour and a large informal sector remain key challenges. The Bank will continue to ensure that clients' HR policies and labour practices are compliant with relevant ILO conventions, with a particular focus on child labour, discrimination at the work place, and working terms and conditions.

*Stakeholder Engagement* – While the CSO sector has grown significantly since 2011, there are several restrictions on CSOs' activities in Egypt. Stakeholder Engagement activities of the Bank's projects will need to be mindful of this and ensure that stakeholders, including women and youth, have channels to voice their concerns. Of particular importance is the identification of vulnerable groups, including those with lower literacy levels and traditional lifestyles. The Bank will design appropriate plans to ensure meaningful and transparent consultation.

## ANNEX 1 – POLITICAL ASSESSMENT

Egypt is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. While several important milestones have been reached, further reforms are needed to embed the application of democratic principles more firmly.

### **Free Elections and Representative Government**

Egypt held several referendums and elections in the last four years, all under the supervision of the independent Higher Election Commission. Yet, because of the absence of an elected parliament during much of that period, the sitting presidents held both legislative and executive powers.

#### *Free, fair and competitive elections*

Since Egypt's uprising in January 2011, the country undertook a public referendum on a Constitutional Declaration in March 2011, the election of the lower house of the Parliament in December 2011 and January 2012, the election of the Shura Council (the upper house of the Parliament) in February 2012, two presidential elections (in May and June 2012, and in May 2014), a constitutional referendum in January 2014, and parliamentary election in November and December 2015. All referendums and elections were undertaken under the supervision of the Higher Election Commission which is made up entirely of Egyptian judges.

The European Commission (EC), the Parliamentary Assembly of the Council of Europe, and the Foreign Affairs Council of the EU reported on the 2011 and 2012 elections. Ten international organisations, including the African Union and the Arab League monitored the 2015 election. Though there were reported irregularities, several local and international civil society organisations (CSOs) were not permitted to observe the elections, some candidates' representatives had limited access to polling stations and there were reports of limited episodes of violence, these elections were generally held in a smooth and peaceful manner. Voter turnout was low in the 2015 election.

In July 2013, the Egyptian authorities presented a democratic roadmap which comprised three steps in the following order: drafting and ratifying a new Constitution, holding parliamentary elections, and holding presidential elections. Later, the Egyptian Government brought forward the presidential elections, which were held in May 2014. The parliamentary election was the final milestone in the roadmap.

Over 85 Egyptian and international institutions monitored the 2014 presidential election, including the European Union and the US-based Democracy International, in addition to thousands of independent observers. During the election, the Presidential Election Committee (PEC) decided to extend the voting by a third day. This falls within the legal framework of the elections and the PEC's mandate. However, it was widely seen as an attempt to enhance voter turnout. Following the three days of voting, the official results were a turnout of 47.5 per cent of registered voters and delivered a victory to the former Defence Minister, Abdel-Fattah al-Sisi, with 96.9 per cent of the votes.



In its report following the May 2014 presidential election, the European Union Election Observation Mission (EU EOM) concluded that the PEC operated in an impartial manner and administered the election efficiently and in line with the law. The EU EOM report also noted that voting, counting, and tabulation were administered in an orderly and well-organised manner and that state media provided approximately equal coverage to both candidates. However, the EU EOM report also indicated that “respect for freedoms of association, assembly and expression remained areas of concern” in the election. Although turnout in the election was similar to levels seen in previous elections, the EU EOM report further indicated that the non-participation of several political groups, which in some cases challenged the legitimacy of the process or opposed the democratic roadmap, undermined universal participation in the election. The EU EOM report also stated that achieving a level-playing field for the campaigns of the two contenders in that election was prejudiced by insufficient campaign-financing regulation and noted that broadcasters operating in Egypt provided limited coverage of opinions opposing the undertaking of the election and the roadmap on which it was based.

### *Separation of powers and effective checks and balances*

In the absence of an elected parliament, the President held both executive and legislative powers in recent years. According to the 2014 Constitution, the parliament once elected has fifteen days to retroactively review, amend, and revoke all laws passed by the executive in the period before the parliament’s inauguration. The parliament approved the vast majority of these laws.

Egypt’s 2014 Constitution clarifies the separation of powers, with significantly broadened prerogatives entrusted to the parliament. The president has the right to appoint the prime minister who is to form a government, which in turn has to be approved by the parliament. If the parliament votes against the government, the president has to mandate the party with the largest number of seats in the parliament to select a prime minister, who has to secure parliamentary approval for the government within thirty days. Failing that, new parliamentary elections should take place.

The President has the right to appoint members directly to serve in the parliament; however, the Constitution restricts the number of directly appointed members to a maximum of five per cent. It also restricts the president’s right to dismiss the parliament, by requiring a public referendum for such a proposal.

For the first time in the history of the Egyptian republic, the parliament will have the power to remove and/or prosecute the president. Members of parliament can withdraw confidence from the president and call for a referendum on early presidential elections if they attain a two-thirds majority in the House of Representatives.

The Constitution also empowers the parliament by broadening its legislative oversight over the government. In addition to facilitating the processes of parliamentary inquiries and hearings on government policies, for the first time in the Republic’s history the Constitution mandates that state budgets must now be approved by the parliament, without exception. The parliament will vote on every chapter in the state budget (including the budget of the Defence Ministry) and not only on the budget in its entirety. Failing to obtain a parliamentary majority requires the government to withdraw the budget. The Constitution also mandates the parliament to vote on the Central Accounting Agency’s report on state budgets. In its first

year, the parliament has assertively exercised its powers over the executive, particularly with regard to rejecting or redrafting laws.

#### *Effective power to govern of elected officials*

Under the Constitution, the power to govern rests with elected bodies in the executive and legislative branches, checked by the judiciary. However, Egypt's transition since the uprising in 2011 has been turbulent and governance arrangements have at times departed from these principles. For example, from February 2011 to June 2012, the Supreme Council of the Armed Forces (SCAF) had sweeping powers of law-making over government and in internal policing. In June 2012, Egypt's Supreme Constitutional Court invalidated a third of the parliamentary seats, which led to an executive decision by the SCAF to dissolve the parliament. In November 2012, former President Mohamed Morsi issued a unilateral constitutional declaration that immunised his decrees retroactively from any legislative or judicial scrutiny. He also issued a presidential order by which he dismissed the Public Prosecutor.

In the period from July 2013, when a new Democratic Roadmap was introduced, until the election of the current President in May 2014, no executive office was held by an elected official.

The 2014 Constitution balances presidential prerogatives with parliamentary legislative powers and oversight over the executive and clarifies the role of the military. The Constitution designates the president as the Supreme Commander of the Armed Forces; yet mandates that the armed forces cannot engage in military operations without the approval of a two-thirds parliamentary majority. In the absence of a House of Representatives, the president must obtain the approval of the government and the National Defence Council, half of whose members are the most senior officers of the Armed Forces. The 2014 Constitution also reserves for the Supreme Council of the Armed Forces the right to approve the president's choice for the position of defence minister for eight years since the enacting of the Constitution in January 2014.

### **Civil Society, Media and Participation**

There are several restrictions on the operations of local and international civil society organisations in Egypt, which have generated concerns. At the same time, the sector has grown significantly in the last four years and Constitutional protections for CSOs have been enhanced. Relative to the situation in Egypt prior to 2011, political participation has exponentially increased. Some forms of media are free, while others face significant constraints.

#### *Scale and independence of civil society*

For at least four decades, Egypt has had sizable and powerful labour unions and farmers associations. Since the country's 2011 uprising, the number of civil society organisations (CSOs) registered with the Ministry of Social Solidarity has risen from around 26,000 in 2010 to over 46,000 in 2015. Hundreds of CSOs have been established with the objective of strengthening human, civil, and political rights. There are varied NGOs and civic groups that expose and fight corruption, promote the interests of various social segments (for example, women, homeless children, and Nubians), as well as specific reforms (for example of the

security and civil services). Also in the last four years, there has been a noticeable dynamism within university student unions and professional syndicates. Several CSOs have been active in debating and opposing governmental policies, most notably in reforming the state's energy subsidies.

However, in the same period, several local and international NGOs were prevented from operating freely in the country. In December 2011, the Egyptian authorities raided the offices of several local and international NGOs, seized their documents and computers, and banned a number of their officers from leaving the country. The legal grounds for this action included operating without licences, receiving illegal foreign funding and carrying out political training programmes. The Central Bank ordered all banks to provide to the Government details of the financial transactions of these NGOs and some of their officials whose private accounts were used in receiving foreign funding. This investigation was based on the Penal Code as the un-licensed NGOs were not regulated under the Associations Law in effect. The case remains open and another round of investigations commenced in 2016.

The 2014 Constitution ensured the independence of several national councils (thematic monitoring entities composed of experts on the designated issue), for example, the National Council on Human Rights and the National Council for Women. It empowered them with the ability to initiate investigations, including against the executive authority, by the Public Prosecutor in areas related to their mandates. The Constitution also allowed the establishment of NGOs by notifying the government, without requiring its approval, and stated that the executive authority cannot interfere in their work or dissolve them, except after a judicial order.

Meanwhile, several CSOs maintain that they continue to be governed according to the 2002 Law. In June 2014, after a societal dialogue that included four rounds of consultations with a large number of CSOs, and after receiving recommendations from a group of independent experts on civic engagement, the Ministry for Social Solidarity put forward a preliminary draft of a new Associations Law. Though it was supported by many local NGOs, over 25 local and international ones signed a letter that detailed their criticisms of the draft, which, they argued, would prevent them from operating in the country.

In September 2014, the Ministry for Social Solidarity gave all NGOs not registered with the Government a period of three months to amend their status. Many ignored the order on the basis that both the 2002 Law and the amended 2014 draft law are unconstitutional following the ratification of the 2014 Constitution, which enhanced legal protections for CSOs. Under Egyptian Law, however, the 2002 Associations Law remains in force until the legislature ratifies a new association law. In November 2014, the Government extended the registration period without setting a specific deadline.

In September 2014, an amendment to the Penal Code was introduced which criminalises receiving foreign funding for activities intended to harm national security or unity. The Government maintains that this amendment is intended to track the funding sources of several violent groups that have been targeting Egypt in the last few years, and which have perpetrated terrorist operations that resulted in the deaths of tens of Egyptians. The Egyptian Government maintains that by the end of 2014, over 120 foreign NGOs were operating in the country. In the same year, local NGOs received in excess of US\$150 million in foreign funding, representing an approval rate of 98 per cent of the requests submitted in that year by NGOs to the Government.

In December 2016, the Parliament approved a draft of a new NGO law that was initiated and sponsored by several members of parliament. Similar to previous versions, it has triggered a strong debate in the country concerning the rights and restrictions it enshrines. Several NGOs argue that the law's wording is vague and open to various interpretations that would subject them to criminal law. Some NGOs argue that the Law would compel them to stop their operations in the country. The draft establishes a new agency that is to regulate the work of all foreign NGOs operating in the country. However, the President did not ratify the Law and sent it back to Parliament for further deliberation. In addition to that draft, there exist other drafts, including one presented by the Government after consultations with several local NGOs.

### *Independence and pluralism of media operating without censorship*

The 2014 Constitution specifies the right to freedom of expression and access to information, and guarantees freedom of the press. It prohibits the executive from censoring, confiscating, suspending, or shutting down any newspaper or media outlet. It specifies that no custodian punishment would be imposed as a result of published material. It also allows the issuance of publications after only a notification, rather than requiring the government's approval. The Constitution empowers an independent Supreme Council for the Regulation of the Media, which is composed by media professionals and members of CSOs, with supervising the media landscape. The Government amended the 1996 Media Law with the effect of lessening the punishment for several defamation crimes, including "insulting the President". This included removing prison sentences. Egypt has no legal restrictions on blogging on the internet.

Egypt has a diverse media scene. There are hundreds of private newspapers, radio stations, and TV channels where a wide range of views are expressed on political, economic, and social matters, including criticism of the Government and the Armed Forces. Over the past few years, the penetration of social media increased significantly, especially with young Egyptians. There are hundreds of public online platforms and portals that do not face any censorship.

At the same time, limitations on media freedom persist. According to some international CSOs, there have been numerous attacks on local and foreign journalists in the last five years. In 2013, several TV stations supportive of political Islamist forces were taken off the air and many of their journalists were prohibited from reporting in Egypt. The Government stated that these TV stations lacked the proper licences to operate or abused the ones given to them according to the regulations governing satellite channels broadcasting through Egypt's Nile-Sat. Lawsuits in which some of these channels are accused of inciting religious hatred and promoting sectarian rhetoric are ongoing. Despite the constitutional clauses guaranteeing freedom of the media, the Penal Code retains several clauses related to the press that include criminal liability for "inciting violence", insulting state institutions, and reporting that would be deemed "threats to public order". In 2016, security forces arrested two journalists from within the Journalists Syndicate. The Egyptian Government stated that the two journalists were under arrest warrants, and that the arrest was orderly and an execution of a judicial order from the office of the Public Prosecutor. It further stated that the management of the Syndicate did not cooperate in the implementation of the order. In its March 2015 Progress Report on the Implementation of the European Neighbourhood Policy in Egypt, the EC noted that the freedom of the press was reduced significantly. Following the publication of the

report, the Egyptian Government expressed reservations concerning this assessment of the media in Egypt.

Three journalists working for an international news station were charged with aiding the Muslim Brotherhood, which the Egyptian Government designated a terrorist organisation in December 2013. The three journalists received primary sentences ranging from seven to ten years. This case received significant international attention and resulted in calls by international organisations and CSOs to dismiss the case. The UN High Commissioner for Human Rights expressed concern over restrictions on media in Egypt and urged the Egyptian authorities to release the journalists. However, the Egyptian Government repeatedly emphasised that it cannot interfere in a judicial matter. A year after their arrest, one journalist exited the country, another was released on bail, and the third was granted a Presidential Pardon. In August 2015, an Appeals Court reduced the sentences to three years.

#### *Multiple channels of civic and political participation*

Since 2011, Egypt has witnessed a steady improvement in general political participation. The turnout in referendums and elections has significantly increased in the last four years although it remains low by international standards. In the January 2014 referendum on the Constitution, turnout exceeded 38 per cent of eligible voters. Turnout was at 47 per cent in the May 2014 presidential election, significantly higher than in the period before 2011. Official records put turnout in the 2015 parliamentary election at 27 per cent.

The 2014 Constitution was drafted by a committee of ten constitutional law experts. The draft they produced was reviewed and amended by a commission of fifty persons representing large political groups in the country, the largest Egyptian Islamic and Christian institutions, most professional syndicates, several farmers associations, and representatives from different Egyptian universities. Public and private Egyptian media covered the Commission's debates extensively. However, several CSOs maintain that the process was not inclusive of all major political groups in Egypt.

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

Egypt's new Law of Political Rights significantly restricts the executive's ability to influence elections. It empowers the Supreme Elections Commission with supervising all aspects of elections, from setting dates, to the process of registration, to the ability of disqualifying candidates. The country's Election Law reserves 75 per cent of parliamentary seats to individual candidates, 20 per cent for party-based candidates, and 27 seats (around five per cent) to be appointed by the president. The process of forming political parties is clear and, as per the Constitution, prohibits executive interference. The 2014 Constitution allows parties to be formed merely by notification, without requiring the approval of the executive. It is also unlawful to dissolve a political party except by way of a judicial ruling.

In December 2013, the Egyptian Authorities designated the Muslim Brotherhood a terrorist organisation. Following that ruling, its political party Freedom and Justice, which won over 40 per cent of the December 2011 / January 2012 parliamentary elections, was dissolved.

### **Rule of Law and Access to Justice**

The 2014 Constitution provides for the independence of the judiciary and strengthens the rule of law in the country. The judiciary is assertive in protecting this independence. The Constitution retains the possibility of trying civilians in front of military courts, which continue to take place in Egypt. Rulings by criminal courts, in which large numbers of people were sentenced to death, have called into question the adherence to due process in several cases.

### *Supremacy of the law*

The 2014 Constitution places new limits on the powers of the executive, including the Interior Ministry, in legal processes. It improves the rights of defendants by putting checks, restrictions, and time limits on detentions, searches, issuance of warrants, and the issuance of judgements. Many of these reforms were explicitly called for by CSOs focusing on judicial reform. The Constitution emphasises and specifies legal due process in civil and criminal cases. It renders any violation of these restrictions and due process a criminal offence. While Egypt's 1971 Constitution had enshrined the parliament's supervision over all ministries, the 2014 Constitution strengthens parliamentary powers by clarifying and facilitating the processes through which members of parliament can question ministers and withdraw confidence from any executive.

In 2014, the Supreme Constitutional Court ruled that the State of Emergency Law of 1958 (which, since then, had remained in effect) is unconstitutional in that it authorised the arrest and detention of persons suspected of endangering public order and security without proper legal processes. The 2014 Constitution states that a declaration of a state of emergency must be presented to the parliament, and limited to three months, renewable for a similar period, and also subject to parliamentary approval.

The Constitution allows civilians to be tried in military courts in cases in which there are direct attacks on military installations or military districts. This narrows the scope for referrals of civilians to military courts compared to the previous decades. However, in October 2014, after a series of terrorist attacks on state buildings, the authorities designated many state, public, and governmental buildings as military assets. In the last quarter of 2014, tens of civilians have been referred to military courts. The Egyptian Government maintains that most of those were defendants in cases of attacks on military checkpoints and personnel. In its March 2015 Report on the Implementation of the European Neighbourhood Policy in Egypt, the EC stated that the jurisdiction of military courts in trying civilian was expanded. Rights organisations have charged that the use of military courts to try civilians represents a potential threat to protection of citizens' legal and constitutional right to due process.

### *Independence of the Judiciary*

The Egyptian judiciary is highly assertive in protecting its independence. The 2014 Constitution confirmed the clause issued in the 2011 Constitutional Declaration that judges cannot be fired or dismissed except by the judiciary itself. In August 2012, the Justice Minister transferred the authority of conducting investigations in the judiciary from the ministry to the Higher Judicial Council, a move that strengthens the judiciary's independence. The 2014 Constitution enshrined the independence of all the entities of the judiciary, including not just the Supreme Constitutional Court, but also the Cassation and Appeals Courts, the State Council, and the Public Prosecutor. The Constitution stated that no executive authority can dismiss any judge and made it a criminal offence for any executive at

any level to interfere in judicial matters. In February 2014, the Supreme Constitutional Court ruled that several articles of the Election Law, presented by the Government and approved by the President, were unconstitutional, resulting in a delay in the timetable for holding parliamentary elections.

*Government and citizens equally subject to the law*

The 2014 Constitution enshrines the equality of all citizens before the Law.

In July 2014 the Interior Ministry estimated the number of people detained in the year since July 2013 to be around 20,000, almost all of whom belong to groups that the Government had declared terrorist organisations. At that time, several CSOs stated that the actual number is higher. Independent observers estimate that that number has decreased since summer 2013. The March 2015 EC report noted that “lengthy pre-trial detentions with no formal charges were prevalent.” The Egyptian Government asserts that all detentions in the country take place following legal processes and based on judicial orders and that the durations of detentions are regulated by the Egyptian Civil Law.

In March and April 2014, a criminal court judge issued death sentences to over 1200 people accused of attacks on police stations that had resulted in the death of two police officers. These sentences are under appeal. The judge was later reassigned to a different position. In December 2014, another judge sentenced 188 defendants to death in their trial for attacks on police stations in which 14 policemen were killed. These sentences have also been referred to the Court of Appeals. In May 2015, a judge at East Cairo Court referred 122 defendants, including former president Mohamed Morsi, to the highest Islamic jurisdiction authority in the country, to assess the viability of death sentences on the defendants, on charges of armed prison break in January 2011 and espionage. These sentences have been referred to the Court of Cassation for a final verdict. None of the death sentences passed in these cases has so far been carried out. In December 2016, the Court of Cassation cancelled the previous rulings and ordered the retrial of several of the defendants, including former President Mohamed Morsi, in front of a different Court. UN human rights experts operating under Special Procedures of the Human Rights Council and several international CSOs maintain that some of these cases had serious procedural deficiencies. In these cases, the vast majority of the defendants were tried in absentia, a condition that, according to Egyptian Criminal Law, compels the judge to issue the maximum sentence applicable on the defendants. The Law states that once the defendants are present, the cases will be retried.

In August 2013, 37 defendants died of suffocation while in Police custody. The police officers and personnel, who were in charge of the custody of the deceased, were tried. In March 2014, a court sentenced the senior police officer accused in the case to ten years in prison and another three officers to one-year suspended sentences. This case has also been referred to the Court of Appeals.

In February 2015, the Egyptian authorities issued the Terrorist Entities Law, which defines a terrorist entity as any group “practicing or intending to advocate by any means to disturb public order or endanger the safety of the community and its interests or risk its security or harm national unity.” The law tasks the prosecution with creating a list with the names of terrorist entities and a list with the names of people in, or associated with, terrorist entities. The lists must be considered by the Court of Appeals. Any entity or individual mentioned on either list can protest their inclusion to the Court of Cassation. Several international and

Egyptian CSOs voiced strong reservations against the broad scope of the Law. It comes after several attacks on state buildings, military and police personnel and civilians, in which tens have been murdered by violent jihadist groups.

### *Effective policies and institutions to prevent corruption*

Corruption remains a significant concern both for business and for citizens. According to the MENA Enterprise Surveys conducted by the EBRD, World Bank Group and EIB in the SEMED countries in the past 2 years, corruption ranked as the second highest obstacle to doing business for firms operating in Egypt.

Egypt ranked 88<sup>th</sup> out of a total of 168 countries in Transparency International's 2015 Corruption Perceptions Index. This suggests that corruption remains a significant issue for the authorities to tackle; at the same time, the 2015 ranking was an improvement compared to the 2014 Index, which ranked Egypt 94<sup>th</sup> out of a total of 175 countries.

Since 2011, successive governments took significant steps to combat corruption. Several large transactions, including privatisations undertaken in the last two decades, were subjected to judicial review. Senior officials from the administration that ruled Egypt prior to 2011, as well as members of previous Governments, were put on trial for abuse of power related to alleged economic gains and misappropriation of public funds and assets.

The 2014 Constitution enshrined the independence of the Central Authority for Supervision of Accounts, endowed it with wide prerogatives over the executive, and stipulated that the parliament will review and vote on its annual report on an itemised basis. In 2015, law number 98 for that year was issued, concerning the potential removal of heads of independent and monitoring agencies, which endowed the executive with such right in specific cases. Based on that law, the Head of the Central Authority for Supervision of Accounts was removed after he had made statements to the media in which he gave assessments of the extent of corruption in the country. A judiciary-led commission, mandated to review the matter, concluded that his reports to the media included "gross exaggerations". The concerned person has the right to appeal the decision in front of the High Administrative Court, which could then, refer the case to the Supreme Constitutional Court for issuing a final verdict.

In 2014, the mandate of the Administrative Control Authority was extended to cover strategy development, prevention, and investigation. The Administrative Control Authority now has direct supervision over the National Coordinating Committee for Combating Corruption, whose mandate was also widened.

The Government established an inter-ministerial committee in 2014 under the chairmanship of the Minister of Transitional Justice, formerly a senior judge, with the task of developing a programme of institutional reform. The programme aims, among other objectives, to improve administration of and control within public institutions. Egypt is in the process of updating its decentralisation strategy, which aims to endow local authorities and municipalities with wider administrative and budgetary responsibilities.



## Civil and Political Rights

The 2014 Constitution enshrines civil and political rights and introduced new protections, previously not covered by the Egyptian Constitution. There were improvements in gender, regional, and youth inclusion related to political participation and in consultations regarding social and economic decision making. However, concerns remain regarding freedoms of speech and assembly.

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

The 2014 Constitution devotes a chapter to specifying and codifying political, civil, and human rights, such as freedoms of speech and assembly. These include rights that no previous Egyptian Constitution has enshrined, for example freedom of thought, opinion, scientific research, and artistic creativity. The Constitution also binds the Egyptian state to international human rights agreements, covenants, and charters ratified by the country. The official mandate of the Ministry of Transitional Justice includes monitoring and consolidating rights and freedoms specified in the Constitution. In its March 2015 Progress Report, the EC noted that the Constitution includes an unprecedented level of protection for human rights and individual freedoms, but that there is a distinction between the rights enshrined in the Constitution and the practice applied by some state institutions. The Egyptian Government maintains that this distinction is primarily due to cases of violations perpetrated by individuals.

The Assembly Law, issued in November 2013, allows the executive to ban protests if “they pose threats to security, peace and public order, influence the course of justice, or delay traffic or transport.” The law also grants the government the right to declare public spaces off limit for protest. The law further obliges protest organisers to submit plans of their demonstrations, if they exceed ten individuals, to the Ministry of Interior, at least three days in advance of the protest. The Ministry has the right to cancel or change the route of the planned demonstration. In its March 2015 Egypt Progress Report, the EC noted that freedom of assembly is seriously restricted. Several demonstrators were arrested and put on trial for violating the Assembly Law. Some were charged with multi-year sentences. The March 2015 EC Report stated that often trials in which activists were charged were based on violations of this law. The Egyptian Penal Code maintains that defendants found guilty in multiple criminal charges are to be sentenced according to the gravest of the charges for which the Court has ruled them guilty. In the most prominent cases of activists charged with multi-year sentences, the sentences were related to charges of arson, illegal possession of arms and attacking public buildings, not holding protests in violation of the Assembly Law. The Law is currently under review by the Supreme Constitutional Court. In December 2016, the Supreme Court ruled that an article of the Law is unconstitutional, which led the Government to refer the Law to the State Council for review.

In August 2013, the authorities dispersed two large sit-ins of supporters of former President Mohammed Morsi, which were led and organised by the Muslim Brotherhood. The dispersals resulted in hundreds of deaths. In November 2013, Egypt’s Interim President at the time set up a Fact-Finding Committee to investigate the dispersal of the sit-ins. The report, which was published at the end of 2014, maintained that the casualties included security officers who participated in the dispersal, and attributed the responsibility for violence that occurred to the Muslim Brotherhood. The report assessed the compatibility of the methods used by the

security forces in dispersing the sit-ins with the steps required by law in such situations. The Egyptian National Council for Human Rights also established a fact-finding mission into the dispersal of the sit-ins. Its report, which was issued in March 2014, attributed the heavy casualties on both the “disproportionate use of force” and “failure to exercise self-restraint” by the security forces and on the incitement to violence, forcible crowd-sourcing, and usage of arms by groups of protestors<sup>17</sup>. There are several investigations that remain open with regard to the dispersal, but so far these do not entail judicial prosecution processes.

#### *Political inclusiveness for women, ethnic and other minorities*

The 2014 Constitution for the first time obliges the state to eliminate all forms of discrimination. It guarantees equal political and economic rights for groups with disabilities and the elderly. It mandated the establishment of an Independent Commission to combat discrimination. Egypt introduced social and economic measures to assess and report on gender equality in terms of access to jobs, equal remuneration, education and health metrics, and exercising political rights. Since the 2011 uprising, there has been a significant improvement in women’s political participation, including in voter turnout in recent elections.

There is also a noticeable improvement regarding women’s social security. The Constitution strengthened the rights of several National Councils, including the National Council for Women. There have been hundreds of seminars organised in the last two years, including by the Ministry of Social Solidarity, to educate women about human trafficking, domestic violence, legal rights, and early marriages. The Government has taken assertive steps to combat female genital mutilation. The EC’s March 2015 Report noted that there was progress in investigating cases of targeted sexual violence against women.

However, significant differences in the conditions of women remain between urban and rural parts of the country and across social segments. In addition, women’s political participation remains low when compared to international standards.

Though the Government is leading several initiatives to affect equitable distribution of resources among the country’s governorates, there remain significant differences between large urban centres and the rest of the country with regard to utility penetration and availability of services. Also social and economic inclusion in southern Egypt is significantly lower than in other parts of the country.

#### *Freedom from harassment, intimidation and torture*

The 2014 Constitution prohibits torture. It stipulated that international treaties ratified by Egypt become integral parts of the national legislation. As a result, the Egyptian legal system now adheres to the international definition of torture as contained in the Convention against Torture. The country has not yet ratified the International Convention against Torture.

Some rights groups claim there have been cases of Egyptian and foreign nationals who have been subjected to torture. The Egyptian government stated that, as per the Egyptian Constitution and law and the country’s commitment to its international obligations, it rejects the use of torture. The government also maintains that in the individualistic cases where

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<sup>17</sup> <http://www.nchregypt.org/media/ftp/rabaa%20report%20translation.pdf>

excessive use of violence was used, the government undertook extensive investigations and the perpetrators were referred to the judiciary. Several of them were sentenced to multiyear sentences. As per the Egyptian constitution, crimes of torture have no statute of limitation. A specific case in which the body of an Italian graduate student was found with signs that, rights groups assert indicate torture, the Egyptian government stresses that he was never arrested by any Egyptian government entity, and that the government is undertaking a comprehensive investigation in which it is cooperating with the Italian authorities.

In December 2014, the Office of the UN High Commissioner for Human Rights stated the authorities must ensure that security forces do not use excessive force. It also urged individuals using demonstrations to air grievances to exercise their rights peacefully.

## ANNEX 2 – SELECTED ECONOMIC INDICATORS

Egypt	2009	2010	2011	2012	2013	2014	2015
<b>Output and Expenditure</b>			<i>(Percentage change in real terms)</i>				
GDP	4.7	5.1	1.8	2.2	2.1	2.2	4.2
Private consumption	5.7	4.1	5.5	6.5	2.8	4.1	2.8
Public consumption	5.6	4.5	3.8	3.1	3.9	6.6	7.0
Gross fixed capital formation	-9.1	8.0	-2.2	5.8	-8.4	1.7	8.6
Exports of goods and services	-14.5	-3.0	1.2	-2.3	5.6	-11.9	-0.4
Imports of goods and services	-17.9	-3.2	8.4	10.8	0.5	0.2	0.5
Industry, value-added	5.5	4.0	0.5	1.0	0.6	1.5	1.0
<b>Labour market</b>							
Gross average monthly earnings (annual average)	10.0	21.3	21.6	20.0	18.7	5.9	9.1
Real LCU wage	-6.2	10.5	10.6	11.3	11.8	-4.2	-1.9
			<i>(In per cent of labour force)</i>				
Unemployment rate	9.4	9.0	12.0	12.7	13.2	13.0	12.8
<b>Prices</b>			<i>(Percentage change)</i>				
Consumer prices (annual average)	16.2	11.7	11.0	8.6	6.9	10.1	11.0
Consumer prices (end-year)	9.9	10.1	11.8	7.3	9.8	8.2	11.4
<b>Fiscal Indicators</b>			<i>(In per cent of GDP)</i>				
General government balance	-6.9	-8.2	-9.8	-10.0	-13.4	-12.1	-11.7
General government revenues	27.71	25.1	22.0	21.1	21.9	24.7	22.2
General government expenditure	34.2	32.9	32.1	31.2	34.	36.	33.2
General government debt	72.9	73.1	76.4	74.9	84.7	85.8	88.7
<b>Monetary and Financial Sectors</b>			<i>(Percentage change)</i>				
Broad money (M2, end-year)	9.5	12.4	6.7	12.3	18.9	15.8	18.6
Credit to the private sector (end-year)	-2.9	6.4	4.7	6.0	4.5	9.5	15.3
			<i>(In per cent of total loans)</i>				
Non-performing loans ratio	13.4	13.6	10.9	9.8	9.3	8.5	7.2
<b>Interest and exchange rates</b>			<i>(In per cent per annum, end-year)</i>				
Local currency deposit rate	5.9	6.6	7.2	7.6	7.0	7.2	6.8
Foreign currency deposit rate	0.2	0.2	0.4	0.2	0.2	0.2	0.4
Overnight lending rate	9.75	9.75	10.25	10.25	9.25	10.25	10.25
Interbank rate (1 week)	8.3	8.3	9.8	9.9	10.3	8.7	9.25
Policy rate	8.25	8.25	9.25	9.25	8.25	9.25	9.25
			<i>(EGP per US dollar)</i>				

## PUBLIC

Egypt							
	2009	2010	2011	2012	2013	2014	2015
Exchange rate (end-year) Interbank rates – weighted average	5.5	5.8	6.0	6.4	7.0	7.2	7.8
Exchange rate (annual average)	5.6	5.6	5.9	6.1	6.9	7.1	7.76
<b>External sector</b>	<i>(In per cent of GDP)</i>						
Current account	-2.3	-2.0	-2.6	-3.7	-2.2	-0.9	-3.6
Trade balance	-13.3	-11.5	-11.5	-12.4	-10.7	-11.3	-11.7
Merchandise exports	13.3	10.9	11.5	9.1	9.4	8.6	6.6
Merchandise imports	26.7	22.4	23.0	21.5	20.2	19.9	18.3
Foreign direct investment	-3.6	-2.6	-0.9	-1.4	-1.3	-1.4	-1.9
Gross reserves (end-year)	16.6	16.1	11.3	5.6	5.2	5.5	6.1
External debt stock	16.9	15.9	15.2	12.5	16.4	15.6	14.9
Public external debt	13.8	12.4	11.8	9.8	11.4	9.9	8.0
Private external debt	3.1	3.5	3.4	2.7	5.0	5.7	6.9
	<i>(In months of imports of goods and services)</i>						
Gross reserves (end-year)	6.1	6.8	4.2	2.3	2.2	2.6	2.9
<b>Memorandum items</b>	<i>(Denominations as indicated)</i>						
Population (end-year, millions)	83.2	87.8	87.8	87.8	90.6	93.6	n.a
GDP (in billions of EGP, nominal)	1042.2	1206.6	1371.1	1656.6	1843.8	2101.9	2429.8
GDP per capita (in US\$, nominal)	2444	2724	2869	3151	3017	3250	n.a
Share of industry in GDP (in per cent)	37.6	37.5	37.6	38.8	38.9	39.0	36.3
Share of agriculture in GDP (in per cent)	13.6	14.0	14.5	11.1	11.0	11.1	11.2
FDI (in billions of US\$)	8.1	6.8	2.2	4.0	3.8	4.2	6.4
External debt - reserves (US\$ billion)	0.2	-1.6	8.3	18.8	28.3	29.4	28.0
External debt/exports of goods and services (per cent)	64.4	71.0	71.4	74.8	87.9	105.3	109.4
Broad money (M2, end-year in % of GDP)	79.8	76.0	73.6	66.1	70.3	72.2	72.2

Note: All figures correspond to fiscal years (July – June), except monetary and financial sector indicators and interest and exchange rate

## ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

Market Structure	Market Institutions	Key challenges
<b>CORPORATES</b>		
<b>Agribusiness</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Continuing to reform subsidies on water, fuel, and electricity.</li> <li>▪ Continuing to liberalize the market for key agricultural commodities (e.g. grain and sugar).</li> <li>▪ Increasing productivity in the agricultural sector through training, improved water management and better access to finance.</li> <li>▪ Improving the functioning of land markets.</li> <li>▪ Developing modern processing, logistics, retail, and distribution systems.</li> </ul>
<b>Manufacturing and Services (M&amp;S)</b>		
Large	Medium	<ul style="list-style-type: none"> <li>▪ Enhancing the business environment by improving the efficiency of public service delivery, reducing bureaucracy, strengthening the enforcement capabilities of the Egyptian Competition Authority, and improving contract enforcement and bankruptcy procedures.</li> <li>▪ Supporting the gradual removal of distortions arising from remaining energy price subsidies, regulatory measures (e.g. licensing) and trade barriers.</li> <li>▪ Increasing the productivity and efficiency of the sector by introducing modern management practices including improved energy efficiency and promoting higher levels of R&amp;D in order to enable the move to higher value-added production.</li> <li>▪ Explore the privatising and restructuring of remaining state-owned companies, especially in the textile and petrochemicals sectors, to support competitiveness.</li> </ul>
<b>Real Estate</b>		
Medium	Large	<ul style="list-style-type: none"> <li>▪ Further increasing transparency and streamlining the process of acquiring construction permits and property registration.</li> <li>▪ Creating a comprehensive and accessible property register.</li> <li>▪ Improving the framework for foreclosures in order to facilitate the development of the mortgage market.</li> <li>▪ Increasing the focus on energy efficiency and sustainability in all real estate sub-segments.</li> <li>▪ Increasing the supply of modern commercial and affordable residential property.</li> </ul>

Market Structure	Market Institutions	Key challenges
<b>Information &amp; Communication Technologies (ICT)</b>		
Medium	Medium	<ul style="list-style-type: none"> <li>▪ Commercialising and further privatising the fixed-line incumbent.</li> <li>▪ Further developing the regulatory framework (e.g. in terms of the implementation of competitive safeguards and tariff rebalancing).</li> <li>▪ Ensuring full regulatory independence.</li> <li>▪ Improving the enforcement of intellectual property rights protection.</li> </ul>
<b>ENERGY</b>		
<b>Natural Resources</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Increasing upstream and downstream competition by restructuring and unbundling the vertically integrated, state-owned companies that control the extraction and distribution of petroleum, gas and other mineral resources.</li> <li>▪ Continuing to tackle fuel subsidies and ensure gas tariffs reach cost-recovery levels, while at the same time improving the system of targeted transfers to the most disadvantaged.</li> <li>▪ Strengthening the legal and regulatory framework, including setting up an independent regulator.</li> <li>▪ Increasing the transparency of revenue flows from extractive activities.</li> </ul>
<b>Power</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Structural modernisation including commercialisation, effective unbundling and privatisation.</li> <li>▪ Developing a market system that promotes investment in new generation capacity.</li> <li>▪ Continue with removing cross-subsidies and implementation of cost reflective tariffs.</li> <li>▪ Ensure effective and transparent operations of the newly independent established regulator.</li> </ul>
<b>INFRASTRUCTURE</b>		
<b>Water and wastewater</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Implementing tariff reform to improve the sustainability of services.</li> <li>▪ Restructuring and commercialisation of water utilities (reduction of losses, labour restructuring and productivity improvements).</li> <li>▪ Increasing decentralisation of operations by granting more autonomy to municipalities and water utilities.</li> <li>▪ Further developing PPP financing schemes for water and wastewater treatment plants.</li> </ul>

Market Structure	Market Institutions	Key challenges
<b>Urban Transport</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Reforming the institutional relationship between operators and public authorities, including the need to fully and operationally separate the regulatory from the operational functions.</li> <li>▪ Introducing cost control at public operators to improve financial sustainability of services and create more room for asset maintenance</li> <li>▪ Implementing tariff reform to improve fare box ratios and support financial sustainability.</li> <li>▪ Capacity building for service planning and route tendering.</li> <li>▪ Tackling high congestion and emissions in larger cities through a combination of regulatory and market-based instruments.</li> </ul>
<b>Roads</b>		
Large	Medium	<ul style="list-style-type: none"> <li>▪ Full separation of regulation from operations.</li> <li>▪ Divestiture of the road maintenance companies.</li> <li>▪ Improving financing through expanding the toll-road network, and/or higher tolling rates and/or transport fuel excises.</li> <li>▪ Implementing PPPs</li> </ul>
<b>Railways</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Corporatising and further restructuring the Egyptian National Railways (ENR), including costs optimisation and full separation of infrastructure from operations..</li> <li>▪ Implementing tariff reform to improve the fare box ratio.</li> <li>▪ Strengthening the regulatory and institutional framework by separating the policy making, regulation and operation functions into distinct entities.</li> <li>▪ Granting third party access to the network.</li> </ul>
<b>FINANCIAL INSTITUTIONS</b>		
<b>Banking</b>		
Medium	Medium	<ul style="list-style-type: none"> <li>▪ Deepening financial intermediation and expanding access.</li> <li>▪ Privatising state-owned banks.</li> <li>▪ Developing longer-term funding instruments.</li> </ul>



Market Structure	Market Institutions	Key challenges
<b>Insurance and other financial services</b>		
Large	Medium	<ul style="list-style-type: none"> <li>▪ Increasing insurance penetration and encouraging a more dynamic sector by privatising the dominant state-owned insurer.</li> <li>▪ Expanding the availability of leasing, particularly to small businesses and individuals.</li> <li>▪ Developing further the institutional frameworks for mortgages, including land registration and long term funding.</li> </ul>
<b>Micro, small and medium-sized enterprises</b>		
Large <sup>18</sup>		<ul style="list-style-type: none"> <li>▪ Increasing SME's access to bank lending.</li> <li>▪ Developing tailored MSMEs credit practices as well as establishing dedicated SME departments.</li> <li>▪ Supporting a conducive legal environment for SME lending, e.g. by strengthening secured creditor rights (both in terms of creating and enforcing securities), increasing the breadth and depth of the credit information system, and lessening legal barriers in terms of collateral requirements.</li> <li>▪ Supporting Egyptian SMEs' move to the formal sector</li> <li>▪ Increasing SME bankability by enhancing skills in terms of financial management and accounting.</li> </ul>
<b>Private equity</b>		
Large	Medium	<ul style="list-style-type: none"> <li>▪ Developing institutional quality private equity funds in the medium size and SME segments.</li> <li>▪ Broadening the range of products.</li> <li>▪ Regain international commercial investors' confidence and attract more local institutional investors as the insurance and pension segments stabilize / grow.</li> <li>▪ Enhancing governance standards.</li> </ul>
<b>Capital markets</b>		
Medium	Medium	<ul style="list-style-type: none"> <li>▪ Improving the functioning of the government bond market as a basis for money markets and corporate bond development by building a reliable sovereign yield curve and liquid secondary markets.</li> <li>▪ Developing the corporate bond market as an alternative to bank-led finance.</li> <li>▪ Building an institutional investor base (insurance, pension funds).</li> <li>▪ Encouraging flagship local and/or dual listings on the main board.</li> <li>▪ Building a critical mass of SMEs and encourage listings on Nilex (SME board).</li> <li>▪ Diversifying the range of financial products; including short term debt instruments.</li> </ul>

<sup>18</sup> For MSME development, only one overall gap is assigned.

<b>Market Structure</b>	<b>Market Institutions</b>	<b>Key challenges</b>
<b>SUSTAINABLE RESOURCE INITIATIVE</b>		
<b>Sustainable energy</b>		
Large	Medium	<ul style="list-style-type: none"> <li>▪ Deploying the potential of renewable energies at a reasonable cost.</li> <li>▪ Continuing efforts to reduce cross-subsidisation and achieve cost-recovery energy tariffs.</li> <li>▪ Developing and fully implementing energy efficiency policies focused on main energy users to facilitate the uptake of projects.</li> <li>▪ Developing and enforcing a coherent set of climate change adaptation measures, with emphasis on the most vulnerable economic sectors.</li> <li>▪ Support exploitation of low carbon alternative energy supplies in the industrial sector.</li> </ul>
<b>Water efficiency</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Implementing a comprehensive water legal framework that provides clear investments prioritisation and guidance.</li> <li>▪ Introducing advanced water saving/recycling techniques in key water consuming sectors.</li> <li>▪ Continuing the implementation of the tariff reform that leads to a more rational use of water.</li> <li>▪ Monitoring and reducing industrial and commercial effluent discharges.</li> </ul>
<b>Resource efficiency and environmental protection</b>		
Large	Large	<ul style="list-style-type: none"> <li>▪ Developing and implementing a comprehensive waste framework legislation, as well as specific policies and regulations for the most common waste types.</li> <li>▪ Support the development of waste collection/ reliable recycling/ reuse value chains, where possible with the engagement and transformation of the informal sector.</li> <li>▪ Strengthening resource efficiency across main economic sectors, with an emphasis on cost-effective solutions.</li> <li>▪ Developing and enforcing stringent industrial waste and wastewater, and pollution control regulation.</li> </ul>

ECONOMIC INCLUSION<sup>[1]</sup> GAP RATINGS

ECONOMIC INCLUSION		
Inclusion gap dimension	Inclusion gap	Key challenges
<b>Regions</b>		
Access to education	Large	<ul style="list-style-type: none"> <li>Improving regional access to education and the relevance of education to labour market requirements.</li> </ul>
<b>Youth</b>		
Labour Market Structure	Medium	<ul style="list-style-type: none"> <li>Enhancing labour market flexibility and reducing labour market entry barriers, with a specific focus on easing labour regulations.</li> </ul>
Youth Employment	Large	<ul style="list-style-type: none"> <li>Developing effective progression routes from training into employment through closer links between employers and education providers.</li> </ul>
Quality and Quantity of Education	Large	<ul style="list-style-type: none"> <li>Ensuring a strong institutional basis for the private sector's role in formulating curriculum content and learning objectives to reflect labour market requirements.</li> </ul>
Skills Mismatch	Large	<ul style="list-style-type: none"> <li>Improving national skills standards frameworks as part of the Technical and Vocational Education and Training Reform Programme strategy and the Education Strategic Plan for 2014-2030.</li> <li>Enhancing private sector participation in setting national skills standards that reflect labour market needs, particularly at vocational level.</li> </ul>
Financial Inclusion	Large	<ul style="list-style-type: none"> <li>Improving access to finance for young people and the availability of financial and business advisory services targeted at young entrepreneurs.</li> </ul>
<b>Gender</b>		
Legal Regulations	Large	<ul style="list-style-type: none"> <li>Improving the enforcement of international gender equality standards, including the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), through national gender equality strategies and an institutional framework.</li> </ul>
Access to Health Services	Medium	<ul style="list-style-type: none"> <li>Strengthening measures to reduce the maternal mortality rate in the country through improved awareness of and access to quality medical care.</li> </ul>
Labour Policy and Practices	Medium – Large	<ul style="list-style-type: none"> <li>Improving policies and practices in relation to equal pay to reduce the gender pay gap and encourage women's participation in the labour market.</li> </ul>

Employment and business	Large	<ul style="list-style-type: none"> <li>▪ Incentivising the private sector to adopt equal opportunities employment standards.</li> <li>▪ Improving career guidance at high school and tertiary education levels specifically focusing on female students and graduates.</li> </ul>
Access to Finance	Large	<ul style="list-style-type: none"> <li>▪ Building the capacity of local banks to develop credit lines aimed at women-led SMEs, combining access to finance, training and business advisory services.</li> </ul>

<sup>1</sup> The EBRD Economic Inclusion gaps rate the institutions, markets and education systems across all EBRD's countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*. Gaps are reported in this Country Strategy where there exists an inclusion gap above Small. These gaps are consistent with the EBRD 2015 Inclusion Gap update. Please note that regional inclusion gaps are from 2013, to be updated by the end of 2016.

## ANNEX 4 – LEGAL TRANSITION

### Introduction

This annex offers critical analysis on selected legal topics relevant to the Bank’s investment strategy in Egypt during the forthcoming strategy period. For ease of reference, the analysis is presented along the main strategic orientations defined in this country strategy, in particular the actions proposed under ‘Policy dialogue and TC’.

#### ***Theme 1: Support Egypt’s Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People***

##### *Insolvency framework*

It is necessary to update the comprehensive reform of the insolvency legal framework in Egypt. Some modest attempts have been undertaken to provide a fast track process for insolvency. In late 2016, the Ministry of Justice indicated that it has been preparing a new draft bill regulating bankruptcy and restructuring procedures. Nevertheless, insolvency procedures in Egypt remain lengthy and bureaucratic with liquidation as the prevalent outcome over restructuring. Under the current regime, two types of insolvency (bankruptcy) procedures are available: (i) liquidation; and (ii) composition (also for threatened bankruptcy), aimed at reaching an agreement between the debtor and its creditors. Often the composition procedure will result in a sale of the debtor’s assets, similar to liquidation, so that such proceedings in practice do not facilitate the debtor's restructuring. In addition, there are no real means for effective reorganisation of viable businesses owing to the inability of the existing compromise procedures to bind secured creditors. At the same time, cumbersome court procedures render the liquidation of unviable businesses a lengthy and complex process.

EBRD’s Insolvency Office Holders (IOH) Assessment (2014) revealed that Egypt’s legal framework for regulation of the IOH profession needs to be improved. Both a general centralised system of registration or licensing for IOHs and a dedicated regulatory body for IOHs are needed. It is also important for IOHs to be required to pass a specific examination for entry to the profession and to engage in continuing training. In the context of insolvency procedures, there should be further guidance on appointment of the IOH by the court and efforts should be made to allow creditors to participate in appointment of the IOH.

##### *Access to finance*

Although a legal framework for giving collateral is in place, smaller borrowers typically face high collateral requirements, while many types of assets cannot be used. This is caused, at least partially, by problems with foreclosure or loan recovery procedures. A new Law on Security over Movable Assets (Law 115/2015) was adopted in December 2015, which provides flexibility, transparency (in the form of a new Collateral Register) and efficiency (increasing creditors’ rights especially in case of the debtor’s insolvency). The law still remains to be implemented but it could help collateral requirements, especially for Small and Medium Enterprises (‘SMEs’). Higher lending to SMEs requires efforts to move SMEs from the informal to the formal sector; building capacity for SME lending at Egyptian banks, and

improving the legal and regulatory frameworks for alternative products for SME financing such as factoring and leasing.

In 2014, EBRD published its Secured Transactions Assessment, which examined the practices and effectiveness of collateralising different types of assets to establish the secured creditors' rights in the EBRD region. In this Assessment, Egypt scored slightly higher than the overall average of all countries of operations, reflecting an above-average framework for taking pledges and mortgages with some notable challenges on enforcement procedures. The EBRD Factoring Survey (2016) identified areas of Egypt's factoring regulatory and institutional framework which could be improved, including: high capital adequacy requirements for factoring companies, possibility to assign receivables through the Electronic Data Exchange, and promotion of electronic signatures.

### ***Theme 2: Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation***

#### *Public Private Partnership ('PPP') legislation*

The legislative framework regulating PPPs is generally satisfactory to enable PPP projects at the national level across all sectors. The framework is considered to be in line with international standards and best practice. The bidding and awarding practices are considered transparent and a PPP implementation guide has been issued. Cost-benefit analysis using a public sector comparator is mandatory. Furthermore, the 2012 amendments to the PPP Law incorporated the option of arbitration for dispute resolution, instead of resorting to Egyptian courts.

There are still a number of areas where further action is required. PPPs on subnational levels may suffer from possible capacity shortfalls. From the fiscal oversight side, Egypt currently has no specific regulation to allow the budget office to approve PPP projects from a fiscal perspective. Coordination among different sectors is still a challenge since many PPPs may still be implemented under sector-specific or project-specific laws (e.g. within the Ministry of Electricity and Energy and Ministry of Transport). If the PPP Law could override sector-specific legislation, amending the PPP Law to introduce a centralised approach could be considered. The PPP Central Unit capacity could also be strengthened to allow it to deal with multiple and complex projects in parallel.

### ***Theme 3: Support Egypt's Green Economy Transition***

#### *Energy Efficiency/ Renewable energy investment framework*

Egypt has developed an energy-intensive economy compared to its neighbours and to the OECD Europe average. However, the energy efficiency regulative framework is fragmented, and the implementation in practice needs to be improved, including through better monitoring, evaluation and enforcement. The authorities have enacted the National Energy Efficiency Action Plan, covering 2012-2015 and are preparing a second such plan for the years 2017-2020, as well as a number of energy efficiency codes for buildings and minimum energy performance standards with mandatory labelling for the most common appliances. Additionally, in 2014 Egypt introduced a regulatory framework aimed at allowing the country to tap into its significant renewable potential, by launching a Feed-in Tariff ('FIT') scheme targeting the development of 4,300 MW of wind and solar photovoltaic capacity.

The recently enacted Law on Electricity contains some broad provisions related to energy efficiency such as co-generation, but no dedicated energy efficiency legislation has been adopted yet and there are significant issues linked to enforcement and monitoring. It is noteworthy that, the Electricity Law grants the regulator the power to set tariffs for transmission, distribution, and end consumers (from 2019 onwards); foresees unbundling of the transmission system and third party access on a transparent and non-discriminatory basis; and envisages gradual liberalisation of end-user tariffs and adoption of bilateral contracting structures.

There is currently no dedicated waste legislation in place that complies with international best practice and there is a large regulatory gap linked to materials efficiency – including reuse and recycling. Industrial waste policy and other secondary regulation dealing with recyclables such as paper, plastic or batteries need to be developed as well.

#### ***Theme 4: Strengthen Governance and Level the Playing Field for all Businesses***

##### *Corporate governance legislation*

The corporate governance legislation should be strengthened to clearly distinguish the roles, responsibilities and rights of board members, audit committees, executive directors, independent directors and shareholders in listed companies. Corporate governance is mainly regulated by the Companies Law, the Capital Market Law and the Central Depository Law. Within this legal framework, board responsibilities are not sufficiently clearly outlined. For example, does the law not clearly assign to the board some of its key functions (e.g. approval of budget, review of company risk profile and appointment of executives). It is also unclear if board members have a fiduciary duty towards the company and its shareholders. In at least three of the ten largest listed companies in the country, the CEO is also the chair of the board and this concentration of power is not offset by an adequate presence of independent directors. With reference to internal control, the law requires listed companies to have internal and external audits and most companies seem to comply with this requirement; in this respect, the provision of non-auditing services by the external auditors should be carefully assessed. As regards shareholders, although the law guarantees them a number of basic rights, it is silent on cumulative voting and on the right to nominate board members. Further, it appears that urgent matters can be discussed and voted on without being on the agenda, if a majority of shareholders at the meeting agrees. This should be subject to the consent of all shareholders, and not only a majority.

There is room for improvement in a number of other areas of corporate governance. In terms of reporting standards, the law should progressively require listed companies and banks to apply International Financial Reporting Standards ('IFRS') and disclosure of non-financial information by listed companies should also be strengthened. Insider trading and self-dealing is regulated by law, but it appears that most cases are resolved on an administrative basis rather than in court. Aside from improvements in the legal framework and its enforcement, the implementation of the (non-binding) recommendations of the Egyptian Code of Corporate Governance ('ECCG') should be improved, ideally through some monitoring of company disclosure. In 2014, only two out of the ten largest listed companies in Egypt provided a "comply or explain" statement with their annual reports with regards to the ECCG's recommendations, and even in those cases the statements were more declaratory than informative.

*Legal framework for public procurement*

The legal framework for public procurement should be updated and its enforcement strengthened to increase transparency, curb corruption and improve efficiency. Egyptian public procurement regulation is based on outdated policy standards from the 1980s. A 2013 EBRD public procurement assessment reported that the transparency, accountability and integrity in public procurement processes need to be strengthened. To date, the most significant attempt at procurement reform was the introduction of electronic means for tender notification in 2010, which had limited effects as electronic notification remained optional. There is minimal online access to information on procurement opportunities; information on procurement decisions and debriefing procedures for unsuccessful decisions is unavailable; and there is no review and remedies mechanism to protect private sector suppliers competing for public tenders.

A fairer, more transparent and more accountable public procurement process should result in an increase in tender participations and increase supplier diversity. The introduction of simplified procedures for small value contracts can also encourage the participation of local SMEs in public tenders. More broadly, new legal instruments promoting sustainability and inclusiveness should be developed to enable the government to utilise public tenders to implement environmental and social policy in the context of public projects.



## ANNEX 5 – GENDER PROFILE

### *Gender inequality and Human Development*

According to the Gender Inequality Index (‘GII’) 2015, Egypt is ranked 131<sup>st</sup> out of 155 countries.<sup>19</sup> The World Economic Forum (‘WEF’) ranks Egypt 136<sup>th</sup> out of 145 countries in the Gender Gap report 2015.<sup>20</sup>

### *Labour force participation*

According to World Bank data, in 2014 women’s labour force participation rate in Egypt was 24 per cent as compared to 75 per cent for men. This is one of the lowest rates globally, yet it is similar to other countries in the SEMED region (female labour force participation in Morocco stands at 27 per cent and 25 per cent in Tunisia). The influence of traditional gender roles is one of the root causes of the low women’s labour force participation even when qualified and of women’s underrepresentation in relevant technical Science, Technology, Engineering and Maths (‘STEM’) disciplines. Informality remains an important challenge with two-thirds of women working in the private sector in Egypt doing so informally<sup>21</sup>. Low employment rates of young people (i.e. people between 15 and 24 years of age), and especially those of young women are a challenge for the country, since half of Egypt’s population is under the age of 25. Gender disparity is key to understanding the situation of youth in the Egyptian labour market, as in 2014 the unemployment rate among young women was twice that of young men in Egypt: 58.9 per cent and 29.2 per cent, respectively. Almost one-third of female working youth (28.9 per cent) are unpaid family workers compared to 14.2 per cent of male working youth. Occupational segregation is significant in Egypt. Women predominate in the agricultural sector (43 per cent of women’s employment compared to 24 per cent of men’s employment) and services (52 percent of women’s employment and 47 per cent of men’s) but are almost absent from industry (just 5 per cent of employed women compared to 29 per cent of men’s employment).

### *Entrepreneurship and access to finance*

According to the 2015 Business Environment and Enterprise Performance Survey (‘BEEPS’), 5.7 per cent of firms surveyed in Egypt had women among the owners; women constituted 12.7 per cent of permanent full time workers and 7.1 per cent of firms had women top managers. Women have the same legal rights to access bank loans and enter into financial contracts as men. However, there are significant gender disparities in terms of men and women who have an account at a formal financial institution, save, borrow money or manage risk in Egypt. For example, according to the World Bank’s Global Financial Inclusion database (surveying approximately 1,000 people using, randomly selected, nationally representative samples) in 2014, 18 per cent of men and 9.2 per cent of women owned an account at a formal financial institution.<sup>22</sup> Women entrepreneurs in Egypt may also face difficulties when accessing justice in order to resolve commercial disputes. Formal courts can be costly, complex, and time consuming and women have – in general - less assets, resources and time than men, due to their gender roles in the society and to discriminatory provisions from family codes or customary laws According to an IFC study, it takes female-headed

<sup>19</sup> GII reflects gender-based inequalities in three dimensions – reproductive health, empowerment, and economic activity.

<sup>20</sup> <http://reports.weforum.org/global-gender-gap-report-2015/rankings/>

<sup>21</sup> World Bank Investment Climate Survey, 2008.

<sup>22</sup> <http://databank.worldbank.org/data/reports.aspx?source=1228>

firms an average of 86 weeks to resolve disputes about overdue payments. This is 8 months longer than 12 months for male-headed firms.<sup>23</sup>

### *Legislation and women's access to land*

According to the Women Business and the Law report 2016, legislation in Egypt is one of the most restrictive in terms of ensuring equality of economic opportunity between men and women, with more than ten legal gender differences restricting women's ability to make economic decisions. Even though Egypt's law does not restrict women's access to ownership of land and other property, Egyptian women represent only a small proportion of land-owners, specifically 2.7 per cent in Lower Egypt, 9.3 per cent in Upper Egypt, and 6.4 per cent in the border provinces.<sup>24</sup>

### *Access to services*

While women's access to education and health services is considered good (in 2015, for instance, the female-to-male ratio in relation to enrolment in secondary education and to healthy life expectancy were equal to 1, indicating equality<sup>25</sup>), access to other services is still lacking behind. High rates of sexual harassment and concerns around personal safety significantly inhibit women's willingness to use public transport, especially if it involves travelling alone or after dark. According to a 2013 UN survey, more than 80% of women cited public transport as one of the places where sexual harassment happens most frequently and 57% said that drivers are one of the most likely harassers.<sup>26</sup> Constraints on access to transport affect women's mobility and – consequently – their economic activity.

### *Participation in politics and decision making*

There is a 15 percent legislated candidate quota for women's seats in parliament (single/lower house) and 25 percent quota for women's seats in local government,<sup>27</sup>. Women are still underrepresented in politics in Egypt: 14.9 per cent of parliamentary seats are held by women following the last elections in October 2015 (89 out of 596).<sup>28</sup> Out of the 11 justices on the constitutional court none is a woman. There are no quotas for women on corporate boards, currently only 7 per cent of board members in the largest listed 10 companies are female<sup>29</sup>

<sup>23</sup> IFC, 2010. Gender Dimensions of Investment Climate Reform: A Guide for Policy Makers and Practitioners.

<sup>24</sup> [http://www2.ohchr.org/english/bodies/cedaw/docs/ngos/CEWLAEEgypt\\_45.pdf](http://www2.ohchr.org/english/bodies/cedaw/docs/ngos/CEWLAEEgypt_45.pdf)

<sup>25</sup> <http://www3.weforum.org/docs/GGGR2015/cover.pdf>

<sup>26</sup> [http://www.dgvm.de/fileadmin/user\\_upload/DOKUMENTE/English\\_Documents/Sexual-Harassment-Study-Egypt-Final-EN.pdf](http://www.dgvm.de/fileadmin/user_upload/DOKUMENTE/English_Documents/Sexual-Harassment-Study-Egypt-Final-EN.pdf)

<sup>27</sup> <http://www.quotaproject.org/country/egypt>

<sup>28</sup> <http://www.ipu.org/wmn-e/classif.htm>

<sup>29</sup> EBRD Corporate Governance assessment, 2016

## ANNEX 6 – EBRD AND THE DONOR COMMUNITY

Donor funds were critical at the start of operations in Egypt to help the Bank undertake early diagnostic work, identify investment opportunities, build capacities of prospective clients, and share transition experience from policy makers and private sector stakeholders from EBRD Countries of Operations in Central and Eastern Europe. Significant TC resources were provided to support the transfer of skills and the growth of local private MSMEs through a range of advisory and investment programmes, including the Advice for Small Businesses and the Direct Finance Framework.

Going forward, demand for TC and co-investment grants will be largely determined by the investment pipeline, as well as policy advisory engagements. It is expected that donor funds will continue to be used across sectors in preparation and implementation of projects, for instance to strengthen clients' procurement and corporate governance standards, build projects' implementation capacities, introduce international accounting standards and ensure that EBRD projects open up economic opportunities to youth and women. Donor grants will also be deployed in support of policy dialogue where the Bank can play a role in advancing Egypt's reform agenda, in particular regarding economic governance, women and youth inclusion, access to finance, commercialisation of public utilities and green economy areas.

To sustain these needs, the EBRD will rely on a number of donor funds administered by the Bank or managed externally, in addition to resources made available by its shareholders:

- **The SEMED Multi-Donor Account** is supported by several bilateral donors and considered the “fund of first resort” in SEMED. It provides TC grants across a wide range of activities and sectors.
- **The Small Business Impact Fund**, with a dedicated SEMED window, is a funding vehicle for SME-related activities.
- **Bilateral donors:** TC funds will also be sought from donors having bilateral donor accounts administered by the EBRD, who have expressed interest in supporting activities in SEMED.
- **The EU Neighbourhood Investment Facility's (NIF) Southern window** will remain an important funding source for TC and co-investment grants, mainly in support of investment operations co-financed with other IFIs in sectors such as transport, energy, municipal infrastructure, and private sector development.
- **The Middle East and North Africa Transition Fund**, operating under the umbrella of the Deauville Partnership offers TC grants for policy and institutional reforms.
- **Climate funds:** donor resources will be sought from the Global Environment Facility, in particular for capacity building and co-investment instruments in the areas of climate change mitigation, water management and material efficiency; from the Green Climate Fund for SEFF-type structures and innovation support; and from the Global Infrastructure facility for climate smart infrastructure and energy distribution infrastructure. Additional grant resources for water efficiency will also be sought via the Special Climate Change Fund (targeted at climate resilience actions).
- **The EBRD Shareholder Special Fund (SSF)** is endowed by the Bank's net income. The SSF will provide TC and non-TC support in areas which cannot be covered by other donor sources, but where advancing transition remains a priority area for the Bank.