

Building Forward Better

Focus on A Few Drivers of Change

Part 3



Edited by
Abla Abdel-Latif

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Cover picture: **Escapando de la Critica, 1874**

A rare painting for Pere Borrell del Caso (1835–1910), a Spanish painter, illustrator and engraver.

Source: https://en.wikipedia.org/wiki/Pere_Borrell_del_Caso

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About the Egyptian Center for Economic Studies (ECES)

Our Mission

The Egyptian Center for Economic Studies (ECES) is an independent, non-profit think tank that conducts specialized economic research, drawing on international experience and constructive discussions among various stakeholders. ECES's main objective is to propose sound economic policies, and institutional and legislative reforms that contribute to sustainable development in Egypt, all based on combined economic efficiency and social justice.

Our Values are what make us different



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ECES Staff who Participated in this Part

Economic Research Team

(names are listed according to their chapters' order)

Abla Abdel Latif, Ph.D.	Executive Director and Director of Research
Sahar Aboud, Ph.D.	Principal Economist
Rama Said	Senior Economist
Racha Seif El-Dine	Senior Economist
Salma Bahaa	Senior Economist
Ahmed Dawoud	Economist
El-Sayed Abul-Komsan	Former First Undersecretary of the Ministry of Trade & Industry
Adly Toma	Chairman and CEO, Gemini Africa
Mary Adib	Operations Manager, Gemini Enterprises Africa

Support in Data Gathering & Preparation

Khaled Wahid	Head of Statistical Analysis Department
Ahmed Fathy	Research Assistant
Hossam Khater	Research Assistant
Mohamed Khater	Research Assistant
Mona Diaa	Economic Reporter
Amal Nour ElDin	Former Head of Population Statistics & Census Sector, CAPMAS

Editorial, Translation & Artwork

Yasser Selim	Managing Editor
Fatema Al-Zahraa Ali	Senior Editor/ Translator
Abdel Rahman Yasser	Economist
Andree Michel	Revision & Copy Editing
Walied El Torky	Digital Communications Manager
Mohamed Abdel-Hakam	Communications Specialist
Ebrahim El Embaby	IT Officer

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ECES initiated a set of studies to analyse the implications of the COVID-19 crisis on the various variables and sectors. Now it is time to move on to the second stage, which is to put forth the strategic pillars for the post-corona phase in the Egyptian economy, taking into account the new global economic situation imposed by the crisis.

This series of new reports (Part 3 of the book) focuses on a detailed discussion of a set of drivers of change, i.e., issues that, if properly addressed, are expected to cause major developmental strides for the Egyptian economy. These issues may have been dealt with previously, but were not adopted in the required manner and therefore need revisiting or they may

be issues that were not addressed in the first place despite their importance. This series of reports follows a descriptive and quantitative analysis approach according to the nature of the topic.

Each report focuses on an issue through three main aspects, clarification of the importance of focusing on this issue and the rationale behind it, followed by a quick description of the current situation, a detailed discussion of the proposed change method and timeframe, and any immediate/medium-term / long-term changes. Finally, it identifies the parties responsible for implementation, preconditions for success and the most important expected results.

Executive Summary

1. Institutional Reform to the Rescue of the Egyptian Economy: The Silver Lining of COVID-19

Most economic and social problems that Egypt currently suffers from are rooted in institutional factors. Exiting a crisis every ten years by making some changes in fiscal and monetary policies, which have a non-lasting effect and then the problems reappear, this indicates that the time has come to adopt the necessary institutional reforms once and for all.

Concept of institutional reform

Institutional reform includes organizations and their mechanisms of action, legal and regulatory frameworks, and administrative reform. From the perspective of corruption, any attempt to focus on one part solely renders it incomplete and thus ineffective.

Institutional weaknesses suffered by the Egyptian economy

First: Weaknesses that appear directly in the following:

- Government structure and inter-ministerial relations.
- Management and operation of the various agencies and bodies within each ministry and the relations between them.
- At the level of decentralization and the extent of participation of the private sector and civil society in the decision-making process.

Second: Weaknesses that appear indirectly in the following:

- All the restrictions and complications prevailing in the business climate that the private sector permanently complains about.
- Inconsistency between policies, rampant corruption and informal practices, and weak rule and enforcement of the law.

Proposed comprehensive institutional reform program

The study proposes adopting a comprehensive approach to institutional reform in Egypt that goes through four successive implementation stages:

Phase 0: Laying the foundations for developing the capacity of policymakers.

Phase 1: Completion of the Business Facilitation Department.

Phase 2: Institutional reforms at the sectoral level.

Phase 3: Restructuring the governance system for the entire government apparatus.

Preconditions for institutional reform

1. Transferring the same political commitment at the highest levels of decision-making to all executive levels below until it reaches the entire governmental structure.
2. Empowering the authorities responsible for driving change.
3. Benefiting from the domino effect of institutional reform by addressing the main drivers of change.
4. Availability of a clear and announced implementation plan with key performance indicators.
5. Adopting clear rules and regulations that include all details, at all levels.
6. Adding a stipulation to the budget law/procedures regarding the need for Parliament to approve any increase by a certain percentage over the target budget deficit.

2. Eliminating the Legislative Bias Against SMEs

The 2017/2018 economic census issued by the Central Agency for Public Mobilization and Statistics (CAPMAS) estimated the size of micro, small and medium enterprises (MSMEs) at about 3.7 million enterprises, with about 9.7 million employees working in this sector. Total wages in this sector were estimated at EGP 619.2 billion, production volume at EGP 1.2 trillion, in addition to the total added value estimated at about EGP 87 billion. Added to these estimates are establishments operating in the informal sector, whose estimates are conflicting.

Legislations biased in favor of large entities

Egyptian legislation included many laws regulating the activities of economic entities. The large part of these laws did not differentiate between large enterprises and MSMEs, which is considered unfair to small enterprises.

One of the most important problems in which this bias against small and medium enterprises (SMEs) appears is the problem of obtaining their needs of machinery and equipment necessary to carry out their activities, as well as securing production requirements. The vast majority of micro and small enterprises as well as a large part of medium enterprises have limited external dealings, while some legislations included facilities and incentives for employers in general for what they import - whether machines or equipment - such as reducing customs duties or exempting them from certain fees, as well as for what is exported. Such legislations include the following:

1. Customs Law No. 66 of 1963.
2. Laws that regulate customs exemptions.
3. Value Added Tax Laws.
4. Investment laws.
5. Laws for the Development of SMES.
6. Law No. 83 of 2020 imposing resource development fees on some commodities.

It turns out that there is a bias towards large projects in all these legislations. Even in the MSME

sectors, there is a bias in favor of the larger segments of this sectors.

Leading international experiences

- Among the most important leading international experiences in the development of MSMEs are the experiences of India, Japan, Singapore, South Korea, and the United States of America.
- From the experiences of the above countries, it is clear that SMEs have a major role in increasing the national product of countries that worked towards progress and development by sponsoring these enterprises and their employees, and trying to grant the necessary means of assistance for their growth and development.
- Egypt has witnessed many initiatives directed at MSMEs since the seventies, such as the establishment of the Social Development Fund and its successor the Small and Medium Enterprises Development Authority using the same cadres and policies. Even an objective evaluation of the results of these works was not issued. The large amounts spent and job opportunities provided are not the factors that matter, but following up on the projects financed to see what continued to work and what stumbled or stopped, and continuation of the jobs that it claimed it created.

The key challenges facing micro, small and medium enterprises:

- ExposureNon-financial challenges that include:
 - Lack of management experience.
 - A shortage of skilled labor.
 - Lack of reliance on modern technologies.
 - to bureaucratic complications to obtain licenses.
- Financial challenges such as the difficulty to access financing, which is the biggest challenge, as the process of obtaining financing from banks is a complex process for micro, small and medium companies.

Corrective measures and initiatives needed to achieve a balance between economic sectors in favor of MSMEs

1. Establishing an effective and efficient mechanism to compensate enterprises that secure their needs from the local market in terms of machinery and equipment to carry out their activities for the taxes and fees incurred upon importation.
2. Establishing permanent programs to refund the taxes and fees incurred, so that the burdens are equal with the large enterprises that have the capabilities to use these special customs systems, in the case of enterprises that meet their needs of imported production requirements for export from the local market and whose capabilities do not allow them to import directly under the system known as Temporary Allowance or Tax Refund (Drawback).
3. Requiring donors to dedicate shares to micro, small and medium enterprises, so that large groups in this sector do not solely acquire the funding provided.
4. Implementing Law No. 5 of 2015 amended by Law No. 90 of 2018 regarding giving preference to Egyptian products in government contracts and the provisions of Law No. 152 of 2020 in this regard.
5. Reconsidering the organizational structure of the Medium, Small and Micro Enterprise Development Agency, provided that there is complete separation between planners, policymakers and implementation, and the inclusion of criteria for evaluating its performance in accordance with what has been accomplished in terms formalization.
6. Bringing together all agencies in charge of developing micro-enterprises (productive cooperation, craftsmen's apparatus, etc.) into one agency that addresses this sector.
7. Include the incentives provided by Law 152 of 2020 that the state bears half of the employer's contribution to social insurance for each insured job opportunity, and propose an amendment to the law in this regard.
8. Choosing a number of the best and most promising projects (micro, small and medium) annually at the level of each governorate and at the general level to honor them and award them an excellence incentive in an annual celebration.
9. Spreading and strengthening the culture of entrepreneurship in the Egyptian society, and organized scientific awareness about the importance of entrepreneurship by including entrepreneurship courses in school curricula, or making them a university prerequisite.

3. The Export Support System

The system of export support is one of the most important drivers of change in the post COVID-19 era, and acquires special importance in Egypt because it is the only tool for implementing the objectives of industrial policy. Therefore, it must be viewed as an investment subsidy, not a consumer subsidy, especially that the rate of return on each pound is very high, and is equivalent to 1:10 on average in the form of export value.

Shortcomings of the export support system

The program suffers from design shortcomings, which resulted in failure to achieve the required dynamism for exports in terms of diversity of markets or products and their compatibility with global demand trends, as well as in aiming to increase the added value of Egyptian exports and expand the exporters' base. The absence of incentives to enter new markets or to push enterprises to develop their products away from

the program has resulted in the stagnation of the geographical distribution of Egyptian exports and their technological structure.

There are problems related to the design of the program, as it was designed in the absence of a detailed strategy for industrial development. Also, it is the only tool to achieve the industrial policy and increase exports, which is deficient. It is also modified without a clear vision of the purpose of amendment; the last of these amendments was in 2019. It is a program that suffers from many implementation problems, in addition to other problems related to institutional and financial aspects, which the report mentions in detail.

Suggestions for developing the system to maximize its use

Implementation of a simplified export support program (for a period of two years):

- Revisiting the initiative to pay 85% of exporters' dues to ensure that the deficiencies mentioned in the report are avoided, and implementing what the Prime Minister stated; that exporters' dues shall be availed monthly.
- Designing a simplified export support program that provides basic support with the same proportions of the stable local content of exporters (according to what was stated in the 2016 program) in addition to the air freight program.
- Allocating a specific share for each sector from the budget approved for the Export Support Program. This share is determined based on the share of each sector benefiting from the program in total exports, with the addition of 10% to motivate exporters to increase their exports.
- In the case of setting sectoral targets, they must be realistic and well-studied so that they can be achieved.
- Automating work procedures within the Export Development Fund to ensure the speedy refund of dues and increase the efficiency of the disbursement process.

- Evaluating the simplified program every 6 months to develop it in a way that ensures any implementation obstacles are removed.

This program is applied for a specific period of one or two years in view of the exceptional circumstances imposed by the crisis on the global and local economy, in order to ensure the continuity of export and production and the preservation of employment. This is provided that, during that stage, preparations will be made for the new detailed program for export support, which will be implemented in the next stage.

A new detailed program to refund export dues based on the development of a detailed strategy for industrial development, to achieve key objectives, such as having enough time to determine the method of calculating the added value on which the program is based in the first place, instead of the highly complex mechanism that was established in the 2019 program; the existence of performance indicators and specific quantitative and qualitative targets through which the program can be evaluated; liberating the program from industrial development goals that can be achieved through other programs more effectively; and reaching a mechanism for financial sustainability of the program and a mechanism to exit from it while improving the business environment associated with exports.

The following is required when applying this new program:

- Complete clarity and ease of implementation for each of its components and the role of the bodies entrusted with implementation.
- Existence of quantitative and qualitative targets for the programs and linking them to the size of the program's financing, while keeping the source of financing away from the direct control of the Ministry of Finance over disbursement of receivables. Among the proposals offered here for further study is the existence of a real role for the Export Development Bank in financing export operations, as it currently does not go beyond the role of a normal commercial bank. Also,

Including the program within the budget of the Ministry of Industry and Trade programs and accordingly obtain annual funding from the Ministry of Finance, as is the case in other countries.

- The need to target the diversification of the geographical distribution of Egyptian exports, especially to the African continent, considered a natural market for Egyptian products but is currently dominated by China and European countries. When setting up a program aimed at increasing access to the African continent,

this program should be separate, and the support provided to it should not be linked to other programs within the export support program.

- Expanding the exporters' base by encouraging small exporters. In this context, exporters must be given additional comprehensive support within the framework of the exhibition support program.
- Radical development of the institutional framework that governs the program, including the digital transformation of the export support system.

4. Formulating Egypt's Industrial Development Strategy on Sound Foundations: Drawing on the South African Experience

Egypt has established many industrial development strategies since the 1960s, primarily aimed at industrialization, but the vast majority of these successive strategies were not based on sound foundations. This resulted in Egypt's inability to make a tangible leap in industrial development through entering the higher stages of industrialization. Therefore, there is an urgent need to review the method for devising and implementing an industrial development strategy for Egypt to meet the challenges of entering the fourth industrial revolution and keep pace with global trends that rely on high value-added services.

The foundations of success of the industrial development strategy in South Africa

1. Dynamism.
2. Comprehensive approach, as some programs are implemented at the macro level and not a specific ministry or agency.
3. Integration of its pillars with other government policies.
4. Information, as decisions are based on accurate and up-to-date information.
5. Supportive frameworks, especially institutional and financing.

6. "Smart" implementation plans that are specific, realistic, measurable and evaluable; and that specify the implementing agencies, as well as being time-bound.

Shortcomings of Egypt's industrial development strategy

- There are some differences between the five-year medium-term plan for sustainable development, and the annual plan issued by the Ministry of Planning and Economic Development, which is supposedly an annual implementation plan for what was mentioned in the five-year plan. The latter also included some elements that were not mentioned in the annual plan.
- The difference in the level of detail contained in each of the pillars - ranging from the very general and absence of any performance indicators in some pillars - to the presence of specific quantitative performance indicators in other pillars. This makes it difficult to determine the actual pillars of the strategy, let alone follow up on the development of the implementation programs, which ultimately reflects the existence of a defect in the foundations on which the industrial development strategy in Egypt rests.

In contrast to the industrial development strategy in South Africa, the industrial development strategy in Egypt suffers from almost a complete absence of operational foundations, as follows:

- The Egyptian strategy does not have the required dynamism, which is related in part to the absence of general standards and principles that ensure the continuous review of implementation plans and programs in light of local and global developments.
- It lacks comprehensiveness.
- There is no complementarity or interdependence between the various pillars of the strategy. Rather, they are treated as isolated islands. There is also no complementarity between the industrial development strategy and the rest of the development strategies adopted by the government, especially with regard to technical education, vocational training and scientific research, the agricultural and mineral development strategy, and the state's plans for roads, infrastructure, and other aspects.
- It is not clear to what extent the strategy relies on accurate information about the various components of the industrial system, especially in the absence of measurable performance indicators for many programs.
- Supporting frameworks: Regarding the institutional framework, there are limited efforts to develop the institutional framework (mostly efforts towards mechanization and reducing the time required to complete procedures without institutional reforms) with insufficient coordination between the bodies of the Ministry of Trade and Industry, or between the Ministry of Trade and Industry and other ministries and bodies. As for the funding framework, it is public financing that is not linked to targeted sectors, in addition to lack of transparency regarding the availability of funding, and its terms, absence of monitoring and evaluation regarding the effectiveness of this funding, and weakness

and lack of continuity of funding for some programs, which weakens their effectiveness (for example, the Export Support Program).

- Regarding implementation plans, although there are annual work plans, there is a big difference between implementation programs regarding the existence of specific, measurable targets and the extent of their realism; and neither of them determines the implementing agency.

Requirements to upgrade the industrial development strategy in Egypt

- Adopting the principles governing the methods of developing the industrial development strategy in South Africa.
- Rather than using promotional tools for media objectives, they should be devoted to motivating economic agents to get acquainted with the policies and incentives adopted by the state in implementing its various programs.
- Effective communication with the private sector in the sense of listening to problems and adopting solutions in an integrated manner, given that the private sector is primarily responsible for implementing the industrial development strategy as well as for reaching the required employment targets.
- Dealing with finance as a tool for implementing the industrial development strategy rather than as a determinant of this strategy, or as a factor interfering with its objectives. This calls for a complete review of the current role of the Ministry of Finance.
- Abandoning the policy of extinguishing fires (partially solving problems) and dealing with the roots of these problems in an integrated manner, such as the problem of providing land and infrastructure.
- Achieving institutional interdependence between the various state agencies so that the industrial development strategy is properly implemented.
- Distinguish between the future vision of the Egyptian economy, the role of industry in it, and the industrial development strategies that are followed to achieve this vision - which

are characterized by a degree of sustainability - and between the implementation policies and programs that are reviewed annually and amended in accordance with local and global developments.

- Following up on the implementation of the industrial development strategy, not only by those responsible for developing and implementing it, but also by the industrial community, who are the pulse of this sector on the ground.

5. Impact of the Pandemic on Population Growth in Egypt

As a result of the COVID-19 pandemic, health systems around the world have focused their efforts on responding to the crisis and combating the pandemic. This came at the expense of usual basic health services, including reproductive and sexual health services, of which family planning is at the heart. Practical evidence indicates that the more disruption of service, the less mature the health system and the poorer its capabilities.

Family planning is the most important determinant of population increase in Egypt, as Egypt annually avoids about 4 million unplanned pregnancies and about 1.6 million unsafe abortions thanks to the use of family planning methods, according to 2019 data.

It is necessary to review the prevailing thought that spending on family planning, although necessary, puts pressure on state resources that can be used for other purposes with greater economic returns. This is because the economic impact of population growth and its repercussions on the quality of human capital in Egypt makes family planning in fact an economic investment, with positive returns that affect current and future generations, just like spending on export support. Every pound spent on family planning achieves a total saving of EGP 151.7, because the state will avoid the birth of about 43.3 million citizens during the period 2015-2045, and thus will avoid the costs of providing them with government services, specifically education, health, food subsidies, housing, and social amenities, which reflects the critical importance of family planning in Egypt.

The study monitored, through mathematical models, estimates on the impact of disruption of health services and presence of problems in obtaining them, on the use of family planning methods, and the changes expected as a result of the decline in demand for methods that require direct contact with the health system, such as the IUD, syringes, and Implanon (Contraceptive Implant), which are available in central hospitals in the public sector in general. Also, higher demand for self-care methods such as pills and condoms, as well as other traditional means, expected to be resorted to by a large segment of women, especially in areas where the rates of use of these methods are already high, most notably rural Upper Egypt, as well as families that will avoid any contact with the health system, whether in public or private sectors.

Minimizing the impact of the crisis on the number of births in Egypt requires responding quickly and flexibly to the growing demand for contraceptive methods, the most important of which are pills and condoms.

Scenarios of the impact of the crisis on population growth in Egypt within a year:

- In the event that the health system responds by providing women's needs of contraceptives, especially the ones that are increasingly popular with "self-care", the crisis will only cause an unavoidable but limited increase in the number of births ranging from 1.3% - 2.60%.
- In the event that the supply does not respond

flexibly to changes in demand, it will lead to greater increases in the number of births, according to the women's reaction to the lack of a modern contraceptive method. In the event of a complete cessation of use, the increase in the number of births will be four times the unavoidable increase, which ranges between 6.13% - 11.2%.

- It will decrease to two times only in the case of using a traditional method of contraception, ranging between 3.2% - 4.4%.

Suggested solutions to achieve the desired balance between supply and demand during the crisis period

These solutions include an integrated set of immediate, short and medium-term actions, as well as a set of structural measures necessary to reform the system in a sustainable manner.

1. Immediate Actions:

- Expanding the distribution of emergency contraceptive pills on a large scale through pharmacies, primary health care units, NGOs and the private sector.
- Providing the necessary incentives and facilities for the private sector to raise its contribution to service provision during the crisis period.
- Providing the necessary financing to purchase contraceptive methods, and supporting families to obtain them at an affordable price.
- Using leading international experiences in converting some types of methods that require a service provider, such as injections, for example, into self-care methods.
- Conducting a large-scale awareness campaign in Egypt of each method, its price, places of availability, possible side effects and how to handle them.
- Adopting pre-distribution strategies (providing women with enough for a period of more than 3 months).

2. Short-term actions:

- Expediting the issuance of the executive regulations for the new NGO law, in order for

the civil sector in general to be able to practice its activities normally. Next, incentives should be extended to the civil sector to encourage it to provide family planning services.

3. Medium-term actions:

The importance of having accurate and constantly updated statistical estimates of the need and actual use of contraceptives in Egypt, through: automating the follow-up and evaluation system and gathering information in the Ministry of Health, and the speed of conducting the population health survey and commitment to its periodic implementation on the specified dates, in addition to building an accurate mathematical model to employ the data available for forecasting the future needs of all types of contraceptives.

- Establishing a mechanism to deal effectively and quickly with any similar crises in the future.

4. Structural reforms:

- The population issue must be managed in a well-governed manner by ending the affiliation of the National Population Council to the Ministry of Health and making it an independent body in charge of developing plans and policies and coordinating efforts between all parties concerned with the population issue, including family planning, in addition to monitoring and evaluating the implementation of these plans.
- Forming a unified procurement committee that includes all service providers, to obtain family planning methods at a better price.
- Exemption of family planning methods from any taxes.
- Overcoming the shortage of female doctors by licensing nurses to provide family planning services.
- Integrating the private sector into the ministry's information system, so that the size of its inventory and quality-of-service provision can be known.
- Egypt's joining the unified procurement system of the United Nations Population Fund.
- Include reproductive and sexual health education in school curricula from the primary level to university, provided that it is mandatory.

6. Women as a Critical Engine for Economic Recovery

Women are an important driver of the recovery of the Egyptian economy, especially since it is possible that GDP in Egypt would rise by 34% during the next decade, provided the number of men is equal to the number of women in the labor market. Women's economic empowerment is considered a means to combat poverty and support social justice, and to avail an opportunity for a better path for future generations, making women a key player in achieving economic recovery.

Possible scenarios for the future of female employment in Egypt

Scenario 1: Return to pre-crisis levels of female employment if the proposed urgent interventions are taken.

Scenario 2: The situation of females deteriorates, making their participation at lower rates in the labor market compared to pre-crisis levels due to the negative changes that occurred in the labor market, including layoffs and the return of a number of workers from the GCC.

Scenario 3: Positive boom in the economic and social conditions of women in the medium and long terms as a result of their strong entry into the labor market, if the necessary structural development, which the state has already initiated, is undertaken, albeit more efforts are needed to have a greater and faster impact on the status of women in the labor market.

The most important proposed measures to assist the government in bringing about a positive development in the role of women in economic activities in general, and addressing the negative effects of the current crisis in particular:

1. Horizontal proposals that have positive effects on both males and females:
 - Stimulating investments and providing more diverse, decent and sustainable job opportunities through improving the work environment and the presence of detailed

investment maps from which investment opportunities emerge, including available job opportunities and their requirements, in addition to proper completion of the digital transformation system to save time and effort, and correcting the education system to eliminate the gap between education outputs and labor market needs (in the medium and long term).

- Achieving equal opportunities among the different segments of society and geographical regions, by adopting conducive policies and procedures, activating the law of local administration and applying decentralization to enhance the society's ability to participate politically and contribute to the labor market, especially for females, and design and implement policies that allow females to shift to the formal sector, leading to female economic empowerment,
- Identifying the different needs of the target groups in order to be able to develop policies and procedures that respond to all needs.

2. Vertical proposals to achieve decent economic empowerment for Egyptian women according to five basic drivers of change:

First: Providing information to females and enabling them to use it. This requires the establishment of a database with continuous identification of its contents, including information on establishment procedures, legal requirements and investment opportunities to help females set up their enterprises. Here, it is important to use the "Egyptian Women's Entrepreneurship Guide," prepared by ECES in 2018, in addition to providing the supporting services that females need to facilitate their work, such as nurseries close to work and means of transportation. It is also essential to avail initiatives and bodies to support small and micro enterprises, and provide legal consultancy services on a balanced geographical scale and for

an appropriate financial fee to help women identify their legal rights, especially in the field of business.

Second: Making communication technology and its related requirements available to females, by providing the necessary electronic devices and services for an appropriate fee, organizing training courses to learn how to use them, promoting digital literacy, and introducing business owners, especially in the countryside, to the available electronic services such as financial services, training and others.

Third: Creating a supportive environment for women such as infrastructure, support services, incentives, innovative ideas and training: by providing transportation and important services such as education and health throughout the country, and state backing to social services that support women's work such as nurseries at acceptable cost and high quality, and providing positive incentives to the private sector to provide flexible working conditions, and coordinate between the agencies related to children and others related to mothers' work before making decisions related to vacations and working hours, and to provide financial subsidies to institutions that have a large representation of female labor or female-owned enterprise, and that grant workers paid leave during the COVID-19 crisis. Stimulating the private

sector to employ females by adopting innovative ideas such as the "Your Job Near Your Home" initiative, in addition to the geographical distribution of appropriate training programs for females, and focusing on better qualification of females for the labor market.

Fourth: Conducting structural reforms that benefit women directly: by monitoring and following up on all policies and procedures directed to supporting females and the extent of benefit thereof, before or after the Corona crisis. Activating equal opportunity units in ministries; evaluating programs and initiatives currently offered to empower women; and making maximum use of institutions related to women; establishing focal points for women in business associations and similar organizations; activating or amending relevant laws/executive regulations to include gender equality and dealing with women as workers or employers and not only from the perspective of their reproductive role.

Fifth: Working on female openness to different experiences and cultures and the ability to adapt to the changes they are witnessing: by spreading awareness campaigns to correct cultural legacies, studying successful international practices in the field of women's empowerment, and addressing social and cultural barriers that restrict women's potential for entrepreneurship and celebrating successful models in self-employment.

7. Egypt's External Position

The report aims to study the impact of the COVID-19 crisis on the Egyptian external sector and the external financing gap. As Egypt continued to rely on portfolio inflows to finance this gap, it was inevitable that the pandemic would impose more pressures on the balance of payments. The decline in tourism revenues due to the crisis and portfolio outflows from emerging markets combined led to severe pressures on Egypt's external accounts.

Future scenarios for the current account and the payments account during FY 2020/2021

Scenario 1: Assuming slow recovery of the global economy

The current account deficit is 4.5% of GDP, which indicates a huge financial gap driven mainly by the decline in tourism revenue and, to a lesser extent, by the decline in Suez Canal revenues. The resulting external gap is financed in part by external borrowing, assuming continued fluctuations in global capital inflows and their exposure to possible sudden stops/reversals according to the scenario.

The balance of payments is experiencing a large deficit estimated at 3.5% of GDP, which will result in a decline in net international reserves and possibly in the net financial assets of commercial banks.

Scenario 2 (optimistic): Assuming a steady recovery in advanced economies in the second half of 2021

The current account deficit narrows to about 3.5% of GDP. The stability of capital inflows due to the high interest rate differential partly closes the external financing gap.

The balance of payments deficit is between 1.5% and 2% of GDP. It is primarily financed using the net financial assets of commercial banks, while net international reserves remain constant, with total external debt remaining stable or slightly rising depending on the status of capital inflows.

Corrective Policy Measures

Consolidating public finances constitutes an important starting point in the short term to break the cycle of exacerbating weaknesses in the external position of the Egyptian economy. A decrease in the overall deficit in the public budget would reduce the current account deficit, relieve pressure on the balance of payments, and liberalize the short-term interest rate as a monetary policy tool to achieve its goal of reducing and stabilizing inflation rates. Measures to increase domestic savings must also be adopted to achieve further improvement in the current account balance. Finally, creating a favorable business climate for the private sector is important to attract local and foreign direct investment.

Actions to be taken in the short term

- Rationalizing government spending by reducing capital spending on various investment projects, and replacing it with effective partnerships between the public and

private sectors in which the private sector plays its natural role, a measure where the deflationary effect is limited.

- Debt reconciliation through several measures, including that the pandemic opened the door to international lawsuits to exempt developing economies from debt and restructure them, in addition to the debt swap mechanism.
- Selling state-owned and unused assets is one of the feasible options, provided that the entire proceeds of the sale are directed to debt settlement, which are measures that would reduce interest payments and thus reduce the overall deficit.

Actions to be taken in the medium term

- Reduce interest rates.
- Reduce interest expenses.
- Increase tax revenue.

Actions to be taken in the long term

- Enhancing private savings by providing a stable macroeconomic climate that allows for high and sustainable growth in per capita income, which requires a public policy framework that supports achieving equitable growth.

Enhancing financial inclusion to benefit from the savings of the informal sector and direct them to productive use.

- Providing an enabling environment for private investments through further institutional reforms in parallel with consolidating public finances and normalizing interest rates, in order to create a favorable business climate for the private sector.

8. Seeking Ground in a Bottomless Sea: Addressing Misconceptions about External Debt in Egypt

One of the primary goals of governments concerning economic plans is to continue to achieve a high growth rate that achieves sustainable development goals, regardless of economic pressures. In the event that the growth

rate is not sufficient for this purpose, debt is drawn to complement it, provided that these debts are used efficiently and serviced in an appropriate manner in order to generate the revenues necessary to achieve development, and

not to continue the debt cycle. Debt is defined as a financial instrument that supports the achievement of the goal of growth and development, rather than hindering it by using debt to finance more debt. Herein lies the importance of a rational debt management plan that reduces external risks, whether related to interest rate or exchange rate.

Through a detailed analysis of the situation of Egypt's external debt during the period from 2015 - 2019, and a comparison between Egypt's position and a number of selected countries (China, Brazil, South Africa, India, Morocco, and Turkey) in terms of debt mechanisms and some economic performance indicators, the following is clear:

A low level of debt does not necessarily mean good performance. China, for example, is one of the countries with the highest debt level, but its economic performance is impressive in terms of growth, export and low poverty rates, which its ability to properly exploit debt towards achieving growth while maintaining the economy's capacity to service debt.

Managing national debt must be carried out as part of the economy's management, not in isolation from it, and a periodic evaluation of the

extent to which these debts are utilized must be undertaken in an appropriate manner that contributes to achieving sustainable development goals. Failure to take this into account makes the analysis of the debt situation insufficient, and affects debt assessment and determination of its course, which gives way to the emergence of some misunderstood concepts in debt management that may pose potential risks to external debt sustainability.

Improvements that can be made in Egypt to put foreign debt on a safe track

1. Adopt a broader definition of debt.
2. Debt management as part of the economy and as a tool for economic growth rather than using it to finance existing debt.
3. Continuous comparison between Egypt and countries in terms of debt and economic performance, as they demonstrate how debt may be used. It often happens, as we mentioned, that a low-debt country may also suffer from low growth and productivity.
4. Achieving balance between different types and structures of debt in terms of current and future costs and benefits.

9. New Model for Agricultural Cooperatives in Egypt that Achieves the Required Developmental Take-off

Globally, cooperatives are prevalent in about 98 countries, with nearly 3 billion members, or nearly half of the world's population. The number of cooperatives is estimated at three million cooperatives with about one billion members, generating estimated revenues of \$3 trillion. According to estimates of the International Labor Organization, the number of jobs that cooperatives generate or that guarantee their continuity amounts to about 280 million jobs representing at least 10% of the total employed worldwide.

Agricultural cooperatives in Egypt and international best practices with a focus on the experience of the Netherlands

A comparison of the model of agricultural cooperatives in Egypt against best practices reveals a large gap between them. Agricultural cooperatives in Egypt are governmental entities with a complex organizational structure governed by a law that contradicts the global principles of cooperatives. This renders them executive arms of the government, hence losing the strategic direction that reflects the aspirations of their members, dynamism and the required performance efficiency. It also limits opportunities for their development, and makes members lose their sense of ownership, preventing their real participation in management and development. The description of cooperatives

in Egypt also shows that despite their prevalence and the logical motives for their inception, they fell short of operating in the proper manner at any time, and hence became existing governmental entities, with marginal contribution in serving the agricultural sector and improving the standard of living of farmers.

A vision for a new model of cooperatives in Egypt

Egypt desperately needs a new model of cooperatives that achieves the required developmental takeoff. Such model should draw on international best practices, while taking into account the specificity of the Egyptian case. The transition to the new model will gradually take place after ensuring availability of elements for its success, which are as follows:

- A review of the state's view of cooperatives as a major development partner that helps achieve national goals at the local level. The success of this model requires allowing it to work freely and flexibly, which means a minimal degree of government intervention.
- A supportive role by the state for the new model, through mainly undertaking a regulatory role that includes:
- Setting the outlines of these entities without going into details of their management;
- Ensuring balance of internal relations between senior and junior members;
- Giving incentives to large producers to encourage them to join cooperatives and help small producers.
- Organizing the relationship between cooperatives and other market players in a way that achieves competitiveness and prevents any monopolistic practices.
- Providing facilities for their creation, technical support and disseminating successful models
- Completing the legislative framework that guarantees the success of these entities. Specifically, implementing decentralization through the finalization of amendments to the Local Administration Law.
- A radical change in the law regulating cooperatives in a way that ensures their independence, efficiency and effectiveness. The law should aim to regulate the relationship between cooperatives and the rest of the actors while leaving their organizational rules to be set internally, addressing only the general principles that guarantee balance in the rights of large and small members.
- Spreading cooperative awareness through the media and agricultural extension to educate farmers about the new model of cooperatives, the opportunities that can be availed through it, mechanisms of practicing cooperative work and elements for their success.

10. Egypt's "Future of Work": Restructuring to Cope with Global Trends

- It is estimated that 85 million jobs may be replaced by machines by 2025, while 97 million new jobs may emerge that are more adapted to the new division of labor between humans, machines and algorithms

Why is the development of the integrated system of work at this stage deemed one of the main drivers of change for countries?

- There is a vital role to be played by employment and revitalization of the labor market in any country as a primary source of production.

- Acceleration of the pace of mega global trends, such as leaps in emerging technologies and the demographic shift,
- Changing nature of new jobs that accompanied the digital and industrial technology revolutions, and the educational skills and the level of readiness required.
- The changes imposed by the COVID-19 pandemic.

- rates, which require raising Egyptian readiness to face these accelerating developments by exerting more effort in absorbing new concepts and dealing with labor market developments.

Lessons learned from the experiences of China, Turkey and the UAE in dealing with recent changes in the labor market

The focus of these countries was not on developing their work system as much as on developing the parent system, which is based on developing the education system, and the updated technological infrastructure that serves it; complementing this with smart technological cities, which resulted in the automatic generation of suitable job opportunities, and a gradual adaptation of the labor market to the new reality. Therefore, the success of these countries was a direct result of the comprehensive and intelligent view of the system of change.

Elements of success based on past experiences

- An Executive Plan under the direction of the central government and with the help of civic organizations and educational departments.
- Involving youth in the institutional management of technological development process.
- Incorporating modern skills in higher education institutions first, especially in the disciplines of education, and then the basic stages of education.
- Foreign partnerships with more than one country regarding the localization of modern skills.
- Upgrading the level of technical education to international levels in order to serve foreign trade.
- A strong, comprehensive and unified database at the level of educational stages since childhood.
- Regular existence of evaluation units for the system as a whole.
- Achieving an equal level of opportunities between school districts.

Characteristics of the Egyptian labor market

The Egyptian labor market suffers from major imbalances such as an excess of supply and demand at the same time, weak institutional frameworks governing it, and failure to respond to the challenges that have occurred in the labor market as a result of local and global changes. These reflected on the characteristics of the labor market in Egypt such as high unemployment rates among the educated, especially university graduates, low status of women in the labor market, and high unemployment rates in urban areas, two and a half times higher than in rural areas, despite the concentration of industrial activities in urban areas.

How could Egypt succeed in dealing with the new reality of the labor market?

- *Requirements for success according to the first dimension, "a coherent institutional framework":*
 - Sound design that includes sound governance of the development plan.
 - An executive plan that is unified and comprehensive in its objectives and diversified in its time frame.
 - Consistent and sustainable financing plans.
 - An integrated system for teacher development.
- *Requirements for success according to the second "informational" dimension:*
 - Sustainable localization of modern skills.
 - Comprehensive and updated development of educational content.
 - Gradually generalizing the educational system nationwide to ensure equal opportunities.
- *Requirements for success according to the third dimension "the follow-up and evaluation system":*
 - Existence of a unified and comprehensive database at the level of educational levels, and linking it to labor market data.
 - Existence of a comprehensive system for follow-up and evaluation nationwide.
 - An objective evaluation mechanism that ensures sound governance.

11. Entrepreneurship Between Yesterday & Tomorrow

Entrepreneurs played a pivotal role in the wake of the Covid-19 pandemic. Successful start-ups that had a significant impact on the Egyptian scene by the end of 2020 and during 2021 were those that sought to provide innovative added value to the market, guided by a future vision they set since their inception. These enterprises were characterized by flexibility and sufficient readiness to face up to imminent challenges.

Entrepreneurs should avoid the following traps:

The Money Trap: While providing the right amount of financing will ensure financial sustainability for a long time, reaching the right number of business transactions is an elusive matter that may entrap entrepreneurs in the pursuit of investors.

The Marketing Trap: Marketing is another illusion that gives entrepreneurs attractive promises, but never bears fruit at an early stage. Startups should never lose sight of the amount of time and effort needed to develop actual products/services, and utilize every resource and capability they have to be known for providing such products/services.

Changing Mindset: It is important for startups to become catalysts for change, develop their mindset, and adopt appropriate business strategies.

Supporting Institutions

Supporting entities, including the public and private sectors, should encourage entrepreneurs to achieve real growth for their business, not just try to influence stakeholders to attract more money that only exhausts the efforts of the enterprise.

Strategies to follow to help startups grow

Team Building: Devoting time to building an appropriate team and creating leaders should be part of every entrepreneur's daily activity to ensure the continuity of his operation. This can be done by following very simple methods of training and mentoring. However, the most

important component for its success is choosing the right, trustworthy group, and believing in the power of teamwork.

- **Formation processes:** Seeking to create a business model that integrates the best standards for the main business activities without falling into the bureaucracy of the corporate world. A healthy work environment must be present in startups, with sufficient room for creativity and innovation of the work team.

- **Entering new areas:** Startups must be able to venture into new areas outside their usual scope of work. They should accept criticism to their solutions and agree to modify their ideas to match the real needs of business and market in these new areas.

Finally, entrepreneurship was the answer to questions in the past; it still is and will remain so in the future. However, a paradigm shift is not the only factor required by the entities that support entrepreneurship. There is also a need for a great deal of change and flexibility on the part of entrepreneurs themselves, and for facing up to existing beliefs and creating new standards. Success remains the only way to move forward, provided we cooperate with the same vision and achieve the same goals.

1. Institutional Reform to the Rescue of the Egyptian Economy: The Silver Lining of COVID-19*

Abla Abdel-Latif, PhD

Introduction

The Egyptian economy has been going along its path of growth for decades with over reliance on fiscal and monetary policies. Solutions to all problems have always emerged from these two tool boxes with everything else remaining unchanged. Being a rentier economy, primarily relying on the combination of four exogenously demand driven sectors since 1974 - tourism, labor remittances, Suez Canal and the oil sector- did not help much. Annual GDP growth was taking place and foreign exchange revenues were flowing in, without the urgent need for deep structural and institutional changes in the way the economy functions. The existence of a huge informal sector and the fact that manufacturing industries and agriculture - along with their supportive services – though the biggest employers- were not the core of the economy also pushed in the same direction: more focus on the financial side of the economy and a lot less on the real side.

In specific, exchange rate policy has been the most frequently used tool. Sudden measures of unavoidable devaluation took place, when the gap between the official and black market exchange rates reached levels that literally paralyzed the economy. The repeated scenario proceeds as follows, temporary relief of the problem, shortly after -in the span of approximately ten years- the unavoidable downward turn of the economy takes place again, and the old symptoms reemerge, namely an overpriced currency and accumulated debt due to overreliance on borrowing in managing the economy. These symptoms of course coexist with Egypt's persistent chronic problems of: high unemployment, limited local and foreign investments, overreliance on imports in everything, high trade deficits, mediocre human investment levels in education and health, low social justice and increasing poverty.

All this indicates that we are in a vicious circle of reemerging problems, which is perpetuated by the obvious fact that we are not addressing the roots of these problems every time things go bad, but we are rather treating the symptoms thus the temporary impact. The objective of this short paper is to present an evidence based argument that the root of all of Egypt's problems is institutional in nature. That unless it is addressed, the country will remain in the vicious circle of poor performance, never living up to its potential, even if we get positive ratings for our achievements at the macroeconomic level by all rating agencies.

The importance of raising this issue now is the fact that COVID-19 showed how deep these institutional weaknesses are in every sector, and that their existence is behind the poor performance of that sector in terms of output, quality, employment and linkages with other sectors. Post COVID-19 Egypt needs to be free of these institutional constraints to be able to regain at a minimum its competitive positioning in the world. In a slow growing world economy, the total GDP pie remains almost fixed in size. This is what's expected in the next few years. It would mean that the world is almost back to Mercantilists' time when the only way for countries to increase their share in the world's production and trade was by grasping part of somebody else's share. At the time, these disputes used to be settled by wars between countries, now it means fierce competition among countries. Only the ones that are more efficient and thus have a bigger competitive edge over others can keep or grab a bigger share of the world production and trade. Such competitive edge simply cannot be achieved if the country is constrained by institutional obstacles.

*An earlier version of this paper was published by the Middle East Institute (MEI) <https://www.mei.edu/publications/rethinking-egypts-economy> .

This chapter addresses institutional reform in Egypt. It consists of four sections: An explanation of what is meant by institutional reform and why it is perceived as the mother of all constraints and thus the rescuer of the Egyptian economy especially in the post COVID-19 era; A presentation of a quick evidence based overview of institutional problems in Egypt giving examples from few sectors; A proposed three staged approach towards implementation of a comprehensive institutional reform program; and finally a delineation of the preconditions of success for such an institutional reform action plan, and the extent to which Egypt has satisfied any of them.

Section I:

Institutional reform is defined in many ways by different people; some focus on organizations and how they function, others focus on legal and regulatory frameworks, some focus on corruption, and others see it as strictly administrative reforms.

Institutional reform actually encompasses all of the above, and any attempt to focus on one part and not the others makes the institutional reform incomplete and thus not effective.

Institutional reform requires looking at the structure of the state and its governance system, how decisions are taken, and how the various components (government, private sector, civil society) connect. Table (1.1) presents the main questions that need to be answered as we assess the impact of the existing institutional set up in any country and the need for reform.

Limited political commitment to institutional reform, limited inclusivity, and wide grey zones in all rules and regulations combined with high informality and weak checks and balances, are typically the main impediments to successful institutional reform.

Table 1.1. Question sheet to address the need for institutional reform

Priorities	Has government identified its priorities amongst its desired outcomes and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium and long term? What mechanisms are available to ensure that poor people's views are taken into account? Who sets priorities and in response to what interests? Can priorities be translated into resource allocation?
Policies	How effective are the core policy and decision making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the poor?
Incentives	What is the current formal/informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of national skilled human resources? What incentives direct or indirect, if any, are there to modify behaviors of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Rules and Law	Are formal rules and laws respected? Are there informal rules leading to corruption, patronage, victimization, exclusion? Can rights be enforced through law? Are rules and law subject to political interference? Are there informal systems of dispute resolution?
Culture	National attitudes to risk, hierarchy, incentive systems, participation, donor interventions, etc. Willingness to engage in consultation. Responsiveness to information, Issues of community and individual identity.
Drivers for change	What are the key drivers for change? Social, technological, economic or political? Are there sponsors or champions for reform? Extent of their power and influence. Level of commitment to reform. What benefits or incentives do they have to push a reform process? Level of political stability. What are the implications of the current electoral cycle?
Voice and Partnership	What mechanisms and structures are in place to promote the concerns of poor people? Awareness raising, capacity building, joint manage of e.g. forestry or water resources, participatory budgeting? How effective are they? What voice do people have to hold delivery organizations to account? Report cards? Public audits?

Source: Extracted from DFID (2003).

Section II:

In the case of Egypt, institutional weaknesses are observed at all levels, both directly and indirectly. It is seen directly in the governmental structure, interrelations between ministries, operations of different organizations within each ministry and their interrelations, level of decentralization and the level of involvement of

the private sector and civil society in decision making (few examples in table (1.2)).

Institutional weaknesses are also seen indirectly in all observed constraints and complications in the business climate that the private sector constantly complains about, inconsistency of policies, spread of corruption and informal arrangements and weakness of the rule of law.

Table 1.2. Examples of specific institutional weaknesses in specific sectors

Sector	Institutional Weaknesses
Health	<ul style="list-style-type: none"> • Weak governance clearly demonstrated in the diversity of management, regulation, financing, and the level of quality of services provided by various actors who follow different administrative bodies, and are governed by various legislations. • Ministry of Health plays four roles simultaneously: the planning role (through its presidency of the Supreme Council of Health), the financing role, the executive role, and the oversight role. • National Population Council is under the Ministry of Health although it is relevant to all ministries.
Communication & Information Technology	<ul style="list-style-type: none"> • No publicly announced national strategy for digital transformation. • Monopoly by telecom Egypt for all communication infrastructure. • No information technology regulator to regulate and monitor adherence to quality standards, and information security except for the National Telecom Regulatory Authority. • The Minister of Communication and Information Technology is chairing NTRA, the communication regulatory body; he is also the president of Telecom Egypt.
Tourism	<ul style="list-style-type: none"> • Multiple supervisory authorities for tourist facilities (about 32) and poor coordination between them.
Cinema Industry	<ul style="list-style-type: none"> • Loose affiliation with four Ministries: Culture, Trade and Industry, Planning and Finance.
Food Industries	<ul style="list-style-type: none"> • Supervision of their daily activities by at least 9 Ministries

Source: Prepared by the Egyptian Center for Economic Studies (ECES).

SECTION III:

A four-staged approach towards implementation of a comprehensive institutional reform program in Egypt is proposed. The rationale behind such a staged approach is threefold: First, to build momentum with quick wins before proceeding to tougher changes, especially that tougher institutional changes – likely to face a lot of resistance- are easier to approach after seeing the positive fruits of the first steps; Second, to capitalize on the silver lining of COVID-19, as shortcuts in a few typically bureaucratic procedures were successfully adopted to facilitate business activities; And third, it allows

for timely interventions by positively influencing ongoing reforms, such as the one taking place for improving database structure under the umbrella of the Administrative Control Authority, and the opportunity for improving detailed data collection on investors through the efforts of the new service centers for investment¹.

The four stages are as follows: **Stage zero:** laying the foundation for improved policy making capabilities; **Stage one:** Completing the circle of ease of doing business; **Stage two:** Sectoral institutional reforms; and **Stage three:** Restructuring the entire governance system of the government.

¹ At this point these centers are used for providing services to investors, without benefitting from the opportunity for collecting information about investors that can help in policy making.

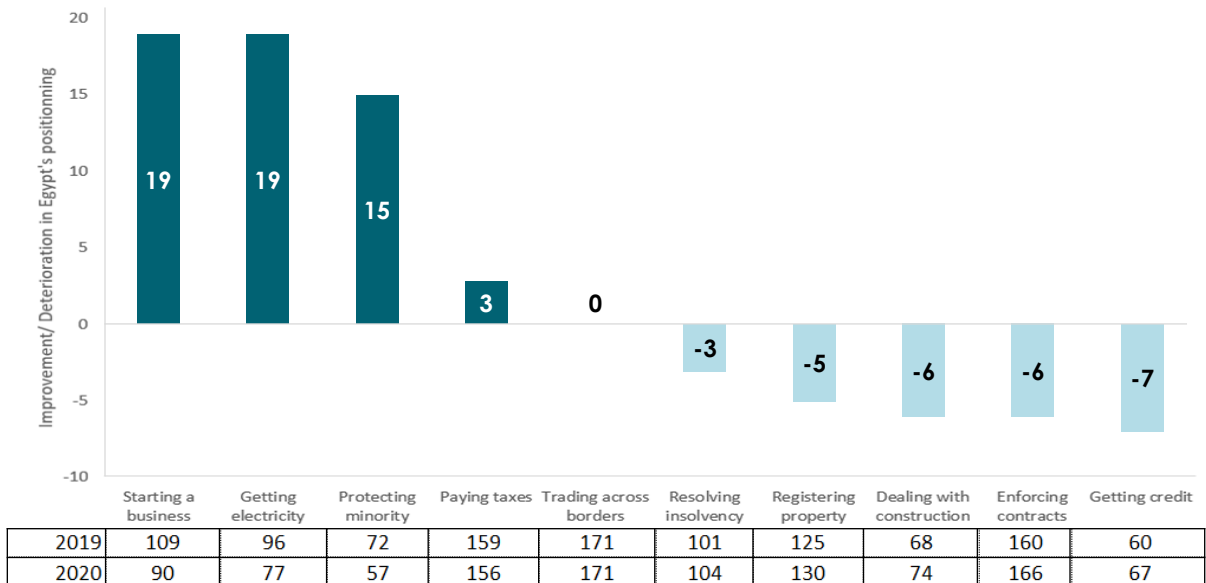
Stage zero of the proposed institutional reform program focuses on building digitized, comprehensive, interconnected, and up to date databases at all levels. Without information and statistics, policymaking is haphazard and subject to higher error than acceptable levels. At this point, as far as personal information is concerned, there are scattered pieces of such databases in different ministries; namely the Ministry of Social Solidarity, Ministry of Interior and Ministry of Supply & Internal Trade. Complete profiles of individuals do not exist since tax files, asset ownership, education and skill level are not there. A similar situation exists in the case of land and other resources and infrastructure. Updated information on different kinds of investments are supposedly available at the Investment Authority, but are not readily available in complete profiles to be useful for policy making, and the search for information is a common problem for all.

Stage one focuses on the facilitation of all procedures associated with the ease of doing business; including construction permits, getting electricity, registering property, enforcing contracts, and resolving insolvency. Steps have been taken by the government to improve things

but the process has been slow and too piecemeal for investors to appreciate². In fact as shown in Figure 1.1, the improvement in the process of starting a business and a couple of other indicators in 2020 in comparison to 2019 is accompanied by a deterioration in five other critical indicators namely; registering a property, resolving insolvency, dealing with construction permits, enforcing contracts and getting credit.

There is an urgent need to speed up the process and complete it. In addition, all steps taken to cut the bureaucracy during COVID-19 such as facilitating and speeding up of customs clearance need to become permanent procedures in doing business. The most critical of all in stage one though, is to resolve once and for all the complexities of state-owned land administration; considered at this point to be the number one complaint of local and foreign investors alike. The problem is mainly due to the multiplicity of entities entrusted with the authority to own, use, or dispose of state land depending on its location. These vary between governorates, ministries or public authorities reporting to specific sectoral ministries. To increase the complexity of the system there, is a wide spectrum of laws and bylaws resulting in

Figure 1.1. Egypt's rank in Doing Business Indicators - 2019 vs. 2020



Source: Collected and analyzed by ECES.

² According to the Doing Business indicator 2020, Egypt's rank in 114 out of 190 with an improvement of six positions in comparison to previous year due to a couple of new laws improving the process of starting a business. It is still, however, a very low rank in comparison to other countries in the region which are making huge jumps in this area such as the United Arab Emirates and Saudi Arabia. This immediately translates into receding of Egypt's competitive positioning in comparison to these countries.

different regulations and pricing mechanisms, even definitions of similar terms. The one key solution to all these problems is to have one unified entity in charge (Aboud 2018).

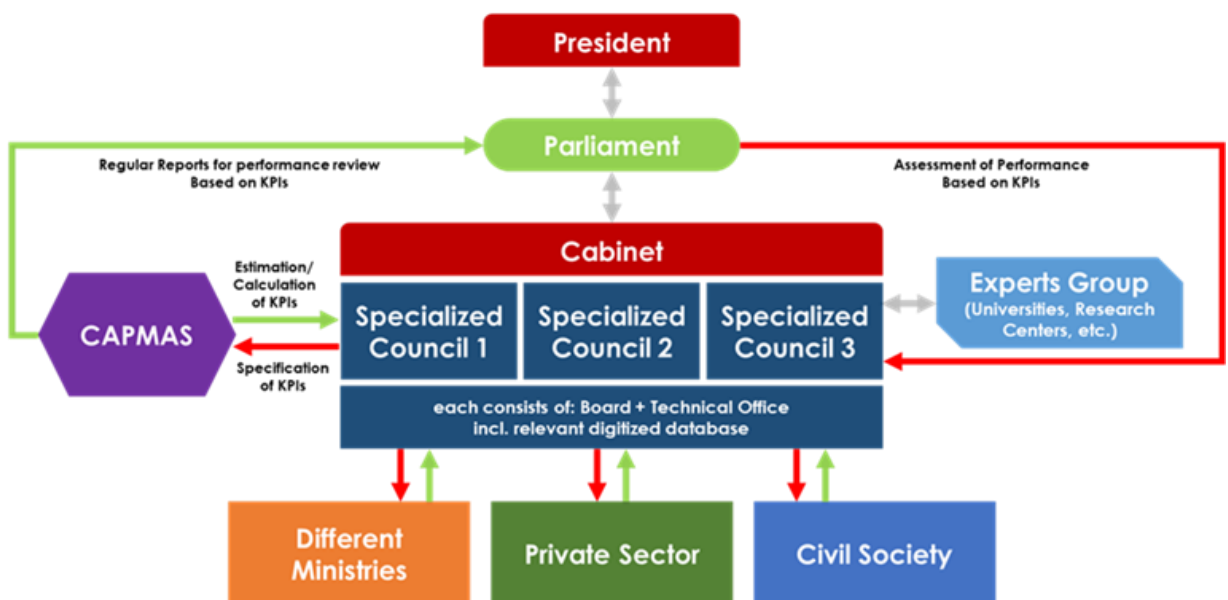
Stage two involves the restructuring of a number of key entities regulating activities at the sectoral level. For example, in the case of industry; IDA, EOS, ICA, and GOEIC³ are the responsible entities. All manufacturing industries are achieving way less than their potential in investment, production, exports, and employment because of impediments emerging from these entities. The smaller the enterprise, the higher the transaction costs involved in trying to overcome the heavy red tape, old processes, huge bureaucracy, weak human capital, unnecessary complexity of procedures, and numerous laws and ministerial decrees.

All sectors suffer from similar problems emerging from counterpart entities. If we add the institutional reform agenda at this stage are the Egyptian Tax and Customs Authorities, that would support businesses in all sectors.

Stage three digs deep into institutional reform,

working on the core of the problem. It focuses on: restructuring of the cabinet⁴, involvement of all stakeholders in the decision making process, achieving checks and balances; and most importantly separating between planning, execution, and assessment. Figure 1.2 illustrates the process. Each of the suggested specialized individual Councils (health, education, and industry... etc.) is meant to put the sector's strategy, and KPIs for its implementation. The KPIs are measured by CAPMAS and assessed by the Parliament and the President. In its work, the Council is relying on all available expertise in the country. It does not implement programs, it only puts the strategies and relevant policies. Implementation is done by ministries, private sector, and civil society. An application of such system in the case of population control would take out the National population Council from under the Ministry of Health, as it is now, to the level of the cabinet; with implementation of population control programs done by the Ministry of Health among others with designated roles played by the private sector and civil society.⁵

Figure 1.2. Institutional structure that achieves good governance (separation of planning from execution & assessment)



Source: Prepared by ECES.

3 The Industrial Development Authority (IDA), The Egyptian Organization for Standards and Quality (EOS), the Industrial Control Authority (ICA), the General Organization for Import and Export Control (GOEIC)

4 Involving reduction of the number of ministries and having strong technical office at the cabinet level

5 A detailed analysis is presented in (Abdel Latif and Dawoud 2019).

Three key concepts are implicit in such institutional structure: decentralization of authority, separation of regulator from executive roles of ministers, and keeping strategic direction of the sector at a higher level than the Minister in charge.

Decentralization of authority is stipulated in the 2014 Constitution. It is a precondition for improved efficiency and governance as illustrated in Figure 1.2, especially at the level of the preparation and implementation of program-based budgeting. Besides the advantages of such budgeting in specifying targets and making sure they get implemented, it also forces ministries to work together in the implementation of projects so their success is interlinked and not separate. Such implicit coordination means working together and not separately in silos as is the case now.

Separation of regulator of the sector from the person of the Minister in charge is critical; as the entity that puts the rules cannot be the one that implements them and have oversight on itself, which is currently the case not only in the communication sector, as seen in Table 1.2, but also in electricity, all utilities and housing as well.

Keeping the strategy above the Minister's level means that it doesn't change with the change of ministers. Ministers are supposed to be there to implement an already existing strategy, and if there is a needed change in such strategy and its relevant policies, it is to be done through the specialized Council, and on the basis of detailed studies by government officials and informed experts, for information supported by close follow up of performance.

SECTION IV:

In this last section, we attempt to answer two key questions: what are the preconditions of success for such an institutional reform action plan? And to what extent has Egypt satisfied any of them?

Six pre-conditions for success are presented below, along with the extent to which Egypt has actually taken steps in every one of them:

1. To cascade the top-level political commitment down to the entire government structure, as implementation of institutional change typically takes all stakeholders out of their comfort zones; and keeping in mind that there are always interest groups benefiting from the vague complexity of the system, that often impeding the process reform. In the case of Egypt, the Presidents and Prime Minister's interests in and commitment for to institutional reform exist but the cascading of this commitment is lower from the Prime Minister's level downwards and disappears as the bureaucracy level is reached.
2. To empower the authority in charge of championing the change. For example, it is not logical that a Minister enjoying a certain level of power in his ministry is asked to take this power from himself and pass it on to others. This needs to be done at a higher level. To that effect, one of the latest changes in the cabinet of 2019, was very positive in that direction, specifically: Moving the administrative reform function up from the ministerial level –under the ministry of planning- to the Prime Minister's level.
3. To benefit from the domino effect of institutional reform by working on key drivers of change, i.e. start with reforms that are likely to automatically lead to other reforms in many directions, thus having a broad impact. This applies to the cancellation of A noteworthy example was abolishing the Ministry of Investment and upgrading the Investment Authority to be directly under the Prime Minister, thus allowing for a wide range of improvements in the ease of doing business.
4. The existence of a clear, publicly announced implementation plan of action with KPIs; not for the outcome, but rather for the process of implementation itself, with acceptable achievements within a certain time range, and clear spelling out of what is not acceptable, and a corrective mechanism in a timely way in case of its occurrence. Such exercise needs to be done for every KPI. This step hasn't taken

place yet in Egypt. In fact, more generally the overall plan for institutional reform beyond small steps in many directions is not clear.

5. To adopt clear rules and regulations that account for all details at all levels, eliminating room for improvisation or personal interpretation, and applying the same rules on all economic agents irrespective of their nature, with no exceptions.
6. Finally, to add an article to the budget law/procedure that an increase of a certain percentage over the planned budget deficit would have to get approval from the parliament. This is both an institutional reform in its own right and a pre-condition for proper checks and balances.

In conclusion, most of Egypt's current economic and social problems have their roots in institutional factors. Getting out of a crisis situation every ten-year cycle through changes in fiscal and monetary policies, only to have a boomerang effect means that it is time to adopt the proper institutional reforms once and for all. As horrible as COVID-19 is, its silver lining in

pushing for urgent changes in that direction and the fact that we actually took quick steps in certain procedures and the positive impact witnessed means that we can do it if we commit enough. The positive impact on the Egyptian economy in increased sustainability resilience and inclusivity will put Egypt on the high road of development that it deserves.

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2. Eliminating the Legislative Bias Against SMEs

El-Sayed Abul-Komsan

First: Introduction

The role of micro, small and medium enterprises (MSMEs) in supporting growth and achieving economic development has widened extensively during the nineties in both developed and developing countries. This was a result of a number of prominent global shifts that brought about a change in the structure of production of goods and services towards more reliance on the production inputs provided by these enterprises, which strengthened their economic role as a key link in global supply chains. The most prominent of these shifts is the emergence of new, less expensive and more flexible production methods, as a result of the move towards the globalization of labor markets and products and the spread of business outsourcing methods from large enterprises to MSMEs. In addition, the increase in the number of young people looking for work in many countries, and the emergence of an entrepreneurial culture contributed to supporting the move towards establishing a large number of MSMEs. In the aftermath of that period, these enterprises demonstrated great capacity for innovation and competitiveness, reduced production costs, flexibility and great efficiency in dealing with market conditions compared to large projects; using local production inputs also made them play an important role in the global supply chains of major global companies, and a prominent role in production and employment in many countries of the world.

MSMEs have become a major locomotive for advancing economic development in many countries especially developing ones, due to their role in providing job opportunities at a lower investment cost than large projects. These enterprises contribute to creating four out of every five new job opportunities, besides their integration in the production chains of goods and services with large enterprises helps strengthen GDP structure and improve the level

of per capita income. This made many emerging market economies and developing countries rely on them heavily to reduce unemployment and poverty rates, especially in rural and economically promising areas, thus helping to balance economic development.

In this context, and according to the data of the World Bank for the year 2015, the contribution of this sector was estimated at about 40 percent of GDP in developing countries and about 60 percent of employment in the formal sector. International estimates indicate that about 70 percent of these enterprises in developing markets cannot access financing, especially in Africa and the Middle East.

However, we must bear in mind that the primary role of micro-enterprises is to overcome the problem of poverty because of the sources of income they provide to marginalized groups.

Second: A Look at Role of Micro, Small and Medium Enterprises in the Egyptian Economy

These enterprises are considered among the most important determinants for raising economic and living standards, promoting economic development in the country, and overcoming the problem of poverty.

These enterprises are spread all over the country—rural and urban—but there are no accurate statistics on the size of these enterprises, especially since the entire informal sector is comprised of these enterprises.

The 2017/2018 economic census issued by the Central Agency for Public Mobilization and Statistics (CAPMAS) estimated the size of MSMEs at about 3.7 million establishments, employing about 9.7 million workers. The census captured a set of other indicators about this sector. Total wages were estimated at EGP 619.2 billion and the volume of production was about EGP 1.2 trillion, in addition to total added value estimated at EGP 87 billion. The governorates of Lower Egypt account

for most of this activity. Added to these estimates are establishments operating in the informal sector, whose number have conflicting estimates.

Third: Legislation Biased in Favor of Large Enterprises

Egyptian legislation includes many laws that regulate the activities of economic entities. The large part of these laws do not differentiate between large entities and micro, small and medium entities, and it may appear at first glance that this achieves equality in legal status. The truth is that resources available in large entities, whether in terms of capital or administrative capabilities that help them deal with bureaucracy in all agencies, allow them to benefit from many provisions contained in these legislations that were enacted for the benefit of all sectors. MSMEs do not have such privileges, though as we explained earlier, they create 80 percent of job opportunities and thus provisions must be fair to these entities as well.

In the following, we will shed light on the most important problems that demonstrate bias towards large enterprises:

a) The problem of these enterprises obtaining their needs of machinery and equipment necessary to carry out their activity, as well as production requirements.

In fact, the vast majority of micro and small enterprises and a large part of medium enterprises have limited external dealings, as they depend in securing their needs on local production or what is imported through suppliers with import experience and specialists in importing certain commodities, especially investment goods such as machinery and equipment. Almost all of these enterprises have limited dealings in terms of exports.

While there are many legislations that offer facilities and incentives for employers in general with respect to what they import, whether machinery or equipment, such as reducing customs duties on them or exempting them from certain fees, as well as for what is exported, as follows:

1. Customs Law No. 66 of 1963:

The Customs Law included in Chapter Five temporary admission, meaning an exemption from customs duties and other taxes and fees on imported raw materials with the intention of manufacturing them and completing their manufacture.

The provisions of this system remained a source of suffering for exporters until Prime Minister Decision No. 1635 of the year 2002 was issued, which established an advanced system for temporary admission. But, in reality, this system is used only by large enterprises and some medium enterprises, while micro and small enterprises and a large part of the medium enterprises cannot use this system [temporary admission], which is a global system aimed primarily at granting facilities for exporters, and thus these sectors are placed in an unequal position with large enterprises.

In addition, this law has devoted a special chapter to refunding customs and value-added tax previously collected on foreign inputs that were used in the manufacture of local exported products after submitting sufficient documents proving the use of imported items. Of course, large enterprises that import their production requirements are able to meet the refund rules, while MSMEs that do not import themselves, cannot benefit from this system because they secure their needs from the local market from specialized merchants and importers, hence these enterprises are in an unequal position in terms of cost.

2. Law regulating customs exemptions

The provisions of this law included the collection of a unified customs tax of 5 percent of the value of imported machinery, equipment and devices necessary for the establishment of enterprises that have been approved in according with the provisions of Law No. 43 of the year 1974 promulgating the Arab and foreign money investment system and free zones, and Law No. 159 of the year 1981 respecting joint-stock enterprises, limited liability companies, and limited liability companies. The aforementioned unified rate applies to machinery, equipment and

means of transport and special-use vehicles for building projects, as well as enterprises established in the new urban communities, and reclamation and cultivation enterprises.

This provision aims to reduce the burden on all enterprises, but in fact micro and small enterprises and a large part of medium enterprises do not benefit from this incentive because they secure their needs from traditional importers of machinery and equipment.

3. The value-added tax law

The provisions of Article 30 of this law stipulated that previously paid or charged tax shall be refunded on goods and services that are exported or used in other goods or services. Of course, large enterprises benefit from this provision, as most of them import their production requirements. While micro and small enterprises and a large part of the medium enterprises cannot recover these taxes because they secure their needs from traditional importers.

The same article provides for refunding the previously paid tax on machines and equipment that are used in the production of a commodity or the performance of taxable services. Large enterprises that import their own machinery and equipment benefit from this provision. As for MSMEs, they cannot benefit from the advantages and incentives included in the provisions of the previously mentioned law for production and service projects.

4. Investment laws:

All laws promulgated to promote investment included providing benefits to enterprises in all areas of investment, the latest of which is Law No. 72 of the year 2017, as Article 10 of this law stipulates that the provisions of Article 4 of the Law Regulating Customs Exemptions promulgated by Law No. 86 of the year 1986 regarding the collection of a uniform tax of 2 percent apply to all imported machinery, equipment and devices necessary for their establishment. Investment enterprises of a special nature that are subject to the provisions of this law may also import molds, fittings and

other production requirements of a similar nature without customs duties, to be used for a temporary period in manufacturing its products and re-exporting them abroad.

Large enterprises are able to enjoy these incentives as they can import on their own. As for the micro and small enterprises, and a large part of the medium enterprises, they secure their needs of these commodities from the local market and through traditional importers, and thus are encumbered. The category of customs tax on some of these materials reaches 25 percent, and this leads to burdens on MSMEs that are not borne by large enterprises.

5. The Small, Medium and Micro Enterprises Development Law:

The issuance of this law aimed at the promotion of these enterprises and providing them with serious incentives to enable them to play the required role in the Egyptian economy. This law included a set of incentives to revitalize this sector. Leaving aside what is included in this law regarding financing these enterprises, we find that this law restores the advantage stipulated in the law on customs exemptions and investment, as Article 28 of this law stipulates that a unified customs tax amounting to 2 percent of the value shall be collected on all machinery, equipment and devices imported by enterprises that are necessary for their establishment.

As explained earlier, this provision does not benefit micro-enterprises and a large part of small and medium enterprises, while large enterprises with import capability benefit from it.

Moreover, although the issuance of this law was an urgent requirement, it has a flaw; it equated the positions of micro, small and medium enterprises. Indeed, it raised the maximum turnover of medium-sized companies to EGP 500 million, thus creating a bias even in this sector, as it was noticed that the banking system prefers to grant credit facilities to the upper segment. This was evident in the banks' dealings when the Central Bank's definition of medium enterprises was that "the turnover of their business does not exceed EGP 200 million pounds".

It should be noted that this law has brought together micro enterprises and small and medium enterprises and equated them in terms of the facilities it provided; this is a new perspective that has not been adopted before, as the activity of micro enterprises is concentrated in sole proprietorships, especially in the field of craft industries, and hence must have planning and policies that are different from the policies and plans of (SMES).

6. Law No. 83 of the year 2020 imposing fundraising fees on some commodities:

This law included imposing a fundraising fee of 10 percent on all types of imported iron (including sheet surfaces, angles, sections, and profiles) of the market value plus the value-added tax and other taxes and fees. The phrase used was (as long as it was not sold directly in its form in the local market.) An explanation for this has been issued from the Minister of Finance that this fee is not imposed on what factories import to manufacture, but rather what is imported through traditional importers to sell to factories that cannot import, although these items constitute intermediate goods and are only used in manufacturing. For example, tin is called "the bread of engineering industries".

In light of the above, it is clear that there is a bias in favor of large enterprise. Even in the MSME sector, there is a bias in favor of the larger segment of this sector.

Fourth: Some Global Experiences in Micro, Small and Medium Enterprises

Large and mega projects began their first stages as small projects and then began to develop and grow. It may seem that micro, small and medium enterprises are at a primitive stage and are not yet qualified to become large enterprises. However, with the introduction of modern and advanced technology, training of skilled workers and providing assistance by the state, whether technical, financing, administrative, or marketing, these enterprises can make a leap, and develop and increase their activity, making them move

towards large enterprises. In the following, we review some international experiences in this regard.

1. India

Studies in India have proven that small enterprises are the largest generator of employment opportunities. They achieved an average employment growth rate of 7 percent during the period from 1992 to 2009, with a surge in growth during 2006, in which the employment rate reached 42.5 percent. In parallel, exports of these enterprises increased, achieving an annual growth rate ranging from 7.6 percent (in 1996) to 10 percent (in 2006).

Therefore, these enterprises are considered the locomotive of India's growth. Interest in small establishments has increased in particular since 2007, and this has become a distinctive feature of the Indian experience.

The second feature that characterizes the Indian experience is the production of a long list of products from enterprises other than large ones, which numbered 1,200 in 1997, thus granting an opportunity and protection to these enterprises for expansion and sustainability and forcing large industries to deal with smaller establishments within the framework of subcontracts.

The third feature is that it reduced the closures that result in displacement of a large number of workers. The establishments that face difficulties are directed to a special office that takes care of the administrative and financial reform of these troubled establishments until they overcome their difficulties. This office has the right to assign one or more managers responsible for managing these enterprises until they overcome reasons for their difficulty. These reasons may be financial, administrative, or a lack of skills ... etc., and the office handles all these aspects with relevant parties such as banks. The office continues to closely follow the method of investing new funds. and has the power to suspend loans or punish those responsible for defaulting with legal procedures

The fourth aspect is the intensification of training

efforts directed to these enterprises in general. The Prime Minister of India has planned to train a large number of workers until 2032, and this targets about 500 million Indians, 50 percent of whom are representatives, and in the field of these enterprises. There is a specialized national center for training and similar centers in different territories. The fifth feature is the adoption of an extended program to increase the competitiveness of these enterprises, consisting of ten programs that include industrial incubators, quality management, integrating these activities into the economy, raising technological capacity, and marketing support. ... etc.

The sixth feature is the attention to the rural industrial committees called KHDJ, to which a \$150 million have been allocated apart from the assistance provided by the Asian Development Bank (ADB). This is a formula to support crafts and traditional industries such as rural food industries, with the Mahatma Gandhi Center established to support rural industries.

India has also established institutions and agencies that provide this sector with the necessary loans, and assist them in marketing their products and protecting them from default and bankruptcy; in addition to training, qualification, technical and economic consultations. This can all be summarized as follows:

- The Indian government has established a number of agencies and units that specifically provide the necessary support to SMEs: a ministry for small industries, and rural and agricultural industries, along with a small industries committee, which acts as an advisory body to the ministry of small industries.
- Providing a number of banks specialized in lending to SMEs in order to increase credit coverage and facilitate obtaining necessary loans. India is in the process of increasing the number of these banks.
- Establishing 8 courts to adjudicate debt issues.

- Establishing special centers to promote exports of small and SMEs and assist them in the process of reaching foreign markets.
- Issuing legislations that cover the various relationships existing in the small enterprises sector, such as laws on quality standards, employment, environmental protection, defining sales tax, and to assess the exemption of these units from excise duties.
- Supporting a special insurance program to prevent the occurrence of bankruptcy cases that SMEs may be exposed to.

2. Japan

The Japanese experience in the field of establishing and developing SMEs is a model to be followed by all countries wishing to develop their economies on the one hand and to overcome the problems of unemployment on the other hand. Although Japan does not possess significant mineral resources or raw materials, and imports most of its resources for production, it has achieved great progress in the field of manufacturing since the beginning of the 1960s until the present time. Its exports have become competitive with many major countries, thanks to the national policy pursued by the Japanese government, which aims to provide assistance to SMEs, whether technical assistance, financing, administrative or marketing, through:

- Encouraging the establishment of industrial and service complexes and the modernization of existing SMEs.
- Establishing some financing institutions to provide the necessary funding and support for small and medium enterprises.
- Establishing a program through which small and medium enterprises can obtain the same advantages and contractual terms granted to the public and governmental sectors.
- Granting small and medium enterprises technical and administrative incentives.
- Supporting businessmen by facilitating loans on concessional terms.

- Willingness to adapt to changing economic conditions that may lead to troubling instability or bankruptcy of small and medium enterprises (SMEs).

The government's attention to this type of enterprises was evident in its cooperation with struggling enterprises, for fear of their bankruptcy. A struggling enterprise can obtain a loan without interest and without guarantee, to be repaid within years with a six-month period given before the repayment process begins.

The government support directed towards small and medium enterprises led to high quality production according to international standards, which led to reliance of large enterprises on the production of small enterprises instead of importing them from abroad.

The intellectual development that took place in the industry helped the shift of employment from large industries to small industries in Japan, as many large industries are giving up the production of many manufacturing components, assigning their production to other small, more specialized factories, thus achieving greater savings in the cost of production while ensuring the achievement of higher quality.

Hence, the importance of SMEs becomes evident in absorbing surplus labor from large enterprises when they renew their means of production and dispense with excess labor.

3. South Korea

Before its economic renaissance, South Korea was suffering from underdevelopment and stagnation, as it was characterized by the following key characteristics:

- Dependence of the Korean economy on a single export commodity, which is rice.
- Scarcity of economic resources.
- Small cultivable area.
- Persistent rural-to-urban migration.

Hence, the Korean government at that time set a number of economic plans, starting with the first Economic Development Plan (1962-1966).

The most important characteristic of the Korean development plans in the early 1960s was their attention to the development of small and medium enterprises, as they carried out the following:

- Established a specialized bank for SMEs on the first of August 1961 aiming to support the economic activities of SMEs by providing loans and credit facilities in local and foreign currencies, accepting participatory deposits in enterprise capital, local and foreign exchange operations; in addition to providing advisory services in administrative and technical work.
- The Small and Medium Enterprises Support Authority was established to assist the government in setting economic policies related to the development of SMEs. Its mission is to modernize the means of production, strengthen cooperative activities between SMEs, establish industrial cities and establish industrial complexes in them, develop environmental industries, in addition to providing technical and administrative advisory services and directing small and medium industries towards export.

4. Singapore

Small and medium enterprises have played a large and important role in supporting and meeting the needs of large enterprises. The Singapore Development Bank has provided financial aid to small and medium enterprises at a fixed interest rate that is less than commercial rates, and was later joined by a large number of other banks.

The Singapore Institute for Standardization and Industrial Research also cooperated in supplying small enterprises and banks with the necessary studies, quality control, and business standards. Cooperation and interest on the part of the government was evident in establishing a department to stimulate trade and exports, whose mission was to assist exporters and provide studies on international markets, as well as organizing conferences and developing and organizing training programs on trade and international markets and their needs.

5. United States of America

The Small Business Administration Authority in the United States of America was established in 1953. It is an independent body that has its own budget and aims to help US entrepreneurs establish and operate successful small enterprises. Its role is as follows:

- Granting loans to small enterprises that are unable to provide self-financing, on reasonable and easy terms.
- Helping small enterprises sell their products and services to the federal government.
- Granting loans to enterprises that are vulnerable to natural disasters.
- Helping small enterprises market their products and export them.
- Developing the managerial and technical skills of current and potential entrepreneurs.
- The administration licenses and regulates private investment companies concerned with providing loans to small and medium enterprises.
- Supporting women and helping minorities to increase their participation in the ownership of SMEs.

In order to expand the provision of administrative and advisory assistance to owners of SMEs in all states alike, the authority's administration has established a center in each state, in addition to the existence of a public or private entrepreneurial institution that sponsors this center and manages its programs. The authority has also established offices for the private sector to combine resources of the private sector and small business administration, to increase the effectiveness of the authority's programs, especially with regard to providing administrative training and advisory bulletins; in addition to assistance in obtaining government contracts and subcontracts and financing the exports of these businesses through its programs.

It is clear from the above that among the important facts that can be learned from the

experiences of the aforementioned countries, that SMEs have a major role in increasing the national product of countries that work towards progress and development through their sponsorship of these enterprises and their workers, and trying to provide the necessary means of assistance for their growth and development. Therefore, we will put forward several proposals that we can, by following, assist this type of enterprises and drive them towards increased growth and encourage them to spread internationally through increased globalization in the field of export.

Fifth: Evaluating the Initiatives Directed to Micro, Small and Medium Enterprises in Egypt

Egypt has witnessed many initiatives directed at MSMEs since the 1970s, including but not limited to the following:

1. Establishing the Organization for Craft Industries and Production Cooperation according to Law No. 840 of the year 1973:

This body is concerned with developing the necessary plans and policies for the advancement of this sector, which mainly includes the micro-industries represented in most of craft industries and productive cooperation projects. Despite the existence of this body for a period of about 50 years, there is no objective evaluation on the basis of which the achievements of this body can be judged.

2. The issuance of the Productive Cooperation Law No. 110 of the year 1975:

This law stipulates that production cooperation be a branch of the cooperative sector that aims to organize and develop production capacities in craft industries and production services and supports them technically, economically and administratively; especially in the areas of finance, supply, marketing, training, organization, contracting and developing the common interests of members of productive cooperative societies, with the aim of supporting the national economy within the framework of the state's general plan and in light of cooperative principles.

It also stipulates that productive cooperative societies are democratic, mass organizations formed in accordance with the provisions of this law of those who undertake their activities in the field of craft industries.

3. Establishing the Social Fund for Development:

The Fund was established by Republican Resolution No. 40 of the year 1991 as a social and economic safety net that contributes to combating unemployment and alleviating poverty, and to improve living standards and accelerate the achievement of comprehensive economic and social development. The Fund is mandated to support small and micro enterprises and to provide an integrated package of financial and non-financial services to them, and in coordination with all parties concerned with these enterprises, with the aim of adopting the necessary policies and legislation for their development under the Small Enterprise Development Law No. 141 of the year 2004.

The Social Fund used to operate through regional offices covering all governorates of the Republic. Attached to most of these offices are service complexes that operate based on a one-stop-shop system that allows applicants to quickly obtain loans, complete the required papers, and obtain licensing, a commercial register, and a tax card.

The Fund's areas of work:

- Mobilizing local and international technical and financial resources to achieve comprehensive economic and social development.
- Providing advanced financial and non-financial services to support small enterprises and their growth and development.
- Financing projects that create job opportunities and improve infra- and social structures.
- Encouraging the spread of self-employment thinking and linking large industries with small enterprises and industries.

Among the objectives of this Fund were:

- Development and financing of small and micro enterprises.
- Improving living standards in the targeted areas.
- Contributing to creating job opportunities to curb the unemployment problem, especially among youth and women.
- To alleviate poverty.

It targeted the following groups:

- Young graduates with higher, intermediate and upper intermediate qualifications.
- Those with experience and who are able to manage existing projects and who are willing to develop their projects.
- Marginalized groups and people with special needs.

The Fund announced the outcome of its performance from the date of its inception until 2015 as follows:

Since its inception, the Social Fund for Development has pumped total funding of about EGP 28.6 billion to implement many projects until the end of August 2015, detailed as follows:

- Loans to finance small and micro enterprises, at about EGP 23.5 billion, which generated about 2.2 million enterprises and provided 3.6 million job opportunities.
- Grants to finance infrastructure, community development and training, the volume of which reached EGP 5.1 billion and provided 710,874 job opportunities.

However, after the Fund's work for a period of 28 years, and the end of its work, no objective assessment was made regarding the results of these endeavors. The crux of the matter does not lie in the large sums it spent or the job opportunities it provided, but in the follow-up on the enterprises that it financed in order to build upon advances of businesses that remain in operation, while assessing those that have stumbled or ceased to operate.

4. Establishing the Medium, Small and Micro Enterprises Development Agency (in 2017):

The Medium, Small and Micro Enterprises Development Agency was established by Prime Minister Decree No. 947 of the year 2017 and amended by Resolution No. 2370 of the year 2018. The agency replaced the Social Fund for Development established in 1991. It is the result of 25 years of comprehensive development experiences in various fields and is deemed the entity concerned with MSMEs and entrepreneurship, and coordinates and unifies the efforts of all concerned parties, NGOs and initiatives working in this field.

The agency aims to set up a national program for the development and promotion of enterprises and create the necessary climate to support them. It works through a network of regional branches spread all over the governorates, which are its executive arm, estimated at a total of 33 branches that include the units of the one-stop shop (OSS), in addition to partnership with about 600 NGOs concerned with the development of micro-enterprises, 1800 bank branches spread all over the governorates, and a number of local development partners.

However, this Agency is an extension of the apparatus that was once the Social Fund with

all its human cadres. In addition, it combined planning, policy-making and implementation, which are the same deficiencies of the Social Fund.

5. Funding Initiatives:

- The Central Bank, commercial banks, the Egyptian Banking Institute and financial institutions introduced private banking services and small and medium enterprises.
- Establishing a banking services unit for SMEs in the Egyptian Banking Center.
- Holding training courses for bank employees and organizing learning tours for them in leading countries in the development of the SME sector.

- The central bank providing credit facilities at low interest rates, simplifying procedures for obtaining them, and increasing the effectiveness of credit guarantee programs.

Sixth: Key Challenges Facing Micro, Small and Medium Enterprises

Despite the efforts made by successive governments to develop and support SMEs, they are still facing many challenges and obstacles that prevent their growth and expansion, as follows:

- **Non-financial challenges** that include a lack of administrative experience, a shortage of skilled workers, lack of reliance on modern technologies, and exposure to bureaucratic complications in obtaining licenses.
- **Financial challenges** mainly in the difficulty of accessing finance; the biggest challenge among all these challenges. The importance of obtaining financing lies in the fact that low capital threatens these enterprises with failure and reduces their chances of resilience and growth.

There is close correlation between the amount of capital with the enterprise on the one hand, and the volume of employment and sales on the other. In fact, all of these factors affect the enterprise's ability to obtain financing. So, the greater the company's capital, the greater the volume of its sales and the greater the possibility of its dealings with banks and benefiting from banking facilities, and this also results in the difference in the ability to export.

In general, the performance of SMEs is underwhelming at the level of global markets, as only 6 percent of these enterprises export their products, while the rest only serve the local market.

The process of obtaining financing from banks is a complex process for MSMEs that face difficulty in attracting and obtaining the required skilled labor, technology, product and market information,

production inputs, and space; which results in a limited ability to provide a feasibility study and a commercial plan, as requested by lenders. Also, these enterprises lack general contracts (or contracts of large sums) that give them stability, future vision, and long-term expectations. They also lack relations with large and foreign companies that provide support through their contact networks.

In addition, bank loan officers usually do not have experience that qualifies them to evaluate MSME proposals, which leads to higher investment risks in these enterprises (from the banks' point of view), and requires higher administrative expenses reflected in the higher interest rate for these enterprises as well as increased required collateral. Since these enterprises usually do not invest in real estate such as buildings or land (84 percent operate from rented stores), this makes it difficult to provide guarantees to cover the loan.

Banks consider granting credit to large businesses less risky because they are more stable or less prone to risk, and have available records and structured information that are easy to access and, are ultimately more profitable; unlike small businesses that are less stable and more vulnerable to risk, while their records are not available, their information unclear, or difficult to access. They are less profitable, along with other problems such as lack of commercial documentation (such as registration, licenses and tax cards), low confidence in the financial data and financial performance of those businesses, and potentially weak management and business plan.

The natural result of this is that most of the MSMEs in Egypt do not deal with banks, as 16.9 percent of enterprises deal with banks in Cairo, 11.5 percent in Sharkia and 9.5 percent in Gharbia. Enterprises that receive banking facilities are concentrated in those same governorates, 22.6 percent in Cairo, 13.9 percent in Sharkia, and 8 percent in Gharbia.

On the other hand, a large part of unregistered SMEs in Egypt belong to the informal sector. In reality, the number of informal enterprises cannot

be accurately counted, but there are two types of SMEs: enterprises that can be counted on the one hand, and street vendors, mobile units, and home enterprises that cannot be counted on the other.

The high percentage of non-registration of enterprises is due to the high cost of both registration and shift to the formal economy, which represents 40 to 60 percent of the total cost. At the same time, the opportunity cost of staying informal is the limited growth opportunity, since unregistered businesses cannot apply for formal loans, business development services, supply contracts, or any support available from the government. In 2006, 41 percent of registered enterprises were able to obtain external financing, mainly from formal financial institutions.

As for unregistered enterprises, only 19.5 percent of them were able to borrow from other sources, while the rest of them depended on self-financing (savings, inheritance, remittances of workers abroad, family and friends, or associations) because access to formal financial institutions is limited for these enterprises due to not being registered.

The study of the Center for International Private Enterprise (CIPE), which conducted a survey of about 800 small and medium enterprises, revealed the experience of these enterprises with corruption during the establishment of their businesses. The study found that the most prevalent form of corruption for business owners is the payment of illegal amounts of money to government employees working in government departments or local councils. 43 percent of the survey sample paid bribes at the start-up stage, while 29 percent paid bribes to operating and licensing bodies. The problem with the funding sources available to small and medium enterprises currently is their limited support for these enterprises, which proved to be economically inefficient because the supported activities do not reflect their actual value or depend on non-governmental organizations' programs, which are not a sustainable source. The process of obtaining financing from banks is a complex process for SMEs, as these enterprises

face difficulty in attracting and obtaining what they need in terms of skilled labor, technology, information on products and the market, production inputs, and space; which results in the limited ability to provide a feasibility study and a commercial plan required by lenders. Also, these companies lack general contracts and contracts of large sums that give these enterprises stability, future vision and long-term expectations, as well as lack relations with large companies and foreign companies that provide support through their network of contacts. In addition, bank loan officers usually do not have the experience that qualifies them to evaluate SME proposals, which leads to higher investment risks in these enterprises (from the banks' point of view), and requires higher administrative expenses that are reflected in the higher interest rate for those enterprises as well as higher required guarantees. Since these companies usually do not invest in real estate such as buildings or land (84 percent operate from rented stores), this makes it difficult to provide guarantees to cover the loan. From the point of view of banks, they consider granting credit to large businesses less risky because they are more stable, less prone to risk, have available records and organized information that are easy to access, and are more profitable. On the other hand, small businesses are less stable or more vulnerable to risk, and their records are not available, and their information is not clear, difficult to access, and less profitable, along with other problems such as lack of commercial documents (such as registration, licenses and tax cards), low confidence in the financial data and the financial performance of those businesses that amount to 70 percent of the market, and a weak management and business plan. The corollary of this is that 47 percent of SMEs in Egypt do not deal with banks and only 22.4 percent receive bank facilities. According to a survey conducted in 2010/2011, 16 percent SMEs have problems with banks such as high interest rates and required guarantees, in addition to the length and complexity of procedures and the excessive administrative paperwork required. This percentage increases for smaller companies, as 16.4 percent of enter-

prises with a capital of less than EGP 250,000 have problems with banks, while 9.9 percent of enterprises with a capital of more than EGP 30 million have problems with banks.

On the other hand, a large part of the unregistered SMEs in Egypt belong to the informal sector; in fact, the number of informal enterprises cannot be precisely counted, but there are two types of small and medium enterprises: enterprises that can be counted on the one hand, and street vendors, mobile units and home enterprises that cannot be counted on the other hand. These high percentages of non-registration are due to the high cost of both registration and the shift to the formal economy

Seventh: Corrective Measures and Initiatives Required to Achieve Balance between Economic Sectors in Favor of MSMEs

MSMEs provide four job opportunities out of every five available jobs in the formal economy, in addition to what is actually available in the informal economy. In light of the increasing unemployment rates, especially after the Corona pandemic, as well as what this sector represents for GNP estimated at about 60 percent, it is therefore a priority to remove obstacles facing the establishment of these enterprises and provide the necessary care for their growth and achieving their goals. This can be done by providing technical, administrative, and financing support; benefiting from the experiences of leading countries in this field, and training the cadres who deal with these enterprises by providing high-end training programs locally and abroad. It is notable that the cadres who were in the Social Fund are the same ones in the MSME Development Authority.

Therefore, it is necessary to implement a package of corrective measures to stimulate the establishment of these enterprises, and to encourage enterprises in the informal economy to join the formal economy, as follows:

1. Establish an effective and efficient mechanism to compensate enterprises that meet their needs of machinery and equipment

from the local market to practice their activity for the taxes and fees they have incurred upon importing them; to be equal in burdens with large projects that meet their needs of machinery and equipment through direct imports and enjoy the incentives established, in terms of a single unified rate of customs duties (2 percent), as well as its right to recover value-added tax.

2. With regard to the projects that meet their needs of imported production requirements for export from the local market and whose capabilities do not allow direct import under the temporary admission or tax drawback system, setting up permanent programs to refund the taxes and fees incurred by them, to equalize the burdens with large projects which utilize these special customs systems.
3. With regards to the sources of financing provided at a low interest rate for the MSME sector, donors are obligated to have a share for micro, small projects, and medium projects, so that the larger ones in this sector do not take the bulk of private financing provided after raising the upper limit for the turnover of medium-sized enterprises to half a billion pounds.
4. Enforcing Law No. 5 of the year 2015 amended by Law No. 90 of the year 2018 regarding granting preference to Egyptian products in government contracts, and what was included in Law No. 152 of the year 2020 in this regard, as it was found that this law is almost not enforced due to circumvention by the addressed parties.
5. Reconsidering the organizational structure of the MSME Development Agency, provided that there is complete separation between planning, policymaking, and implementation. This entails raising the efficiency of this body and supporting it with cadres capable of accomplishing its tasks through training programs locally and abroad, and including criteria for evaluating its performance in terms of the shift of enterprises from informality to formality.
6. Assembling all agencies concerned with the development of micro enterprises (Production Cooperation, The Artisan Apparatus, etc.) into one agency concerned with this sector, to play an effective role in facing up to the problem of poverty.
7. Given the role entrusted to these enterprises to provide regular job opportunities to overcome the unemployment problem, the incentives provided under Law 152 of the year 2020 are included, respecting the state bearing half of the employer's contribution in social insurance for every insured job opportunity, and proposing an amendment to the law accordingly.
8. Selecting a number of the most promising enterprises (micro, small and medium) at the governorate and national levels, to honor them and give them an excellence incentive in an annual ceremony (the Day of Micro, Small and Medium Enterprises). This would encourage other enterprises toward more creativity and excellence to be among the enterprises that enjoy these incentives.
9. Spreading and strengthening the culture of entrepreneurship in Egyptian society, and promoting business literacy by introducing entrepreneurship courses into academic curricula, or making it a university requirement. In addition, contributing to building and spreading the culture of self-employment in society, especially among youth, on scientific grounds. As well as by making entrepreneurship one of the basic pillars of the Egyptian economy, through educating youth capable of initiative and creativity, rather than waiting to be assigned government employment, transforming them from a burden on the government to job creators and innovators who depend on themselves to achieve their ambitions and hopes.

Eighth: Conclusion

The present century is the century of micro, small and medium enterprises. Having become the backbone of the global economy, these enterprises played an effective role in innovation, development, and sustainable growth across the world in light of the globalization that the world is experiencing. Therefore, there must be unprecedented efforts in the area of SMEs worldwide to increase the effectiveness of this sector and its role in the global economy; they also need the support of governments. We may have noticed the efforts of many countries to develop this sector and improve its competitiveness. For example, India has developed strategies and allocated funds to

serve and develop these enterprises and help them get rid of the existing flaws, and adequately utilize technology in addition to operating in a more competitive and highly effective manner in the local and global markets.

Supporting and developing micro, small and medium enterprises and developing the legislative and economic infrastructure appropriate to their activities are among the most important areas in which the government must intervene and study successful international experiences to benefit from them, taking into account the specificity of the Egyptian economy. This is all with the aim of achieving the required development and addressing the issues of unemployment and poverty.

3. The Export Support System

Sahar Aboud, PhD & Rama Said

First: Introduction

1.1. Why is the export support system considered one of the drivers of change?

All countries in the developed and developing world support their exports - whether directly or indirectly - using various tools; including tax exemptions, credit facilities, providing land at nominal prices, contribution to technological development, infrastructure related to logistics and transportation services, or participating financially and administratively in marketing efforts and other means of support.

This support is of particular importance in the Egyptian case for the following reasons:

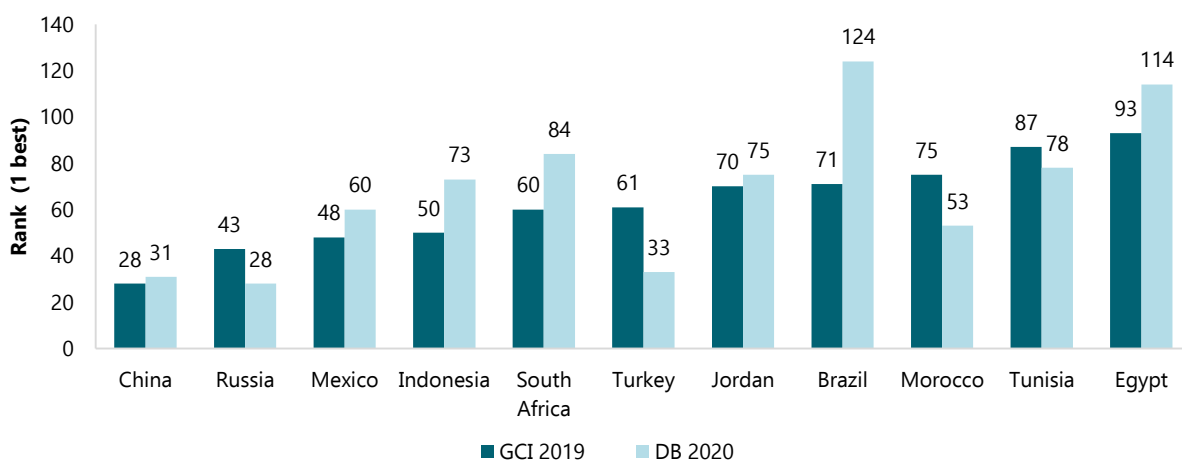
- The export support program is the only tool used to implement the objectives of industrial policy, and therefore it must be perceived as a type of investment rather than a consumption subsidy, especially that the rate of return on each pound is very high, equivalent to 1:10 on average in the form of export value¹. The return varies between various export sectors.

For example, the average rate of return on

engineering, marble, granite and furniture industries exports was estimated at \$2.8, \$2.4, and \$1.7, respectively.

- This Support is considered a compensation to exporters for Egypt's weak competitive position, the deterioration of the business environment, and the high transaction costs associated with exports as shown in Figure 3.1. This comes as a result of the complexity of export procedures, multiplicity of regulations, their conflict and the different interpretation between the different parties, as well as weak coordination between all actors. Hence, the persistence of this weakness in Egypt's competitiveness is a justification for the continued need for this support program.
- Since its inception in 2002, the program has led to an increase in Egyptian non-oil exports, as shown in Figure 3.2. Thus, this support has an effective role in increasing exports, in addition to other factors such as currency devaluation and entering into preferential trade agreements.

Figure 3.1. Egypt's performance against a group of selected countries in the Global Competitiveness Index 2019 and the Ease of Doing Business 2020 Index

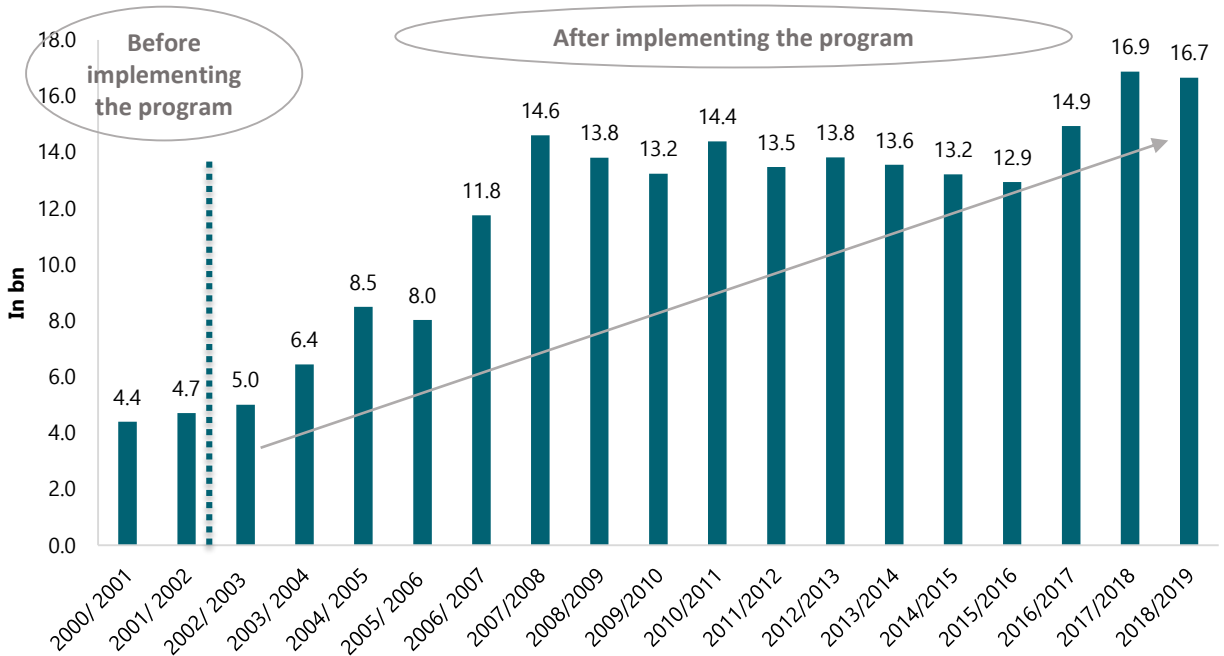


Source: World Bank; World Economic Forum.

Egypt's ranking in the Global Competitiveness Index out of 141 countries, and in the Ease of Doing Business out of 190 countries.

¹ This rate was calculated for the year 2007/2008, where the rate of return per pound was 1.4 dollars. Although there are no similar accounts for the following years, with the devaluation of the currency, this percentage is expected to increase, and thus the importance of the program increased to avoid the negative effects of global crises and political events in Egypt.

Figure 3.2. Development of Egyptian non-oil exports during 2000/2001-2018/2019



Source: Central Bank of Egypt (CBE), Annual Report, various issues.

- The importance of export support programs has magnified after the Coronavirus pandemic, as it resulted in a slowdown in global economic activity and a decrease in production. This is expected to intensify competition between countries to increase their market share, even at the expense of other countries.²
- Moreover, the Corona pandemic has financially hindered the performance of exporting companies. The decline in external demand and disruption of international trade led to a decrease in these companies' liquidity. Therefore, the continuation of the program is necessary to ensure the continuity of these companies and their ability to compete. Furthermore, it boosts investor confidence in the State's support for production activities and their competitiveness.
- Finally, improving the export support system enhances institutional development and the move towards increased governance, which will

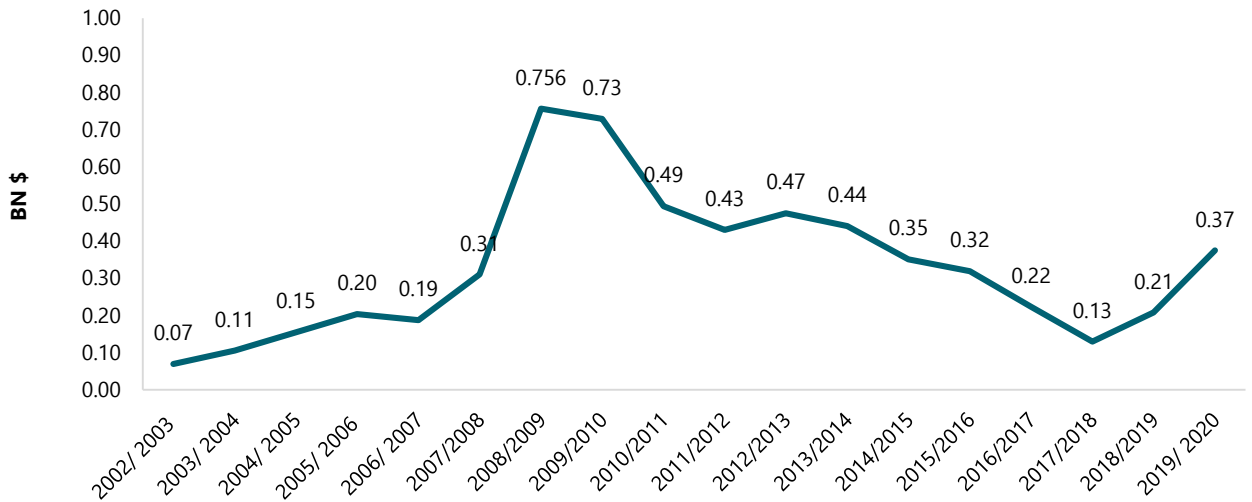
be reflected in a drastic reduction in the transaction costs of the export process. Hence, the export support system can become a model for institutional transformation in general.

Second: Brief Description of the Current Export Support System

- Annual average support allocations since the beginning of the program were estimated at about \$330 million. The highest value was in 2008/2009, when it was estimated at about \$756 million. A decline in the value of allocations is noted after the global financial crisis which persisted until 2018/2019, as shown in Figure 3.3. In general, these allocations are considered low, especially when compared to the program's objectives, and in light of the fact that it is the only tool used to achieve the objectives of industrial policy, in addition to the positive impact of this support on increasing Egyptian exports, as mentioned above.

² It is useful to review support allocations, especially in times of crisis, as happened in 2008/2009, when support allocations were increased from about \$300 million to \$756 million, in a response from the Government to the global financial crisis.

Figure 3.3. Evolution of the value of allocations of the export support program during 2002/2003-2018/2019



Source: Ministry of Finance, Analytical Statement of the State Budget for various years.

The export support system is mainly about refunding a percentage of the exporter's export invoice that varies according to the value-added / local content ratio. There are also other components in the program such as the exhibition support program, air freight support program, and others. The program has been modified more than once, most recently in 2019, albeit this last change is not yet clear.

Table A1 in the Appendix presents components of the export support system that have been implemented as of 7/1/2016 compared to components of the proposed system for 2019. We can summarize the differences between both into two sets; the first comprises differences in the general rules of disbursement, while the other comprises differences in the technical components of the program, as follows:

• Amending the general rules for disbursement

- In the 2019 program, the mechanism used in refunding the amounts due to the exporters has changed, so that the export support is now disbursed to companies according to the following rates: 40% in cash, 30% dues to the Ministry of Finance, and 30% for export infrastructure, excluding the air freight program.

- A prescribed quota has also been set for each sector benefiting from the program, with the termination of spending on the program set to the depletion of prescribed quota or end of fiscal year, whichever is earlier.

• Modification in the components of the program:

According to Table A1 in the Appendix, modifications made in 2019 increased the procedural complexity of the program without necessarily achieving the program's objectives. An example is the complexity of calculating the value added, especially after the involvement of the Industrial Development Authority in calculating the value added based on tracing the component during the production process instead of drawing it straight from the company's balance sheet.

Third: Deficiencies in the Export Support System

Although implementation of the program has resulted over the years in an increase in the value of Egyptian non-oil exports, it suffers from design deficiencies. This resulted in the failure to achieve the required dynamism in terms of diversification of markets or products

and their compatibility with global demand trends, in addition to targeting the increase in the value added of Egyptian exports and expanding the exporters' base. The program's lack of incentives to enter new markets, or to drive enterprises to develop their products, resulted in the stagnation of the geographical distribution of Egyptian exports and their technological structure.

Examining the geographical distribution of exports in 2001 and 2019, reveals the limited diversity of Egypt's export markets, especially to major world markets that are witnessing a significant increase in the demand growth rate. Arab and European countries not only account for about two-thirds of Egyptian exports; while the percentage of Egyptian exports to Arab countries increased by 16 percent, they declined in the European and American markets between both years by 9 percent and 1 percent, respectively.

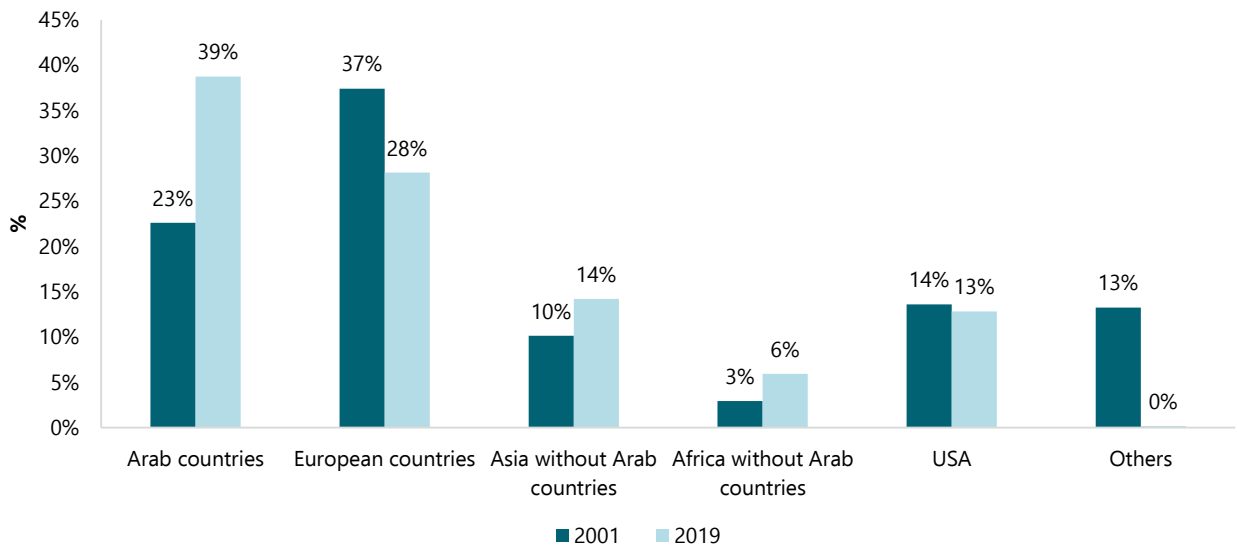
Despite the increase in the share of African markets and non-Arab Asian countries during the two years in question, as shown in Figure 3.4, this increase is still limited compared to the size of these markets and the rate of demand growth in them.³

On the other hand, Egyptian exports are concentrated in products with low/medium technological content, and consequently, a large gap remains between the structure of Egyptian exports and that of global exports (Figure 3.5).

Finally, the program fell short of achieving one of its main objectives, which is to expand the base of exporters and diversify products, since only a limited number of major exporters and products benefit from the program.

Below are the most significant shortcomings of the program, both in terms of design and in the institutional and financial aspects associated with the implementation of the program.

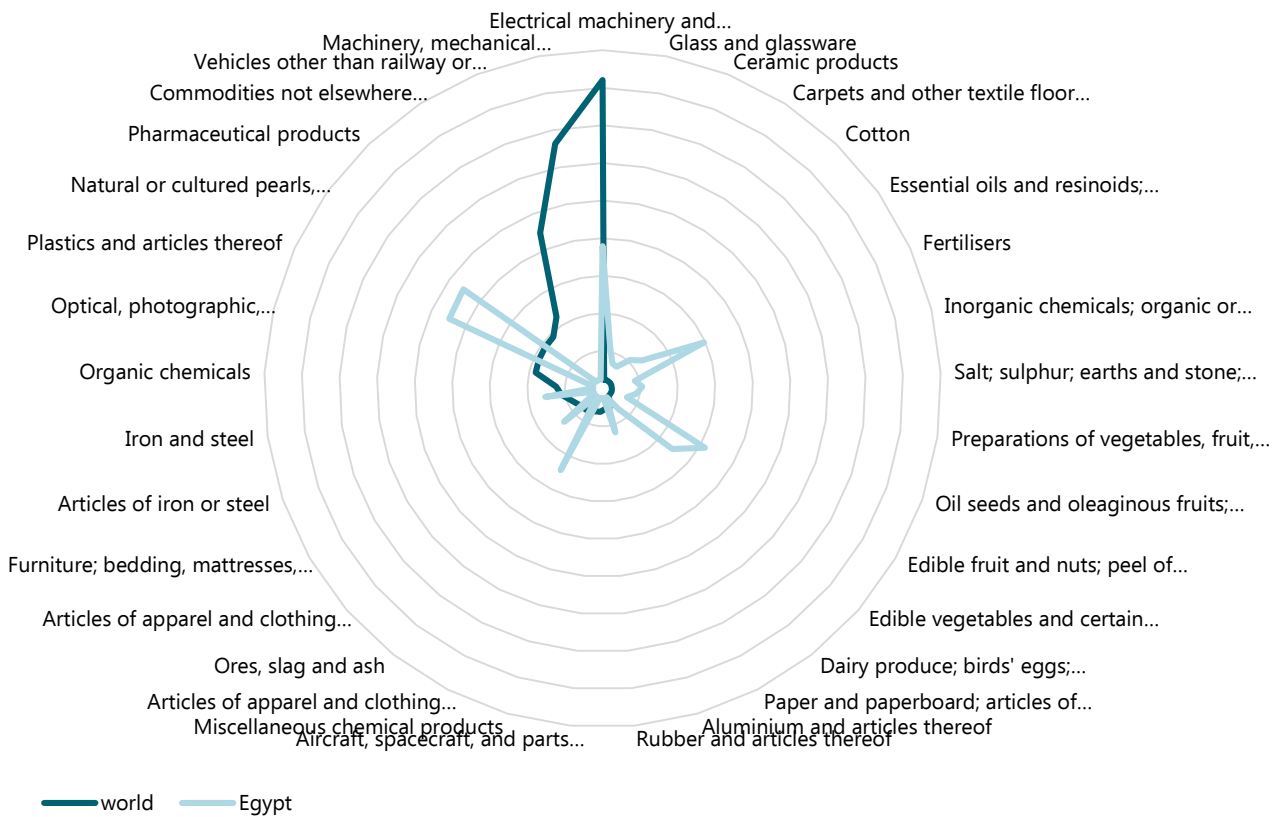
Figure 3.4. Geographical distribution of Egyptian non-oil exports in 2001 and 2019



Source: The Egyptian Center for Economic Studies (ECES) calculations based on UN COMTRADE statistics.

³ ECES is currently conducting a detailed study on promising markets in various export sectors.

Figure 3.5. Share of the top 20 Egyptian export products compared to their share in global exports in 2019



Source: ECES calculations based on UN COMTRADE statistics.

3.1. Problems related to program design

The export support program is designed in the absence of a detailed industrial development strategy, in addition to the absence of transparency regarding the continuation of the program or its modification into a new system.

- The export support program is the only mechanism of industrial policy in general and increasing exports in particular, which means that the program is assigned more than one goal in serving industrial development, which is theoretically flawed and practically impossible.⁴
- The program is modified without having a clear vision of the objective of amendment.

These modifications are also carried out without assessing the performance of the program in previous years, and without taking into account the views of exporters (of different sizes).⁵ Continuation of the 2019 program despite the exporters' objection to the method of calculating value added is an example of weak consultation with the key stakeholders—the exporters..

- Lack of a careful study of required operational procedures. For example, in the 2016 program, regulations for the deepening of the local industry program, and the export infrastructure program were not mentioned, and the details of support for exhibitions were not clear.

⁴ Theoretically, there must be a policy for each goal.

⁵ Export councils are dealt with, but in a limited way, and export councils do not include small exporters.

- The absence of specific quantitative and qualitative targets for the program⁶, whether at the macro or sectoral levels. This results in difficulty of evaluating the program and the extent to which each of its components achieves its goals, as well as the reasons behind failing to achieve those goals and any subsequent improvement. The existence of these targets becomes even more important in the case of multiple programs that serve one goal, such as those aimed at supporting small and medium enterprises.
- Design and development of incentives is conducted in isolation of the real problems faced by exporters, as well as without reference to detailed marketing studies.
- Nothing in the program guarantees continuous improvement or efficiency of use and distribution of its resources.

3.2. Institutional and financial problems

- The system of export support has been characterized by the weak institutional framework regulating it since its inception, whether at the level of program management within the Ministry of Trade and Industry, or at the level of the organizational relationship between the ministries linked to it financially and operationally, headed by the Ministry of Finance, as shown below:

a. Managing the program within the Ministry of Trade and Industry: Despite numerous attempts to develop the export support system, it focused mainly on the technical side and neglected the institutional development of the main body concerned with implementation of the program, namely the Export Development Fund, and other related bodies. These include the Industrial Development Authority and the Egypt Expo and Convention Authority (EECA). This institutional weakness within the system is ultimately reflected in the low efficiency of the program's implementation and delay in disbursing export dues - if available - as well as the complexity of the procedures associated with the introduction of any new products, even if they are innovative and promising.

b. The organizational relationship between the ministries linked to the program financially and operationally: The institutional form of the relationship between the Ministry of Trade and Industry and the Ministry of Finance in Egypt differs with regard to this program from the prevailing norm in countries that implement similar programs. While other countries provide adequate financial allocations to the party responsible for developing and implementing the program (as in the case of South Africa to achieve flexibility and speed in disbursing financial dues), we find that in the Egyptian case the Ministry of Trade and Industry, which is the legitimate administrator of the export support program, has no control. The Ministry of Trade and Industry obtains these allocations periodically upon a request submitted to the Ministry of Finance to obtain its approval of these allocations and their disbursement. Although this institutional weakness has existed since the beginning of implementation of the program as previously mentioned, it did not lead to any problems as long as the financial resources needed for the program were available, as required by the Ministry of Trade and Industry and provided by the Ministry of Finance. But with the beginning of decline in resources after the January 25th Revolution, this weakness became more evident as the Ministry of Finance was reluctant to provide resources to the point that accumulated receivables of the exporters reached EGP 20 billion. This ended up with almost complete control assumed by the Ministry of Finance over the program from a realistic and practical point of view, as the Ministry of Finance directly determines the percentage of receivables that companies receive and the method and time of disbursement. The matter reached the point of launching new initiatives for the Ministry of Finance on disbursement, thus turning the institutional weakness into an institutional failure.

Finally, this institutional weakness has exacerbated in light of the Corona crisis, as many changes have occurred, whether in the value of allocations or in terms of payment, the latest of which is the immediate payment initiative of 85% of export dues, which will be discussed next.

⁶ In other words, products characterized by high value added, innovation or energy saving, or entry into new markets characterized by high demand.

3.3. Immediate payment initiative of 85 percent of export support dues

In an attempt by the government to pay the arrears owed to exporters and the resulting liquidity crisis in these companies, a new initiative was recently launched by the Ministry of Finance to speed up the payments of all export arrears, which was called the "immediate payment initiative of 85%". The initiative involves disbursing 85% of the exporters' dues with the Export Development Fund for documents completed up to 6/30/2020 with a 15% deduction as an expedited payment rate. Disbursement is done through the banks participating in the initiative. A mechanism has been identified to implement the initiative and its implementation phases, as well as the documents required from companies to join the immediate payment initiative. Finally, the initiative includes other mechanisms to disburse arrears in the event that the company does not wish to benefit from the 85% initiative.

In what follows, we shall mention the shortcomings of the initiative, both in terms of the philosophy of the initiative or implementation.

a. In terms of the philosophy behind the initiative

- The initiative raises questions about the reasons for delay in applying the clearing method in paying the exporters' dues and not applying it right from the beginning, thus avoiding the accumulation of dues, as well as delaying the even better approach of the government's payment of the exporters' dues on a monthly basis.⁷
- The 15% deduction included in the initiative from the exporters' dues is an inappropriate approach for the following reasons:
 - The impact of the Corona crisis on exporters, ranging from decline in external demand, supply disruption, and resulting liquidity problems, makes this approach unfavorable for export and increases the problems of exporters, as it weakens the ability of Egyptian companies to continue in the face of fierce competition after the breakout of the Coronavirus.

- The 15% deduction reflects a lack of understanding on the part of government of the nature of the export support program, and subsequently the government's obligations towards exporters. The export support system is a program with developmental objectives in the first place; therefore, exporters' dues should not be dealt with in the same way as commercial paper. At the same time, these receivables are the rights of exporters and must be returned in full, plus the interest of late payment. If it is necessary to deduct this percentage, then take into account small exporters whose dues do not exceed five million pounds, as deducting this percentage from that group will expose them to heavy losses that threaten their survival, and conflicts with the government's support of this group.
- The percentages obtained by exporters are actually lower than those after deducting due taxes.
- This approach generally reflects the government's move towards reducing the program's budget, which began with the amendment of the export support program in 2019. This trend contradicts the state's endeavor to encourage Egyptian exports and increase them to \$100 billion annually, as well as the program's objectives, especially those related to industrial development; foremost among which is supporting the export infrastructure, increasing access to and diversifying export markets, developing exports of small enterprises, and expanding the base of exporters.
- No clear direction has been announced by the state regarding the details of the export support system after June 30, 2020, and it is unclear if the requirement to complete the tax, customs and other files has been canceled.
- Finally, it is unclear how the transfer of the government's export support dues to commercial banks will be handled and how its

⁷ As announced by the Prime Minister

liabilities will be dealt with in the long term, especially since public banks have been used increasingly as tools for the government in handling debts.

a. In terms of operational challenges:

The initiative faces many ambiguities in implementation, the most prominent aspects of which are as follows:

- Although clearing is one of the means to deal with accumulation of government debts to exporters by providing their other needs with the same value, all initiatives in this regard have failed due to lack of clarity over implementation mechanisms. For example, clearing through land allocation in Egypt was faced with the problem of multiple entities responsible. As for clearing with taxes, the problem is that most companies' files with taxes are unsettled,⁸ and it is unclear whether this clearing will occur within the 30% limit announced in 2019 or will exceed it.
- There is no clear mechanism for the 30% clearing rule for companies located in free zones that are exempt from taxes, or for factories located in internal areas that have no tax debts.
- The announcement of the initiative included referring to three other initiatives, namely: investment expansions, small-scale exporters, and a clearing initiative with one of the following entities: the Egyptian Tax Authority, the Real Estate Tax Authority, the Customs Authority, with absence of details on these initiatives.
- There is a disbursement bias, as priority has been given to companies with accounts in banks participating in the initiative, which is inexplicable represents an unjustified bias, and carries an undue additional burden for the company by forcing it to open an account with the initiative-affiliated banks. Whatever the bank with which the company deals, its account can be settled through usual clearing between banks.

- Determining a period of one month submission of applications for the 85% initiative means depriving companies that did not fulfill their documents during that period from the export subsidies due.

Fourth: Proposals to Develop the System in a Way that Maximizes Benefit

4.1. Philosophy of the proposals

The philosophy is based on three basic elements:

- The current stage requires speed in responding to the requirements of exporters in light of intense competition for limited export markets, which entails a streamlined mechanism to regulate the relationship between the Ministry of Finance and exporters to ensure the speedy payment of their dues.
- The need to design a detailed export support program for a longer term that is linked to a detailed strategy for industrial development, within a sound institutional framework for its implementation, similar to the experiences of other countries that have had successful industrial policy; such as South Africa, or promoted exports in general, such as China, Turkey, Bangladesh, and Vietnam.
- Since the financing of the program is linked to achieving its quantitative and qualitative goals, there is an urgent need to regulate the institutional and financing relationship between the Ministry of Finance as a financing agency and the Ministry of Trade and Industry as the legitimate owner of the program and place it in its proper context.

4.2. Basic principles upon which the proposed amendment is based

In light of the above problems, a new review of the export support system must be conducted. The proposal is based on a number of important principles, namely:

- The export support program cannot be responsible for achieving all of the industrial policy objectives.
- The program must be designed in light of a clear industrial development strategy.
- Export support is considered a kind of investment, not consumption support, and therefore it should

⁸ There are always unresolved disputes with the Tax Authority and thus the corporate tax position is indeterminate.

not be seen as a burden on the state budget.

- The export support program is an investment by the state that is expected to achieve full returns, translating into an increase and diversification of exports, and hence must be designed accordingly.
- Exporters' recovery of their financial dues through the program does not necessarily represent an increase in their profits, but rather a guarantee of their continuation in the export process and their ability to compete internationally. This ultimately translates into the sustainability of Egypt's foreign exchange earnings from exports.
- Exit from the program is linked to the elimination of basic obstacles that were the reason for its design. Therefore, its continuation is linked to the completion of structural and institutional reform programs that directly ease the burdens of investors in general, and exporters in particular, which are currently underway, albeit slowly.
- Improving the institutional framework related to the export support system is no less important than developing the program's components, as they are the primary guarantor of implementation efficiency.

4.3. Proposals

4.3.1. Implementing a simplified program for export support (for two years)

- Reviewing the 85% initiative to ensure that the shortcomings mentioned above are avoided, and to implement the Prime Minister's instructions regarding availing exporters' dues on a monthly basis.
- Designing a simplified export support program based solely on providing basic support using the same stable percentages of local content (according to the 2016 program) in addition to the air freight program.
- This simplified program is to be implemented for a specific period of one or two years due to the exceptional circumstances imposed by the crisis on the global and local economy, to guarantee continuation of exports, production and employment.
- Determining a specific share for each sector from the budget allocated for the export support program.

That share is determined based on the share of each sector in total exports, with an addition of 10% to motivate exporters to promote their exports.

- In the case of setting sectoral targets, these targets must be realistic and well thought out so that they can be achieved.
- Automation of work procedures within the Export Development Fund to ensure quick payment of receivables and increase the efficiency of the disbursement process.
- Evaluating the simplified program every six months to improve it and to ensure that any implementation obstacles are removed. In the meantime, the new, detailed export support program should be prepared, to be implemented in the next stage.

4.3.2. The new detailed export support program

The starting point towards setting up a new program for export support is to develop a detailed strategy for industrial development, of which the export support program is one of the tools. This should achieve four objectives:

1. Give sufficient time to determine the method of calculating the value added which represent the core of the program, instead of the highly complex mechanism that was introduced in the 2019 program.
2. Determining key performance indicators and specific quantitative and qualitative targets through which the program can be evaluated at the macro and sectoral levels. The target value for increasing exports must be linked to the increased quality of these exports in order to achieve higher value added and technological content, so as to exit the current structure of Egyptian exports dominated by raw materials and products, with low value added and technological content. The export commitments by exporters must also be matched with clear commitments by the government to solve the problems of exporters (large and small) with a clear timeframe. This is especially important given the fact that solving these problems is the starting point for setting up a system for exiting this program.

3. Freeing the program from the industrial development goals that can be achieved more effectively through other programs.
4. Finding a mechanism to financially sustain the program and a mechanism for exiting it while improving the business environment associated with exports.

The implementation of the new program requires:

1. Complete clarity and ease of implementing procedures for each of its components, and the role of the bodies entrusted with implementation.
2. Existence of quantitative and qualitative targets for the programs and linking them to the size of the program's financing, while shifting the source of financing away from the direct control of the Ministry of Finance over disbursement of receivables. Among the proposals offered here for further study is the existence of a real role for the Export Development Bank in financing export operations, as it currently does not go beyond the role of a normal commercial bank. Also, including the program within the budget of the Ministry of Industry and Trade programs and accordingly obtain annual funding from the Ministry of Finance, as is the case in other countries.
3. The need to target diversification of the geographical distribution of Egyptian exports, especially to the African continent, which is considered a natural market for Egyptian products but is currently dominated by China and European countries. When setting up a program aimed at increasing access to the African continent, it must be taken into account that this program should be separate, and not to link the support provided to it with other programs within the export support program.
4. Expanding the exporters' base by encouraging small exporters. In this context, exporters must be given additional comprehensive support

within the framework of the exhibition support program, as well as adopting the "Big Brother Approach" and subcontracting⁹ methods through which interconnectedness is achieved between large and small exporters in a way that leads to improved quality as well as greater flexibility in the export structure.¹⁰ It is also imperative to determine the time period for taking advantage of exhibition support to achieve the required balance between small and large exporters in terms of supporting exhibitions.

4. Radical development of the institutional framework that governs the program, including the digital transformation of the export support system, which will achieve the following objectives:
 - Transforming the process of disbursing exporters' support dues into a lean process that ensures the speedy obtainment of exporters' dues
 - Clarity of procedures and their automation to increase the efficiency of implementation and reduce room for corruption.
 - Full cooperation and coordination between all parties to achieve the goals of the program, foremost of which is increasing the role of commercial representation offices in obtaining export opportunities.
 - Linking the export support system electronically with all parties associated with the export process, especially the Customs Authority, the Export Development Fund, and the Export Councils.
 - Ability to evaluate and follow up all aspects related to the program and its implementation whether in relation to the performance of the employees of the Export Development Fund or the system as a whole.
 - Contributing effectively to the country's digital transformation system.

⁹ Like in the case of "your job next to your home" initiative.

¹⁰ In the sense of granting greater ability to producers to export various products that are not included in their production lines, as well as the ability to fill large orders that exceed the production capacity of the factory.

Appendix

Table A1. Export support programs for 2016 and 2019

Program	Objective	2016	2019	Comment on programs
Deepening of local industry Program (Basic Support)	Deepening local industrialization	<ul style="list-style-type: none"> An increasing percentage of the export bill is disbursed with the increase in the value added / local content The Federation of Egyptian Industries presents a program to deepen industry for each beneficiary sector Free zones benefit from the program at rates ranging between 60% -75% of the basic percentage obtained by exporting companies in the interior regions. 	<ul style="list-style-type: none"> Setting a minimum (40%) for the value added / local content in order to benefit from the program, while phasing the support ratios obtained by companies according to the value added / local component ratio Free zones benefit from the program by 50% of the basic percentage obtained by exporting companies in the interior regions 	<ul style="list-style-type: none"> The modifications made in the 2019 program with regard to the value added / content have resulted in duplication in determining the value added, in addition to complexity in the method of calculating it from the operational side. Although the 2016 program lacks implementation details about the industry deepening program that is supposed to be implemented through the Federation of Egyptian Industries, the cancellation of this program in 2019 reinforces the existing status of some projects and does not stimulate improvement.
Export Infrastructure	Provision of services that benefit the various export sectors	<p>It includes a group of the following sub-programs:</p> <ul style="list-style-type: none"> Exhibitions Support Program. Supporting shipping lines. Supporting the guarantee of exports to African countries. Establishing an additional plant for pesticide residues. Establishing a refrigerated yard for exports of agricultural crops. Establishing a laboratory to measure the energy efficiency of household appliances. 	<p>It includes the following set of sub-programs:</p> <ul style="list-style-type: none"> International exhibitions Transportation support, including all types of transportation 	<ul style="list-style-type: none"> The 2016 program included a mix of programs to support the financial and physical infrastructure for exports. Despite the absence of criteria by which these programs were selected, especially those related to physical infrastructure, as well as the absence of controls for export councils submitting requests to add more projects that fall under the export infrastructure, the cancellation of all programs for the physical export infrastructure in the 2019 program means that one of the main obstacles facing exporters has not been addressed.

Program	Objective	2016	2019	Comment on programs
		<ul style="list-style-type: none"> Developing the ultra-high voltage laboratory owned by the Ministry of Electricity in order to enable it to award an internationally accredited quality certificate. Supporting Egyptian pharmaceutical companies, Class A, according to the classification of the Ministry of Health, to obtain the FDA or EMEA certification. Other services requested by the export councils 	Implementing a program through the Industrial Modernization Centre (IMC) for training, granting specialized quality certificates and technical support	<ul style="list-style-type: none"> Although the 2019 program included a program implemented through the IMC, the effectiveness of this program ultimately depends on the efficiency of the IMC in providing its services. In both programs, there is ambiguity in the executive regulations related to exhibition support program.
Upper Egypt and border areas development	Supporting companies located in Upper Egypt and border areas	Granting an additional 50% of the basic support for exporting factories in Upper Egypt and border governorates.	Despite the importance of this program and its continuation in 2019, there is no accurate assessment of the extent to which companies have benefited from it in previous years and the extent of the need to amend it.	
Exports increase¹¹	Encouraging exporters to achieve rapid growth in exports to enhance the country's foreign exchange earnings	An additional percentage of basic support is granted according to the following schedule:	An additional percentage of basic support is granted according to the following schedule:	Despite raising the minimum percentage increase in exports that is required for exporter to benefit from this incentive, might have the effect of motivating firms to increase their exports by a large percentage, but the additional support ratios may not be compatible with the costs incurred by the enterprise to achieve the required large increase in exports.

¹¹ According to the definition of the fund, small companies are those whose exports do not exceed one million dollars. Medium companies are those whose exports range from more than one million

Program	Objective	2016			2019			Comment on programs																			
		<table border="1"> <thead> <tr> <th>The rate of increase in exports</th> <th>Large exporter</th> <th>Small exporter</th> </tr> </thead> <tbody> <tr> <td>25% or more</td> <td>30%</td> <td>50%</td> </tr> <tr> <td>15% - less than 25%</td> <td>20%</td> <td>40%</td> </tr> <tr> <td>10% - less than 15%</td> <td>10%</td> <td>30%</td> </tr> </tbody> </table>	The rate of increase in exports	Large exporter	Small exporter	25% or more	30%	50%	15% - less than 25%	20%	40%	10% - less than 15%	10%	30%			<table border="1"> <thead> <tr> <th>The rate of increase in exports</th> <th>Large and medium companies</th> <th>Small companies</th> </tr> </thead> <tbody> <tr> <td>20% -30%</td> <td>10%</td> <td>20%</td> </tr> <tr> <td>More than 30%</td> <td>15%</td> <td>30%</td> </tr> </tbody> </table>	The rate of increase in exports	Large and medium companies	Small companies	20% -30%	10%	20%	More than 30%	15%	30%	<ul style="list-style-type: none"> In both programs, the rates of increase in exports for all sectors were unified. Medium enterprises were added to large companies in the 2019 program, which contradicts the treatment of medium companies as small companies in the Small Enterprise Export Development Program.
The rate of increase in exports	Large exporter	Small exporter																									
25% or more	30%	50%																									
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The rate of increase in exports	Large and medium companies	Small companies																									
20% -30%	10%	20%																									
More than 30%	15%	30%																									
Small enterprise export development	Create a new class of small exporters.	<ul style="list-style-type: none"> Granting small exporters an additional 2% of basic support and 60% of the cost of the specialized quality certificate, and supporting them in foreign exhibitions with 80% of the cost, in addition to granting them an additional percentage of export support in the event that their exports exceed a certain percentage as indicated above. 	An additional percentage is granted on top of the basic support percentage for small and medium companies as follows: <ul style="list-style-type: none"> 2% for small enterprises. 1% for medium enterprises. 	The 2019 program has canceled many of the advantages that small enterprises obtained in the 2016 program, foremost of which is the abolition of preferential treatment for small enterprises in exhibitions support, which contradicts the state's direction to encourage small enterprises.																							
Enhancing access to Africa	Increasing exports to the African continent.	In the case of exporting to Africa, with the exception of Libya, the exporter is given: <ul style="list-style-type: none"> An additional 2% on top of the basic support rate. Bears 50% of the shipping cost to Africa. 	This program has been canceled and replaced with a program to support transportation to Africa, according to which shipping to Africa is supported by 50% of the cost of transportation. This program is applied only to exports that do not benefit from the Export Support Program	The 2019 program canceled two of the incentives provided to the African market, which contradicts the country's intention to increase its presence in the African market. Justifications behind this cancellation are unclear, especially since exports to the African market have increased in recent years, as shown in Figure 3.4, which partly indicates the effectiveness of these measures.																							

Program	Objective	2016	2019	Comment on programs
New markets	Expanding the export market base and encouraging exporters to open new markets.	The exporter is granted an additional 50% of the basic support in case of exporting to Russia, China, South American countries and CIS countries.	This program has been canceled.	The 2016 program tried (in a limited manner) to create an incentive to open up new markets. In spite of the deficiencies of this attempt represented in identifying specific markets without clarifying the justification behind the selection of these markets, the abolition of this incentive in the 2019 program represents a step backward. It would have been better to provide this incentive the required dynamism through a detailed analysis of the promising markets in each of the sectors
Raise the quality of the Egyptian industry.	Raising quality, especially for small enterprises.	Encouraging exporters to obtain specialized quality certificates, which are determined in cooperation with each Export Council, while supporting small exporters to obtain a quality certificate as explained above.	This program has been canceled	The Industrial Modernization Centre programs included in the 2019 program involved a section for granting quality certificates. This amendment contributes positively to raising the quality of Egyptian industry due to the training and technical support services provided by the Industrial Modernization Centre. However, the effectiveness of this program depends ultimately on the extent of efficiency of the Industrial Modernization Centre in providing its services as mentioned above.
Air Cargo Program	Support of the National Air Transport Company.	Position is unclear	There are no details.	The position of the air cargo program is unclear in both programs, as the 2016 program did not include any reference to the air cargo program, while the 2019 program referred only to exception of air freight program in the general rules of disbursement without explaining details of the air freight program.

Source: Prepared by ECES based on the rules of the export support program for 2016 and 2019.

4. Formulating Egypt's Industrial Development Strategy on Sound Foundations: Drawing on the South African Experience

Rama Said

First: Introduction

1.1. Concept of the industrial development strategy

An industrial development strategy or industrial policy, in its broader definition, is "any government policy aimed at inducing a structural transformation towards activities that are expected to contribute more to economic growth or social welfare." (Warwick 2013) according to this definition, the industrial development strategy is not required to target the manufacturing industry only, but may target other activities, foremost of which are services related to manufacturing industries, as currently applied in various countries, especially in light of the shrinking boundaries between services and the manufacturing industry.

In addition, this definition necessarily means that the industrial development strategy depends in its implementation on all government policies not just trade policies, policies for providing industrial lands, or other policies that fall under the direct responsibility of the authority responsible for industry in the state. Rather, it includes other policies such as education policies of all kinds, investment policies, scientific research policies, as well as fiscal and monetary policies.

Second: Why is a Sound Industrial Development Strategy One of the Drivers of Change?

- Industrial development strategies are used by various countries with the aim of bringing about continuous structural change in order to achieve the best use of resources that respond to local and global developments, and achieve developmental breakthroughs to reach the ultimate goal of "sustainable development."

Industrial development strategies have an impact on all economic activities, through forward and backward linkages with other activities, including agriculture and mining.

- With regard to the Egyptian economy, although Egypt has formulated many industrial development strategies since the sixties, aimed mainly at achieving industrialization (meaning to bring about a structural change towards manufacturing), the vast majority of these successive strategies were not built on sound foundations. Most of them were very general, and therefore sporadic measures were implemented. This is in addition to the lack of continuity in the implementation of the industrial development strategy; it starts from scratch with untimely cabinet changes. As a result, Egypt was unable to move forward in industrial development by entering the higher stages of industrialization.

As a consequence of this, the share of the manufacturing industry in GDP remained within the range of 15% -17% since the eighties, and its structure concentrated on consumer industries and intermediate industries.

- There is a dire need to revisit the method of developing and implementing the industrial development strategy in Egypt. Continuing past practices will not bring about a different result, not to mention the inability to face the challenges of entering the fourth industrial revolution, and those related to the global trends which rely on the provision of high-value-added services.

Third: The Industrial Development Strategy in South Africa¹

3.1. Principles of the industrial development strategy

¹ Extracted and analyzed from the industrial development strategy in South Africa.

The industrial development strategy in South Africa is based on a number of basic principles, namely:

1. Having the necessary economic fundamentals at the macroeconomic level is a prerequisite for formulating an industrial development strategy, namely:
 - Stable macroeconomic climate.
 - Skills and education required for industrialization.
 - Traditional and modern infrastructure.
 - Technological Development and Innovation.
2. Industrial policy should be focused and implemented at the microeconomic level (that is at the enterprise level), and thus strengthening it is an essential pillar.
3. Fully realizing that implementation of the industrial development strategy does not fall solely on the shoulders of the administration concerned with industry and trade, but rather is the responsibility of the entire government.
4. The industrial development strategy cannot succeed without an institutional framework that supports its implementation.

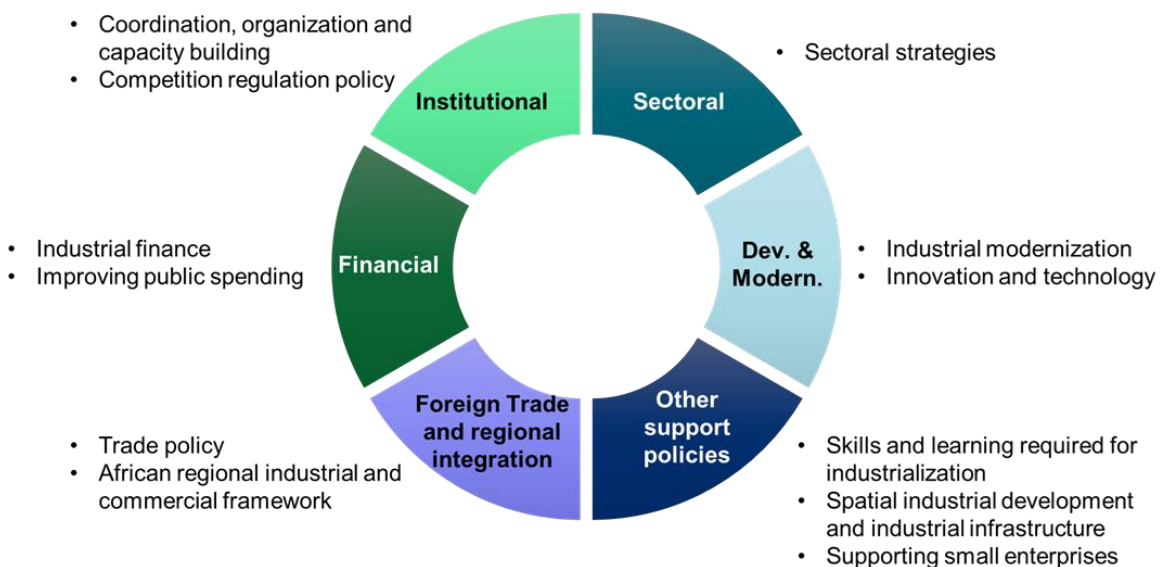
5. Effective use of government spending to achieve the goals of industrial development, in the sense that government spending responds completely and smoothly to the requirements of industrial development, in addition to the efficient use of the government procurement system.
6. The industrial development objectives cannot be fully and properly achieved without consistency and integration between public policies, which benefit the entire industrial sector, and sectoral policies.

3.2. Pillars of the industrial development strategy

The industrial development strategy in South Africa is based on 12 strategic pillars, which can be classified into six groups as shown in Figure (4.1).

While there is a similarity in the general titles of industrial development strategies, the success of implementation is depends on the existence of a set of foundations, the availability of which is what characterizes the industrial development strategy in South Africa, as shown in Table (4.1).

Figure 4.1. key pillars of the industrial development strategy in South Africa



Source: Prepared by the Egyptian Center for Economic Studies (ECES) based on the industrial development strategy in South Africa.

* Regional integration (which is the concern of the state).

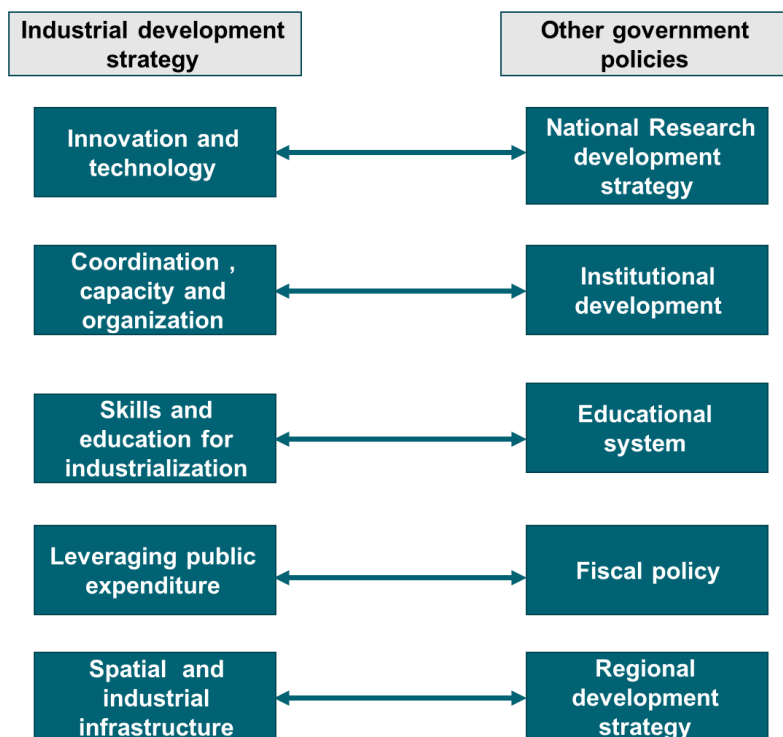
Table 4.1. Availability of the foundations for successful implementation in the South African industrial development strategy

Foundations for success	Meaning	South Africa's Industrial Development Strategy
Dynamism	The ability of the strategy to cope with local and international developments.	<ul style="list-style-type: none"> ▪ The strategy is developed in a dynamic way, as it sets the general guidelines and standards on the basis of which the executive programs and sectoral strategies are designed, in addition to the rules that guide the evaluation and follow-up, while leaving the identification of specific sectors, executive programs and targets for the detailed annual plans in the same fixed framework of guidelines and standards. ▪ The annual plans are reviewed, and in light of the progress of implementation, as well as local and international developments, the next action plans are formulated
Comprehensive approach	Following a comprehensive approach in tackling areas of weakness at all levels (macro, sectoral and micro (establishments))	<ul style="list-style-type: none"> ▪ Although the strategy depends in its implementation on interventions at the enterprise level, there are some programs that are implemented at the macro level, such as providing infrastructure; and at the sectoral level, such as establishing specialized sector infrastructure, and training and improving the skills needed for specific industries in a manner that is both coherent and comprehensive.
Integration	Integration between the pillars of the strategy and with other government policies.	<ul style="list-style-type: none"> ▪ Figure (4.2) illustrates the interdependence between the industrial development strategy in South Africa and other government policies. For example, with regard to fiscal policy, there is a full response to the needs of industrial development, and it is developed in a manner that achieves more effective government spending. Also, The Department of Science and Technology's National Research and Development Strategy sets the overarching framework for technological interventions, particularly on the research side of R&D. ▪ Figure (4.3) illustrates the integration between the pillars of the strategy. For example, there are financing programs dedicated to serving the goals of sectoral strategies, industrial upgrading, and supporting small enterprises.
Information	Building decisions on accurate and up-to-date information.	Each executive program is developed based on updated detailed information on all dimensions, and an in-depth analysis of all problems and facts.
Supporting frameworks	The existence of adequate and effective support frameworks, particularly institutional and financing frameworks.	<p>Institutional framework: Coordination between government institutions at all levels, through which governance and ease of procedures are achieved, as well as continuous development of the institutional framework, whether through the establishment of new institutions, and / or the strengthening of legislation.</p> <p>Financing framework: Smooth design of financing programs, their diversity, and the multiplicity of their sources, to ensure achievement of objectives.</p>

Foundations for success	Meaning	South Africa's Industrial Development Strategy
SMART implementation plans	<ul style="list-style-type: none"> - Specific: aims to improve a specific and clear area - Measurable: For each target there are clear, measurable performance indicators so that performance can be monitored, evaluated and changed when necessary. - Assignable: assigning roles to the most competent and efficient candidates. - Realistic: Goals are set realistically in light of available resources - Time related: determines timing of achieving goals. 	In implementation, the strategy depends on detailed work plans. Each of the executive programs includes clear, specific, and measurable performance indicators on the basis of which the evaluation and review process is done, along with determining the entity responsible for implementation and the time-frame thereof.

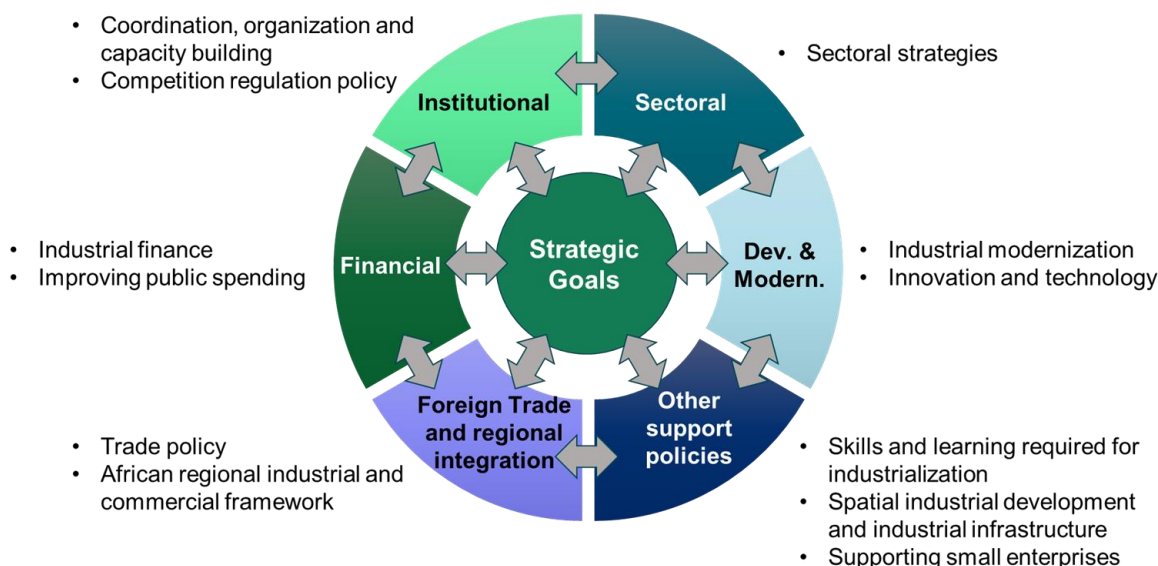
Source: ECES analysis drawing on the industrial development strategy in South Africa.

Figure 4.2. Linkages between the industrial development strategy and other government policies



Source: Prepared by ECES drawing on the strategy for industrial development in South Africa.

Figure 4.3. Integration between all strategic pillars within the industrial development strategy



Source: Prepared by ECES drawing on the strategy for industrial development in South Africa.

Fourth: The Industrial Development Strategy in Egypt

The following are the general pillars of the industrial development strategy in Egypt and its implementation programs, which are extracted from a number of government documents that dealt with aspects of the topic² - even if it didn't match each document separately-. The last industrial development strategy announced by the Ministry of Trade and Industry was launched in 2016 under title: "The Strategy of the Ministry

of Trade and Industry to Promote Industrial Development and Foreign Trade 2016-2020." In view of the lack of clarity concerning the implementation of that strategy, we focused here on the programs included in the annual plan for the year 2020/2021 issued by the Ministry of Planning, as they reflect what is being implemented on the ground.

The industrial development strategy rests on seven basic strategic pillars, summarized in Table (4.2).

Table 4.2. Summary of the industrial development strategy in Egypt

Pillar	Implementation programs
Industrial development	<ul style="list-style-type: none"> • Encouraging industrial investment: by expanding the acquisition of industrial licenses and establishing industrial complexes and industrial zones. • Improving the competitiveness of the industrial sector: through implementation of a number of programs aimed at increasing the quality and compatibility of the Egyptian products with international standards, and expanding the approved after-sales service centers. • Exploitation of idle production capacities: by recovering stalled factories and projects, and expanding civilian production of military factories after restructuring them and using their surplus productive capacities to meet the needs of the local market.

² These documents include the Industrial Development Strategy issued by the Ministry of Trade and Industry in 2016, the five-year medium-term plan for sustainable development 2018 / 2019-2021 / 2022, the annual plan for the year 2020/2021 issued by the Ministry of Planning, the national strategy and the executive plan for small and micro enterprises and entrepreneurship

Pillar	Implementation programs
Promoting foreign trade	<ul style="list-style-type: none"> • Increasing exports competitiveness: by increasing the number of companies benefiting from the export support program
Developing technical education and vocational training system	<ul style="list-style-type: none"> • Development of the industrial training system: by developing training centers, and raising the professional competence of trainers.
Small enterprise development	<p>The National Strategy and action Plan for Medium, Small, Micro Enterprises and Entrepreneurship (2018-2022) rests on the following pillars:</p> <ul style="list-style-type: none"> • Legal and regulatory environment • Access to finance • Encouraging entrepreneurship • Exports and integration into local and global value chains • Business development services
Improving the business environment	<ul style="list-style-type: none"> • Tax and customs reform • Administrative and institutional reform • Industrial finance • Dispute resolution • Protecting the national industry
Restructuring public business enterprise sector companies	Inventorying unused assets and starting procedures for exchanging them against debts of these companies for several bodies, as well as listing some companies' shares on the stock exchange.

Source: ECES analysis based on the five-year medium-term plan for sustainable development 2018/2019 - 2021/2022, and the annual plan for the year 2020/2021.

Fifth: Shortcomings of the Industrial Development Strategy

At the outset, it should be noted that despite the similarity of government documents that addressed the general features of the industrial development strategy, by comparing the details of what was mentioned in each document, it was noticed that there are some differences between these documents, especially between the five-year medium-term plan for sustainable development 2018/2019-2021/2022, and the annual plan issued by the Ministry of Planning and Economic Development, which is supposed to be an annual action plan for what was mentioned in the five-year plan. More specifically the five-year plan included a number of programs that are not reflected in the annual plan, and the latter also included some elements that were not mentioned in the five-year plan, in addition to the difference in the level of detail contained under each of the pillars—ranging from the very general and absence of any performance indicators in some pillars to the presence of specific quantitative performance

indicators in other pillars. This makes it difficult to determine the actual pillars of the strategy, let alone follow up on its implementation, which ultimately reflects the existence of a defect in the foundations on which the industrial development strategy in Egypt rests.

In what follows we will present the shortcomings in the industrial development strategy in Egypt by referring to the experience of South Africa with regard to the pillars and the foundations necessary for the success of the strategy. We will conclude with some specific and important remarks regarding the method of dealing with the industrial development strategy in Egypt.

5.1. The implementation foundations upon which the strategy is based

In contrast to the industrial development strategy in South Africa, which has all the foundations necessary for successful implementation as mentioned previously, the industrial development strategy in Egypt suffers from almost a complete absence of all of these foundations, shown in Table (4.3) as follows.

Table 4.3. Availability of the foundations for successful implementation in Egypt's industrial development strategy

Foundations for success	Industrial development strategy in Egypt
Dynamism	The Egyptian strategy does not have the required dynamism, which can be attributed partly to the absence of general guidelines and principles that ensure the continuous review of the action plans and related programs in light of local and global developments, as well as the progress achieved in implementing the strategy and the developmental stage that the country is going through, thus depriving the strategy of the required dynamism.
Comprehensiveness	Although the industrial development strategy in Egypt includes most of the main titles that should be included in any industrial development strategy, it still lacks comprehensiveness. It lacks some important dimensions as will be shown in Table (4.5). In addition, each pillar does not address all associated aspects, with the focus falling mainly on what is under the direct umbrella of the Ministry of Trade and Industry, as well as the severe weakness in the policies at the sectoral level due to the absence of sectoral strategies.
Integration	There is no complementarity or interdependence between the various pillars of the strategy. Rather, they are treated as isolated islands. There is also no complementarity between the industrial development strategy and the rest of the development strategies adopted by the government, especially with regard to technical education, vocational training, scientific research, agricultural and mineral development strategies, and the state's plans for roads, infrastructure, and other aspects.
Information	Other than the chronic challenges facing Egyptian industry, it is not clear to what extent the strategy relies on accurate information on the various components of the industrial system, especially in the absence of measurable performance indicators for many programs.
Supporting frameworks	<p>Institutional framework³ Limited efforts to develop the institutional framework (mostly efforts towards mechanization and reducing the time required to complete procedures without institutional reforms)⁴ with insufficient coordination; whether between the bodies affiliated to the Ministry of Trade and Industry, or between the Ministry of Trade and Industry and other Ministries and bodies.</p> <p>Funding Framework:</p> <ul style="list-style-type: none"> • General financing that is not linked to the targeted sectors, or to achieving specific goals, in which the Ministry of Finance plays a much larger role than the technical ministries, unlike what is common in other countries.⁵ • Lack of transparency regarding the time frame of funding, and its terms. • Absence of monitoring and evaluation regarding the effectiveness of this funding. • Weakness and lack of continuity of funding for some programs, which weakens their effectiveness (for example, the Export Support Program).⁶
SMART	<p>Although there are annual plans, there is a big difference between implementation programs regarding the existence of specific, measurable targets and to what extent they are realistic; and none of them are determined by the implementing agency. Although there are some performance indicators for some programs, they are limited to the programs that are related to the annual plan of the implementing agencies, such as the case for land allocation and the number of trainees in the training centers, etc. As for the vast majority of programs, measurable performance indicators are absent and in all cases, the performance indicators are not used in developing programs and policies.</p> <p>This is ultimately reflected in the repetition of some targets from one action plan to another, as is the case with the targets for industrial zones.⁷</p>

Source: ECES analysis.

3 For more details about institutional reform in Egypt, see: (Abdel-Latif 2020).

4 Automation not digitalization.

5 For example, with regard to the Export Support Program, the Ministry of Trade and Industry has no control over the financial allocations for the program. The Ministry of Trade and Industry receives these allocations periodically upon a request submitted to the Ministry of Finance to obtain its approval regarding these allocations and disbursement.

6 For more details, see [the Export Support System](#) or Chapter 3 of this volume.

7 For example, in both the annual plan for the year 2019/2020 and the annual plan for the year 2020/2021, the same targets appeared in relation to industrial zones without clarifying what was achieved on the ground in the year 2019/2020.

5.2. Comparison between the pillars of the industrial development strategy in Egypt and South Africa

Comparing the main pillars of the industrial development strategy in both Egypt and South Africa, reveals the absence or extreme weakness of some important pillars in the Egyptian industrial

development strategy, specifically those related to scientific research and innovation, and the provision of the necessary skills for industrial development and institutional development. As for the rest of the pillars, despite being addressed in the industrial development strategy in Egypt, they have many shortcomings that limit their effectiveness, as shown in Table (4.4).

Table 4.4. Comparison between the pillars of the industrial development strategy in Egypt and South Africa

Pillar	South Africa	Egypt
Trade policy	<ul style="list-style-type: none"> Diversity in trade policy tools to serve the goals of industrial development and increase exports Coordination between trade and sectoral policies It includes policies related to foreign direct investment in order to create the necessary linkages with other policies. 	<ul style="list-style-type: none"> Weak trade policy. On the part of the customs tariff, rigidity in the use of the customs tariff is noted, which results in either exaggerated protection that negatively affects quality, or leads to an increase in imports and the inability of the local product to compete. With regard to the tools for stimulating exports, they are limited to the export support program, which has not changed despite its shortcomings,⁸ as well as the lack of distinction between the different sizes of the establishments and their geographic location, when dealing with the problems faced by exports. The Trade policy does not address foreign direct investment as in South Africa, but it is dealt with sporadically and in an unintegrated manner.
Skills and education for industrialization	<ul style="list-style-type: none"> Seeks to achieve integration between industrial development, the outputs of technical education, and the vocational training system. 	<ul style="list-style-type: none"> The almost complete separation between the industrial development strategy and state's efforts to develop technical education and vocational training. Despite reference to the technical education and vocational training development program within the framework of the five-year plan, implementation is restricted to the development of a number of vocational training centers affiliated with the Ministry of Industry, and it is not clear to what extent the industrial community is consulted to determine its needs.
Industrial modernization	<ul style="list-style-type: none"> It is based on bridging the gaps with best practices at the local and international levels. It takes into account all dimensions of industrial modernization: <ul style="list-style-type: none"> Modernization within companies (products, production processes and the value chain), technological infrastructure (at the sectoral level), standards and quality. Ensures the provision of the necessary funding for the specialized sectoral infrastructure. 	<ul style="list-style-type: none"> It is carried out through a limited number of programs implemented through the IMC, without a specific plan, a specific direction nor a link to the targeted sectors, as these programs are implemented at the request of the establishment, and the extent of their effectiveness depends on the efficiency of the implementation process. Limited interest in specialized technological infrastructure and weak funding thereof.

⁸ For more details, see [the Export Support System](#) or Chapter 3 of this volume.

Pillar	South Africa	Egypt
Innovation and technology	<ul style="list-style-type: none"> • Full coordination between the industrial development strategy and the national research and development strategy, and cooperation between the two concerned ministries in this regard. • Ensures the commercial application of inventions. • Strengthens the law on protecting intellectual property rights. 	<ul style="list-style-type: none"> • Despite reference to the program of encouraging innovation and linking industry with scientific research within the framework of the five-year plan, what has been mentioned is very weak and has no reflections on the annual plan. • Weak intellectual property rights protection system.
Competition policy and regulation	Competition policy is an integral part of industrial policy.	The complete absence of this pillar in the applied industrial development strategy, and dealing with competition and antitrust policy separately from the strategy.
Leveraging public expenditure	<ul style="list-style-type: none"> • Linking public expenditure to industrial development targets • Developing innovative tools to benefit from public expenditure in achieving industrial development goals. • Adequate financing to achieve industrial development goals. 	<ul style="list-style-type: none"> • Fiscal policy is dominant in determining the targets for industrial development. • Weak funding from the state budget. • Weak preferential treatment for local products in government contracts, which operates through Law No. 5 of 2015. There is an urgent need to review this law, especially in light of its failure to achieve the desired objectives.⁹
Spatial and industrial infrastructure ¹⁰	<ul style="list-style-type: none"> • There is a close link between regional development plans and spatial industrial development • Use of industrial infrastructure as a means to achieve spatial industrial development. • Supporting different types of industrial infrastructures, such as industrial development zones, industrial parks, hi-tech and science parks, and catalytic project-specific infrastructure such as cold chain facilities to unlock particular types of agro-processing activities 	<ul style="list-style-type: none"> • Lack of coordination between regional development strategies and plans for development and distribution of industrial zones, and the provision of necessary funding for their development. • Industrial development is limited to establishing industrial zones or complexes and not adopting other types of industrial infrastructure, such as specialized industrial zones and advanced technological cities with production and service links.¹¹ • Multiple authorities responsible for industrial zones.¹² • Attention to public infrastructure only, and insufficient interest in providing infrastructure in the industrial zones located in the various regions, and thus inability to attract investments therein due to incomplete utilities.¹³
Support for small enterprises	Working towards full coordination between all policies in achieving the targets related to small enterprises.	<p>Despite the attempt to unify efforts to serve medium, small and micro enterprises through the issuance of Law No. 152 of 2020, there are still some apparent weaknesses in the system supporting this group of enterprises in a manner that may limit the effectiveness of this law. At the forefront of these elements is the lack of clarity of coordination mechanisms between the Medium, Small and Micro Enterprise Development Authority and other entities that adopt programs for developing medium, small and micro enterprises (MSMEs), as well as the absence of a detailed database on these enterprises which is a prerequisite for all policies targeting these enterprises.</p> <p>Finally, despite the consistency of the definition of MSMEs with the definition of the central bank, the criterion of employment was dropped from it, which practically changes the definition. Further, the fact that the law indicated specific values for turnover and paid-up capital, presents a challenge for the definition whenever the central bank changes those values. This leads to the inability to establish a uniform classification and to monitor the change in the sizes of enterprises.</p>

9 This is evidenced by the huge increases in imports by government agencies of locally-produced products.

10 Spatial industrial development is intended to achieve industrial development in traditional industrial clusters or in less developed areas, which can be developed through encouraging industrial activity therein

11 The existing technological cities are considered incomplete projects due to the absence of links with production and service sectors.

12 These entities include the Industrial Development Authority and the Urban Communities Authority and Governorates.

13 Failure to complete utilities reflects poor coordination with the responsible authorities.

Pillar	South Africa	Egypt
Regional industrial and trade framework	<ul style="list-style-type: none"> Establishing an integrated framework for industrial and trade cooperation with the African continent, which is the region on which South Africa focuses. Promoting industrialization and economic integration within the framework of regional value chains. 	<ul style="list-style-type: none"> Sporadic, incomplete programs that are limited to the trade side, with absent industrial and investment aspects, and the associated incentive policies to enhance cooperation with Egypt's regional extensions.
Coordination, organization and capacity building to implement the industrial development strategy	<ul style="list-style-type: none"> Full realization that implementing an effective industrial development strategy is not solely the responsibility of the administration in charge of industry and trade within the government. Therefore, coordination between all government departments is urgently needed. Strengthening governmental regulation and capabilities, especially in the Ministry of Trade and Industry. 	<ul style="list-style-type: none"> The industrial development strategy is prepared and implemented by the Ministry of Trade and Industry and its agencies alone, with minimum coordination with other ministries. This is one of the main reasons behind the failure of various programs to achieve its targets. Limited institutional development within the government in general, with its different aspects including, for example, restructuring of departments and strengthening the workers' capabilities at all levels (central government and local administrations), and achieving complementarity between the mandates of various government agencies. Limited institutional development within the Ministry of Trade and Industry, especially with regard to restructuring of subsidiary bodies and radical change in their method of operation in order to enable them to fulfill their roles in achieving industrial development. <ul style="list-style-type: none"> For example, despite the fact that Industrial Development Authority Law No. 95 of 2018 granted it many mandates, foremost of which is the preparation of studies and plans for industrial development sectorally and geographically, and following up on and encouraging their implementation, the activities of the Industrial Development Authority are still concentrated on granting licenses and establishing industrial zones rather than other aspects related to Industrial development. It also performs its role in isolation from the activities of other agencies within the Ministry, and other Ministries.

Source: ECES analysis.

5.3. Specific observations regarding the industrial development strategy in Egypt

Although there is no explicit reference to specific principles on which the strategy is based, implementation shows that the strategy adopts the basic principle of applying partial and temporary solutions for some problems and challenges (firefighting) and facing some crises that appear as a result of evolving global or local situations. This results in the following:

- Absence of a compass*, what is being implemented on the ground does not lead to reaching the future vision for the industrial sector, which was identified in the 2030 Strategy.¹⁴
- Persistence of the root causes* of the chronic challenges plaguing the industry.
- Emergence of new problems* as a result of focusing on partial and timely solutions that are separate from the general framework.

¹⁴ This vision needs to be revised as it is developed separately from the visions of other sectors in the country.

Although there are some efforts towards improving the methodology for formulating and implementing the industrial development strategy, these attempts are still marred by many shortcomings. For example, with regard to determining the sectors that will be focused on, which are shown in Table (4.5), although the main goal of identifying these industries is to try to overcome one of the main challenges facing the Egyptian industry, which is the weak added value and its structural rigidity, this goal is not expected to be truly achieved on the ground given the absence of general rules governing the development of sectoral development strategies. Thus it is expected that only limited partial changes will take place for the following reasons

- *Weak sector selection criteria:* These criteria are characterized by the following:
 - Unidirectional and overlapping standards: For example, In regards to sectors exposed for their dire need of development (by the Coronavirus outbreak), it is observed that the focus has been on industries in which an

- increase in demand appeared only, with no attention paid to problems that the same industry or other industries suffer from even if solving these problems will effectively contribute in increasing production, employment and export.
- *Extremely general standards,* as each standard applies to a very large group of industries, and thus the reasons behind choosing those industries over other industries to which the standard applies are not clear.
- *Absence of any reflection of this sectoral focus on the other pillars of the strategy.* This is a direct result of the complete absence of sectoral development strategies that are based on detailed studies, addressing the policies required in other pillars of both the industrial development strategy and the government program in general. An exception is the automotive sector development strategy, to which particular attention is given.

Table 4.5. Sectoral focus of Egypt's industrial development strategy

Standard	Industry
Sectors which the Coronavirus has demonstrated a need for accelerated development	<ul style="list-style-type: none"> • Pharmaceutical industries, curative and preventive products.
Industries that satisfy domestic demand as an alternative to imports	<ul style="list-style-type: none"> • The textile industry • Engineering industries • Food industries
Industries that provide production requirements for the industries to be developed (deepening local manufacturing)	<ul style="list-style-type: none"> • Extraction of essential oils from fragrant plants • Manufacture of billets for iron and steel factories, roof insulation materials and glass fibers • Solar panels and cells • Electric braids and castings for the automotive industry • Software and microelectronic components manufacturing

Source: Ministry of Planning and Economic Development, the third-year plan (2020/2021) of the medium-term plan for sustainable development (2018/2019-2021/2022)

Sixth: What is Required to Upgrade the Industrial Development Strategy?

- Adopting the principles governing the formulation of the industrial development strategy in South Africa.
- Rather than using promotional tools for media objectives, they should be devoted to driving economic agents to get acquainted with the policies and incentives adopted by the state in implementing its various programs.

- Effective communication with the private sector in the sense of listening to problems and adopting solutions in an integrated manner, given that the private sector is primarily responsible for implementing the industrial development strategy as well as for reaching the required employment targets.
- Dealing with finance as a tool for implementing the industrial development strategy rather than as a determinant of this strategy or as a factor interfering with its objectives. This calls for a complete review of the current role of the Ministry of Finance.
- Abandoning the policy of extinguishing fires (partially solving problems) and dealing with the roots of these problems in an integrated manner, such as the problem of providing land and infrastructure.
- Establish institutional linkages between the various state agencies so that the industrial development strategy is properly implemented.
- Distinguish between the future vision of the Egyptian economy, the role of industry in it, and the industrial development strategies that are followed to achieve this vision, which are characterized by a degree of sustainability, and between the implementation policies and programs that are reviewed annually and amended in accordance with local and global developments.¹⁵
- Following up on the implementation of the industrial development strategy, not only by those responsible for formulating and implementing it, but also by the industrial community, who are the pulse of this sector on the ground.

¹⁵ To learn about some of the implications of global developments on the industrial development strategy, see: Mohieldin, Mahmoud. (2021). Industrial Policy in a Fast-Changing world: Export Orientation, Digitalization, Localization and Finance, Egypt Can.

Appendix

National Industrial Policy Framework in South Africa (NIPF) and Action Plan

The national industrial strategic framework focuses on identifying all the obstacles facing the industry as a whole, as well as the sectoral constraints, in addition to identifying the opportunities available to the industry to take advantage of them, through 12 strategic programs as follows:

SP1: Sector strategies

1. Sector selection:

- Although the NIPF does not attempt a definitive prioritization of sectors, Due to budget and human resources constraints, selection of sectors is a must, and the aim is to identify approximately five high impact sectors. This selection is based on a consistent and coherent set of economic and institutional criteria. Greater priority is given to sectors that are:
 - capable of generating the highest level of employment and growth, especially in new or expanded non-traditional tradable activities.
 - sectors that will move south Africa closer towards a technologically-sophisticated and knowledge-driven economy in the long term.
 - Sectors that exhibit significant positive external economies if their development constraints are relieved or opportunities leveraged.
 - The economic benefits of developing the sector should outweigh the cost of government support.

Supported sectors fall under one of the following sectoral groups:

- Natural Resource-based sectors
- Labor intensive sectors

- Medium Technology sectors
- Advanced Manufacturing Sectors
- Tradable services

2. Principles for developing sectoral strategies

- The NIPF sets a number of principles and processes through which sectoral strategies are developed, strengthened and prioritized, these principles and processes are:
 - A thorough, evidence based and realistic economic analysis of the sector that includes a robust self-discovery process with the main stakeholders in business, labor, and civil society.
 - The sustainability and viability of the sector in the medium to long term.
 - An economic cost-benefit analysis of alternative policy responses to the constraints and opportunities identified.
 - An assessment of institutional considerations such as ease or difficulty of organizing the sector to address these constraints, government capacity required to address them, quality and depth of leadership of the business community responsible for implementing the strategy.
 - An identification of the intra-government coordination mechanism required to implement the strategy.

SP2: Industrial financing

1. Principles guiding industrial financing

- Industrial financing must focus on supporting innovation, particularly non-traditional projects; including support for entirely new goods, new services, new forms of production, as well as expansive growth of existing non-traditional tradable activities through relieving some fundamental constraints.

- The financing should aim at generating significant spillover and demonstration effect.
- Financing should be conditional on the achievement of measurable benchmarks by recipient firm, and it should at the same time be transparent and easy to access as much as possible, with a minimum uncertainty and regulatory costs for applicants.
- An explicit subset clause and review process must be incorporated into the program.
- Financing needs to be of sufficient scale to achieve the necessary structural change that is targeted.
- Where appropriate, industrial financing will be customized to address specific constraints and opportunities within the disciplines to the WTO rules.

2. Forms of industrial financing

- Generic programs: That is, open on self-selection basis to all firms that meet the criteria of the program.
- financing: To meet the specific needs of sector-specific key action plan.

3. Streams of industrial financing

- Investment (including sector-specific programs).
- Industrial upgrades (including industrial - infrastructure).
- Innovation and technology.
- Trade facilitation.
- Small and medium enterprises (including co-operatives).

SP3: Trade Policy

- Improving non- traditional export performance- particularly in more sophisticated, value added products- is an important objective of industrial policy.
- Tariff policy should be decided primarily on a sector-by-sector basis dictated by the sector's needs.

Additional refinement of tariffs will focus on two areas: tariffs on upstream input industries will be reviewed and may be reduced or removed considering issues like domestic production capabilities, and the levels of global distortions in these products. Tariffs on downstream industries will be treated more carefully, particularly those that are strategic from an employment or value-added perspective.

- In boosting the exports, the sector strategy will need also to address constraints to exports.
- More targeted FDI promotion driven by opportunities identified from sectoral strategies, as well as a more focused export promotion strategy based on detailed analysis of trade opportunities.

SP4: Skills and education for industrialization

- There is a need for much greater coordination between the development and implementation of sector strategies, corresponding sector education, and training authorities.
- In the medium to long term, there is a need for much stronger alignment between the education system and the industrial policy.

SP5: Competition policy and sector regulation.

- There is a need to strengthen competition policy in order to address some of the unique features of the South-African economy.
- A number of sector regulations have been put in place to oversee pricing behavior for specific utilities such as energy and telecommunication
- It is necessary that sector regulators be adequately resourced and empowered to ensure cost effective inputs.

SP6: Leveraging public expenditure

- Large- scale plans are being implemented to both upgrade and install new infrastructure.
- A major opportunity therefore arises to leverage the public expenditure by ensuring that domestic firms are sufficiently competitive, to capture significant portions of it without compromising price and quality.

- A range of coordination needs to take place between public procurement managers, and potential suppliers amongst firms that can potentially form supply consortia, and between government departments.

SP7: Industrial upgrading

- *The first element of an industrial upgrade program is a Manufacturing Excellence Programme (MEP)*

This is aimed at providing support for a variety of firm-level upgrading efforts, including product, process and value chain upgrades. Central to any MEP is support for firm benchmarking against peers in their industry, both domestically and internationally. Systematically measuring and benchmarking various aspects of firm-level efficiency is a fundamental requirement in order to make ongoing improvements.

- *The second component of industrial upgrading is the technological infrastructure that supports it*

Due to the broad range and sector-specific nature of the facilities that meet these criteria, it may be desirable to establish a technological infrastructure fund, with broad guidelines, that is able to support a range of facilities. The types of facilities that would be supported would include: tooling and casting facilities, sector-specific skills centers - to provide equipment that may be financially unfeasible for individual firms - and research centres.

- *The third part of an industrial upgrade program: the national Standards, Quality assurance, Accreditation, and Metrology (SQAM) technical infrastructure*

SP8: Innovation and technology

- Tracking global technology trends, and relating them to areas where South Africa could lead with respect to proprietary technologies or where it should focus on technology transfer, adoption, and adaptation; the Department of Science and Technology's National Research and Development Strategy

sets the overarching framework for technological interventions, particularly on the research side of R&D.

- Increased support measures for process and product innovation, and commercialization of technologies. There is a need for greater coherence and collaboration between the Departments of Trade, and Industry and Science and Technology in developing such support measures. The establishment of a strong national agency to administer and promote innovation support programs could give additional weight to the system.
- It is important to strengthen systems to protect and develop South African intellectual property (IP) and to encourage its commercialization domestically in favor of licensing abroad.

SP9: Spatial and industrial infrastructure

- An Industrial Infrastructure Program needs to support a range of types of infrastructure; such as industrial development zones, industrial parks, hi-tech and science parks; and catalytic project-specific infrastructure such as cold chain facilities to unlock particular types of agro-processing activities.
- A closely related initiative is the ongoing work in relation to the development of a Spatial Industrial Development Strategy (SIDS) for the promotion of regional industrialization outside the three traditional metropolises.

SP10: Small enterprise support

- Small enterprise support will focus on a combination of improving 'supply side' factors such as finance and technical support, together with finding ways to strengthen market opportunities for small enterprises, including cooperatives.
- The institutional infrastructure for the development and support of small enterprises has also largely been put in place since 1994,
- The availability of finance via Development Finance Institutions will assist firms in leveraging market-based finance.

- At a broader government level work is being coordinated by the Presidency to review the regulatory burden experienced by small enterprises, and to make policy proposals on how to limit the amount of red tape small enterprises face in both their start-up and operational stages.
- The revision and strengthening of Competition Policy outlined above will also have important implications for small and medium-sized enterprises, particularly those engaged in downstream beneficiation.

SP11: Regional and African industrial and trade framework

- Regional and African Industrial and Trade Framework will be developed in order to take

advantage of the opportunities arising from growth on the continent, as well as to promote greater levels of continental industrialization and economic integration. This includes the investigation of the development of regional value chains, based on each country's actual or potential advantage in different value chain segments.

SP12: Coordination, capacity and organization

Three main areas are singled out for attention: intra-governmental coordination at the national level; intra-governmental coordination between the three spheres of government; and strengthening of organization and capacity within the Department of Trade and Industry in particular.

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5. Impact of the Pandemic on Population Growth in Egypt

Ahmed Dawoud

First: Introduction

- As a result of the COVID-19 pandemic, health systems around the world have focused their efforts on responding to the crisis and combating the pandemic. This came at the expense of usual basic health services, including reproductive and sexual health services, of which family planning is at the heart.
- Practical evidence indicates that the more the service is disrupted, the less mature the health system and the poorer its capabilities. In this regard, the United Nations Population Fund affirms that family planning services will be more affected in middle and low-income countries with weak health systems that are already suffering from an accelerating population problem, as in the case of Egypt.¹
- From this standpoint comes the importance of analyzing the problem in the Egyptian case, not only from the perspective of the impact of COVID-19 on the population problem, but also because addressing this problem is one of the most important engines of economic recovery due to its direct impact on the health of the mother and child. Hence the vulnerability of these groups to the virus on one hand, and the impact on the population structure and henceforth all indicators of economic, social and political development in Egypt on the other.
- Accordingly, the report seeks to achieve three main objectives:
 1. Attempting to measure the extent of the disruption of the health system on family planning services using a mathematical model.
 2. Developing an accurate vision of how to deal with this disruption, so that there is no

problem pertaining to the extreme aggravation of the population issue.

3. Examining the readiness of the health system in Egypt to deal with this disruption and remedy the situation.

- In order to achieve these goals, two specific questions must be answered: How has the disruption of the health system affected everyone who demanded and supplied family planning services in Egypt? How to achieve the desired balance between supply and demand during the crisis period?
- To answer these questions properly, first it is necessary to determine the pivotal role of family planning services in shaping the population structure and rates of population increase. Second, to change the perception that spending on family planning is purely consumer spending, while in reality it is an economic investment with positive future returns.

Second: Determining the Pivotal Role of Family Planning Services in Shaping the Population Structure

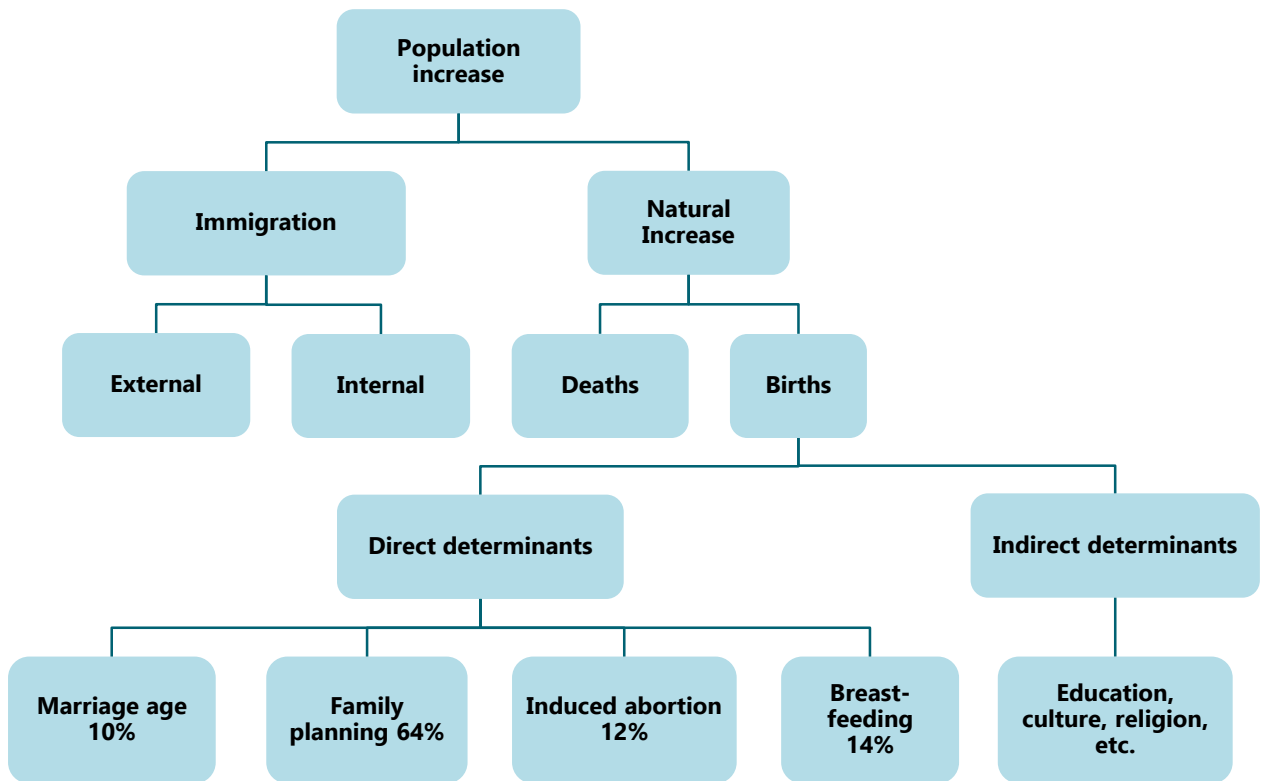
- Any change in fertility rates is entirely due to four direct factors: family planning, induced abortion, marriage age, and breastfeeding.²
- It is clear from Figure 5.1 that family planning is the most important of all direct determinants; 64% of the change in fertility rates in Egypt is ascribed to it, compared to 14% for breastfeeding, 12% for induced abortion, and 10% for the age of marriage.
- Based on this, we can say that family planning is the most important determinant of population increase in Egypt, as Egypt annually avoids about 4 million unplanned pregnancies and about 1.6 million unsafe abortions thanks to the use of family planning methods, according to 2019 data.³

1 <https://www.devex.com/news/opinion-howwill-covid-19-affect-global-access-to-contraceptives-andwhat-can-we-do-about-it96745>

2 Education, culture, religion and social norms are indirect determinants that affect birth rates by influencing the direct determinants, for example education affects family planning by delaying the age of marriage, and increasing awareness of the importance of using birth control methods ... etc.

3 <http://www.familyplanning2020.org/>

Figure 5.1. Family planning services as a central determinant of population growth in Egypt



Source: Prepared by the Egyptian Center for Economic Studies (ECES) based on the calculations of AL Zalak and Goujon (2017).

Third: Changing the Perception that Spending on Family Planning is Purely Consumer Spending

- Spending on family planning is thought of in Egypt, similar to many other countries, as pressure on state resources that can be otherwise used for other purposes with greater economic returns.
- There is an urgent need to revisit this idea, as the economic impact of population increase and its repercussions on the quality of human capital in Egypt makes family planning an economic investment with positive returns that affect current and future generations, similar to spending on export subsidies.⁴
- According to Table 5.1, which measures the economic return of spending on family planning

based on 2012/2013 data, every pound spent on family planning achieves a total savings of EGP 56.1. This is because, thanks to family planning services, the State will avoid the birth of about 43.3 million citizens during the period 2015-2045 and hence avoid the costs of providing government services to them, specifically: education, health, food subsidies, housing, and social facilities. Table 1 shows the achieved savings for each of these services.

- By updating these estimates using 2020/2021 data, to take into account the economic developments that Egypt has witnessed since 2013 - most importantly the floatation of the Egyptian pound - the net return on every pound⁵ spent on family planning increases to EGP 151.7, as shown in Table 5.1.

⁴ Every pound spent on subsidizing exports brings in hard currency, according to the nature of the sector.

⁵ By increasing the estimates of Fouad and Nassar (2015) by the same rate as the increase in spending on education, health, support, housing and social facilities between 2012/2013 and 2020/2021.

Table 5.1. Return on investment in family planning services in Egypt

Sector	Return per pound spent on family planning, based on 2012/2013 data*	Return per pound spent on family planning, based on 2020/2021 data**
Health	9.2	32.9
Education	31.1	74.1
Food subsidy	11.5	16.7
Housing and social facilities	4.2	28.0
Total	56.1	151.7

Source: Prepared by ECES using Fouad and Nassar data.

* Estimates of Fouad and Nassar (2015)

** ECES estimates using the same methodology as Fouad and Nassar.

These data reflect the critical importance of family planning in Egypt and the economic spending it will avail in the future.

To answer the two main questions of the report, we will analyze the demand and supply sides of family planning methods, through:

1. Analysis of the current situation as a basis for any potential changes during the crisis, using the Population Health Survey 2014 data as the latest available reliable data.
2. An attempt to measure the disruption caused by the crisis using the "Micro" model, a modern model specially prepared by the Reproductive Health Supplies Coalition in June 2020 to simulate the impact of the COVID-19 crisis on family planning services.⁶
3. The effect of this imbalance on rates of unplanned pregnancy, abortion and births, using the "Fam-Plan" model, which is a causal demographic model used to estimate the effect of expansion or decline in population and health programs.⁷

The report then attempts to develop a set of proposed solutions to achieve a balance between supply and demand during the crisis period.

Demand for family planning methods

A quick review of the most important indicators of demand for family planning methods and their development during the period 1988 – 2014.

- **Rigid demand and slight decline in use**
Although 100% of women in Egypt know a modern method of family planning, the demand rate has not exceeded 70% on average since the 1990s, which means that 30% of women in Egypt do not demand the service at all.
- As for demand itself, it is divided into met demand (actual use) and unmet demand (demand that was not translated into actual use for any reason). In this regard, the population health survey data indicates a clear increase in the rate of use of family planning methods during the period 1992 - 2003 from 47% to 60%. It stayed relatively stable at this rate until 2008, then decreased slightly to 58.5% in 2014.
- On the other hand, the rate of unmet demand increased from 11.6% in 2008 to 12.6% in 2014. This happened in parallel with the decline in the government's interest in the population issue on the one hand, and the decline in international funding, including that of the USAID on the other (Abdel-Latif and Dawoud 2019).

Geography and income as fundamental determinants of employment, and the diminishing role of education

- Table 5.2 indicates the rates of demand for and use of family planning methods according to place of residence, income level, and education. The Table shows the following:

6 For more details about the model, see the following link: <https://www.rhsupplies.org/activities-resources/tools/micro/>

7 For more details about the model, see the following link: <https://www.avenirhealth.org/software-spectrummodels.php#famplan>

- Demand in both the border governorates and rural Lower Egypt is substantially lower compared to the general average of demand in Egypt. This is due, in large part, to local customs, traditions and culture in these regions.
- The low rate of employment and the clearly high rate of unmet demand in the border governorates compared to the general average in Egypt as well as to the average of other regions. This is due to the inability to obtain the contraceptive methods desired by and acceptable to women either for social or economic considerations or because the service is not available in the first place.
- It is also noted that demand is low and usage is stable despite the high level of education. In

this regard, many studies concluded that education no longer determines the demand for and use of family planning methods in Egypt. This may be due to the fact that reproductive and sexual health are not taught at any stage of education in Egypt. The young obtain their information in this regard from other sources that are often unsafe and unreliable, such as the Internet, friends and family.

- Despite the high rates of usage and decrease in unmet demand with higher income level, unmet demand registered 11% in the highest income bracket, which means that the problem is not financial but lies in either lack of availability or inability to access the service.

Table 5.2. Demand and usage rates by region, income level and education.

2014		Total demand (%)	Met Demand / Usage Rate (%)	Unmet demand (%)
Residence	Urban governments	73.7	62.6	11.1
	Urban Lower Egypt	74.4	64.1	10.3
	Rural Lower Egypt	73.4	62.5	10.9
	Urban Upper Egypt	72.5	58.9	13.5
	Rural Upper Egypt	66	55	11
	Border governments	63.7	46.7	17
Income	0 - 20	71.3	55.9	15.4
	20 - 40	70.7	55.7	15
	40-60	70.5	59.4	11.1
	60--80	70.9	59.8	11.1
	80- 100	72.4	61.4	11
Education	Uneducated	73.1	59.2	13.9
	Primary	72.3	58.8	13.4
	Secondary	70.6	58.2	12.4
	Higher	69	58.3	10.7
Total		71.1	58.5	12.6

Source: Prepared by ECES based on data of the Population Health Survey 2014.

Method skew of the combination used in Egypt

- In a study conducted in 2000, Egypt was the eighth largest country to suffer from Method Skew towards the IUD out of 83 countries studied.

Although there is no optimal combination of methods, the skew towards a particular method limits the options available to women and in most cases leads to an increase in unmet demand (Bertrand et al. 2000).

- Table 5.3 shows the rates of usage of different types of methods in Egypt and their development over time. The IUD comes first, then pills and injection, followed by the Implanon and condoms with a large difference. The Table also shows the following:

- The occurrence of a fundamental shift towards the use of pills beginning in 2003 despite the high rate of discontinuation and complaints about their negative effects, and their failure to prevent pregnancy compared to the IUD and Implanon. This is due to the fact that pills help women overcome the gaps in the health and social system in Egypt, so there is no need for examination, installation, removal, follow-up of side effects, or the cooperation of the husband as other methods.
- The weak utilization rate of Implanon despite its high effectiveness and low rates

of discontinuation, due to severe imbalances in both the supply and demand sides. Regarding supply, Implanon is not available in sufficient quantities in the public sector, in addition to the lack of qualified personnel to fit it. As for demand, many women in Egypt either do not know it or have misconceptions about it (Abdel-Tawab et al. 2015); (USAID 2016).

- As for the condom, although there are no problems with supply, there is a basic problem in demand, either because of lack of knowledge and avoiding to talk about it out of shyness, or because of the husband's lack of cooperation.

- It is clear from the table that side effects are the first and most important reason for discontinuation of all types of methods except condoms. This is due either to the lack of sufficiently qualified personnel or the weak awareness of the potential side effects and how to deal with them.⁸

Table 5.3. The rate of usage and discontinuation of family planning methods in Egypt in 2014 and causes

Method	Usage rate (2014)	Usage rate evolution (1988-2014)	Discontinuation rate after the first year (2014) - percent of female users	Reason for interruption (most cited) - percentage of female users		
				Side effects	Desire to conceive	Method failure
IUD	30.1	Continuous increase from 15.8% to 36.7% in 2003 and then decrease	14.3	7.5	4.3	1.2
Pills	16	Continuous decline from 15.3% to 9.3% in 2003 and then increase	41.5	11	8.7	7.6
Injection	8.5	Continuous rise from 0.1% to 8.5%	37.9	20.8	6.5	1.5
Implanon	0.5	Intense fluctuation, but did not exceed 1%	14.7	10.9	1.9	0.9
Condom	0.5	Decreased from 2.4 to 0.5	31.9	2.8	8.3	14.4 ⁹
Sterilization	1.2	Semi static	-	-	-	-

Source: Prepared by ECES based on the Population Health Survey data, various years.

8 Only 47.6% of contraceptive users were informed of possible side effects or problems, and this percentage drops to 41% in the case of pills, and rises to 57.5% in the case of Implanon. Only 34.5% of users were told what to do if any side effects occurred. This percentage drops to 29% for pill and rises to 38% for the IUD.

9 In addition to the percentage of women who interrupted because of their desire for a more efficient method.

3.1. An attempt to quantify the demand changes that resulted from the crisis

3.1.1 Quantitative estimate of the possible shifting pattern

- Shifting means to switch from using one method to another, as the disruption of the service and the presence of problems in obtaining it mean a decline in the demand for methods that need direct contact with the health system - such as injections and IUDs -

and its rise in self-care methods such as pills and condoms, as well as other traditional means.

- In what follows, an attempt is made to quantitatively estimate shifting using the "Micro" model. Table 5.4 begins with an explanation of the detailed methodology and assumptions for the potential scenarios. A detailed matrix of assumptions has been included in the appendix.

Table 5.4. Matrix of assumptions regarding the shifting pattern of each method

Method	Optimistic scenario: moderate disruption	Pessimistic scenario: severe disruption	Reason
Injection	Significant decline in use	Very significant decline in use	The injection needs regular periodic contact with the service provider (every month or three months). Therefore, it will be the most declining type, and the rate of decline will increase as service disruption becomes more severe.
IUD	Limited decline	Very slight decline	The crisis will affect the rates of IUD use in a limited way, because its use can continue even if it expires in order to avoid contact with the health system. This is because its effectiveness continues for several months after the end of the life span specified on the package. However, the rate of use will decrease slightly due to the presence of some cases in which the removal is necessary.
Pills	Significant rise	Significant rise	The greater the disruption of service, the higher the demand for condoms and pills as self-care methods that do not require much contact with the health system.
Condom	Significant rise	Very significant rise	
Implanon	Very significant rise	Slight rise	The Implanon requires a lesser degree of contact with the health system compared to the IUD and it is more effective and longer compared to pills. This will encourage many women to continue using it. Therefore, the use of Implanon is expected to increase significantly in the event of a slight or moderate disruption in the service. However, the more disruption of the health system, the less the ability of users to obtain it.
Traditional methods	Very significant rise	Very significant rise	A large number of women will resort to traditional methods, especially in areas where the use of these methods is already high, most notably rural Upper Egypt, as well as families who will avoid resorting to the health system, whether in the public or private sectors.

Source: Prepared by ECES.

- Table 5.5 presents the results of the “Micro” model for Egypt. These results are consistent with the estimates prepared by the United Nations

Population Fund of the impact of the crisis on family planning services at the global level (UNFPA 2020).

Table 5.5. Quantitative estimate of the shift of female users from one method to another as a result of the crisis during the first six months of the crisis

Method	Estimated number of female users - March 2020	Optimistic scenario (moderate service disruption)		Pessimistic scenario (severe service disruption)	
		No.	Change	No.	Change
Sterilization	155,134	155,134	0.0%	155,134	0.0%
IUD	5,467,653	5,378,470	-2%	5,411,170	-1.0%
Implanon	49,457	63,158	28%	51,592	4.3%
Injection	1,567,785	1,135,816	-28%	796,595	-49.2%
Pills	3,148,077	3,412,187	8%	3,419,392	8.6%
Condom	78,296	126,849	62%	147,065	87.8%
Traditional	18,841	213,629	1034%	504,295	2576.6%
Total	10,485,243	10,485,243	0%	10,485,243	0.0%

Source: Prepared by ECES based on the results of the “Micro” model.

- It is evident from the table that the number of IUD users decreased by 1% only in the case of the pessimistic scenario, which is less than the percentage of their decline in the case of the optimistic scenario (2%). This is mainly because some women - for whom removal will be necessary - will not be able to do so because of the severity of the disruption of service, including negative repercussions on the psychological and physical health of these women.
- As shown by the table, the number of female users of Implanon increased by only 4.3% in the pessimistic scenario, compared to 28% in the optimistic scenario, which is a big difference. This is due to the fact that the demand for Implanon will decline very quickly as the service is severely disrupted, because the central hospitals in the public sector are the main source for obtaining it for the vast majority of women.
- Nevertheless, a limited group will still be able to obtain it from the private sector at an unsubsidized price. This is the reason for the continued weak increase in the number of

female users even in the event of a severe disruption in the service, as reflected by the pessimistic scenario.

- The model also showed an increase in the number of women using pills by 8% in the optimistic scenario, and 8.6% in the pessimistic scenario. This is a meagre difference between the two scenarios, partly due to a statistical reason, which is the huge number of pill users in the first place (3.1 million women), making the change in the number appear weak.
- With the disruption of service and fear of the epidemic that may reach the point where even obtaining pills becomes difficult, traditional methods will be resorted to. Model estimates indicate that the number of females using these methods will multiply rapidly, by about 10 times in the optimistic scenario and 25 times in the pessimistic scenario as evidenced by the penultimate row in Table 5.5.

The next part of the analysis focuses on what these numbers mean for the population problem in Egypt, by measuring the implications of the already estimated shift patterns for unplanned pregnancy, abortion, and births.

3.1.2 Shift implications for unplanned pregnancy, miscarriages and births

- Regardless of the availability of methods, shifting will cause mandatory increases in the rates of unplanned pregnancy, abortion, and births. This is a result of the transition to self-care methods, which are methods characterized by low practical effectiveness due to misuse; such as forgetfulness, lack of cooperation from the husband, and other reasons.
- To complement the previous analysis, the Fam-Plan model was used to estimate the effect of shifting patterns in both the optimistic

and pessimistic scenarios on unplanned pregnancy, abortion, and births by comparing these scenarios with the base-line scenario—a scenario that simulates the continuation of demand rates normally, as if the pandemic had not occurred for both 2020 and 2021.

- Table 5.6 presents the model results, which indicate that the number of unplanned pregnancies and abortions increased by 5.6% to 12.8%, and so did the birth rate by percentages ranging from 1.7% to 2.9% compared to the normal rates that would have been recorded if the pandemic had not occurred.

Table 5.6. Implications of the shifting in both optimistic and pessimistic scenarios for unplanned pregnancy, abortion, and births – per case*

Scenario	Model estimates for year ...	Unplanned pregnancy		Induced abortion		Births	
		The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year
Optimistic	2020	59514	4.9%	27971	4.9%	31543	1.3%
	2021	60818	5.0%	28585	5.0%	32233	1.3%
Pessimistic	2020	115944	9.5%	54494	9.5%	61450	2.5%
	2021	118484	9.8%	55688	9.8%	62796	2.6%

Source: Prepared by ECES based on results of the "Fam-Plan" model.

* This table shows the effect of met shifting, meaning that it is assumed that the government has already met the needs of women in terms of pills, condoms and other types of methods that are in high demand as a result of the crisis. However, due to the fact that these methods are less effective than long-term methods for reasons related to lack of correct use, they will cause high rates of unplanned pregnancy and, consequently, abortions and births.

- These increases necessarily imply an economic cost to both the State and families. For the State, the higher number of births means the higher the need for more expenditures to provide services such as education, health, support, and basic facilities to a greater number of individuals at the same level of quality. In the event that these expenses are not allocated, this means a decline in the quality

of service, which is already very weak.

- As for families, abortion as well as the birth of an unplanned child represent an unforeseen financial and psychological burden. In light of the pandemic and the associated stressful economic conditions and limited health resources, induced abortion and childbirth represent a real threat to the health of women and children at present.

3.1.3 Quantitative estimate of the methods needed to respond flexibly to the shifting effect

- Table 5.7 shows estimates of the quantity of each type of method that must be available

during the first six months of the crisis (April-August) in order for the Ministry of Health to respond flexibly to the aforementioned shifting effect, in the case of both the optimistic and pessimistic scenarios.

Table 5.7. Cumulative demand for family planning methods during the six months (April - September) 2020

Type	Six months before the crisis	Optimistic scenario			Pessimistic scenario		
		Total required	Change	%	Total required	Change	%
Pills	22,350,938	23,989,899	1638961	7.3%	24,040,329	1689391	7.6%
Injection	3,155,213	2,645,657	-509556	-16%	2,250,874	-904338	- 29%
IUD	660,416	118,308	-542108	- 82%	5,916	-654500	- 99%
Implanon	13,075	31,879	18804	144%	6,100	-6975	-53%
Condom	2819152	4,547,019	1727867.2	61%	5,196,928	2377776.2	84%

Source: Prepared by ECES based on the results of the "Fam-Plan" model.

- The table shows an increase in the requirement of pills by 7.3% in the optimistic scenario and 7.6% in the pessimistic scenario. Also, condom needs will increase by 61% in the optimistic scenario and 84% in the pessimistic scenario. As for the Implanon, the need is expected to increase by 144% in the optimistic scenario, and to decline by 53% in the pessimistic scenario.
- Preparing for the increase in the required volume of pills, Implanon and condoms is necessary to avoid increased rates of unplanned pregnancy, abortion and newborns at rates exceeding the rates estimated in Table 8. This raises an important question: Does the Egyptian government have the ability to respond to this demand? To answer this question, we must analyze the supply of family planning methods in Egypt, as will be discussed in the next part of the report.

3.2. Supply of family planning methods

3.2.1 A Quick overview of the sectoral distribution of family planning service providers

- The public sector provides family planning services to 56.1 percent of female users, while the private sector accounts for 42 percent. In

contrast, the private sector provided family planning services to only 1.9 percent of women in 2014.

- This unbalanced combination has repercussions in itself. The public sector being the lead in service provision means greater disruption due to the Ministry of Health, which is the lead entity responsible for facing the pandemic, mobilizing all resources to confront the epidemic. In addition, the public sector is the source of obtaining service at a subsidized price for the lowest income groups.
- In addition, society is now paying the price for the continuous decline in the role of the private sector since the 1990s, which could have played a fundamental role in providing family planning services during the current period had it not been for the restrictions it suffered over the past years.

3.2.2 The contraceptive method supply plans adopted by the ministry before the crisis and compulsory requirements resulting from the change in demand

- What truly matters is the response of supply to the demand and not the other way round. Determining the supply first and then trying to adapt demand to it is one of the structural

problems faced by family planning services in Egypt. It is expected that this problem will appear more clearly during the current crisis if the State ignores the changes in demand and continues to follow the same policy, which threatens to decrease the usage rates of family planning methods in Egypt.

- The sudden change in demand resulting from the pandemic means that the Ministry of Health is facing a different reality from what it has planned, changing the viability of the stocks already available. In this regard, the Family Planning Report indicates that public

sector purchases over the past years were concentrated in the IUD, and the report did not record any purchases of condoms or pills during the period 2015-2018, as shown in Table 5.8.

- This is abnormal, indicating either the existence of a very large stock of pills and condoms, or the absence of demand for these methods in the public sector, or a lack of data regarding these methods specifically. In all cases, this raises many questions about the mechanisms for managing purchases of family planning methods in Egypt.

Table 5.8. Volume of public sector purchases per unit of each method (2014-2018)

Year	Condom	Implanon	Injection	IUD	Pills
2014	468,000	140,032	365,000	591,111	0
2015	0	0	0	258,200	0
2016	0	140,000	0	2,680,434	0
2017	0	40,032	0	375,045	0
2018	0	160,046	0	3,774,650	0

Source: Prepared by ECES based on data from the Family Planning Market Report.

- Table 5.8 also shows the fluctuation of government purchases and lack of a consistent pattern therein from year to year. For example, the volume of IUD purchases decreased by 86% in 2017 and then increased by 906% in 2018. This may reflect weak prior strategic planning and the absence of an accurate assessment of needs on the ground from year to year.
- By comparing public sector purchases with actual use estimates, it becomes clear that there is a clear deficit in public sector purchases of condoms, injections and pills, as

evident from Table 5.9. This deficit may be partly due to either lack of sufficient resources to fully meet the demand for these methods or poor planning.

- The existence of a surplus in public sector purchases from other methods, such as the Implanon and the IUD, is likely due to poor planning in the first place and not lack of resources. This is evident in the turn of purchases of this method; from a surplus to a deficit and from a deficit to a surplus from year to year with no clear reasons.

Table 5.9. Comparison of public sector purchases with actual use estimates for 2018

2018	Condom	Implanon	Injection	IUD	Pills
The volume of public sector purchases per unit	0	160,046	0	3,774,650	0
Estimated actual unit usage	10,802,869	25,648	6,121,626	1,295,982	43,211,477
The difference	-10,802,869	134,398	- 6,121,626	2,478,668	-43,211,477

Source: Prepared by ECES based on data of the Family Planning Market Report, and estimates of the Fam-Plan model.

3.3. Expectations of the effect of non-responsiveness of supply to changes in demand on unplanned pregnancy, abortion and births

- Unplanned pregnancies, abortion and births are expected to be higher than normal rates that would have occurred had the pandemic not existed. This increase is divided into two parts; the first is a fixed and confirmed part that is the result of the shifting effect. It is difficult to limit its impact due to its relation to changes that have already occurred as a result of the crisis on the one hand, and to its connection with many structural imbalances that already existed before the crisis on the other.
- The second part of the increase depends on the ability of supply to respond flexibly to changes in demand during the crisis period. If

the need for pills, condoms and Implanon is not fully met, rates of unplanned pregnancy, abortion, and births will increase beyond the rates that normally rise due to the shifting effect.

- According to Table 5.10, the effect in this case will depend on how women wishing to obtain these methods deal with the supply gap, and whether they will resort to traditional means (Option 1 - A) or stop using methods completely (Option 2 - B).
- The first option (A) means an increase in the number of female users of traditional methods reaching 539,993 women, comprising 5.2% of the total female users in Egypt, in the optimistic scenario, and 846,514 women, comprising 8.1% in the pessimistic scenario. As for the second option (B), it means a decline in usage by the same rates for the optimistic and pessimistic scenarios, respectively.

Table 5.10. Options that women can turn to if their self-care needs are not met

Option		Reason
First Option (A)	Use a traditional method	Continued desire to avoid pregnancy despite the absence of a modern method of family planning
Second Option (B)	Non-use of any method	Lack of knowledge about traditional methods, or lack of awareness of how to use them effectively.

Source: Prepared by ECES.

- Tables 11 (A) and 11 (B) present the effect of each of the two options, respectively. It is clear from these tables that the impact of the crisis on unplanned pregnancy, abortion and births has

doubled in the second option compared to the first, which reflects the importance of the effective use of traditional methods of family planning in the case of a lack of a modern method.

Table 5.11a. Consequences of resorting to traditional methods (option 1) on unplanned pregnancy, abortion, and births – per case

Scenario	Model estimates for years	Unplanned pregnancy		Induced abortion		Births - annual (growth)	
		The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year
Optimistic	2020	118431	9.7%	55662	9.7%	62769	2.5%
	2021	150011	12.4%	70506	12.4%	79505	3.2%
Pessimistic	2020	173314	14.3%	81457	14.3%	91857	3.7%
	2021	204601	17.0%	96163	17.0%	108438	4.4%

Table 5.11b. Repercussions of discontinuation of use (option 2) for unplanned pregnancy, abortion, and births - per case

Scenario	Model estimates for years	Unplanned pregnancy		Induced abortion		Births - annual (growth)	
		The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year	The annual number that the crisis will cause	The percentage of growth compared to the monthly average in the base situation for the same year
Optimistic	2020	251258	%20.0	118092	%20.0	133166	%5.41
	2021	283451	%22.7	133222	%22.7	150229	%6.13
Pessimistic	2020	481579	%38.3	226342	%38.3	255237	%10.37
	2021	517298	%41.4	243130	%41.4	274168	%11.20

Source: Prepared by ECES based on results of the "Fam-Plan" model.

3.4. A summary of the impact of the crisis and the most important policies needed to strike the desired balance between supply and demand

- Minimizing the impact of the crisis on the number of births in Egypt requires, at minimum, responding quickly and flexibly to growing demand for self-care family planning methods, and - most importantly - pills and condoms. Only then, the crisis will cause an unavoidable but limited increase in the number

of births, as shown in Table 5.12.

- However, the failure of supply to respond flexibly to changes in demand will lead to greater increases in the number of births, depending on the response of women to the lack of modern contraception methods. In the case of a complete cessation of use, the increase in the number of births will be four times the unavoidable increase. It will decrease to two times only if a traditional method is used as an alternative, as shown in Table 5.12.

Table 5.12. Summary of the impact of the crisis on the number of births in Egypt during a whole year and required interventions to reduce this impact

		The best situation: met shifting	Second best possible situation: unmet shifting and moving to traditional methods as an alternative	Worst situation: Unmet shifting and complete cessation of use
Scenario	Optimistic	%1.30	%3.20	%6.13
	Pessimistic	%2.60	%4.40	%11.20
Required intervention		Providing all women's needs of all types of family planning methods, especially self-care methods	In the event that provision of all women's needs of modern methods fails, awareness of all kinds of traditional methods of family planning and how to use them with the greatest possible effectiveness should be spread widely, and a hotline must be designated to respond to all women's inquiries in this regard.	

Source: Prepared by ECES based on results of the "Fam-Plan" model.

The next section of the report presents some of the most important solutions that will help the government strike the desirable balance between supply and demand during the crisis period. These solutions include an integrated set of immediate, short and medium-term actions in

addition to a set of structural measures necessary to reform the system in a sustainable manner, as follows:

1. Immediate actions:

- Expanding the distribution of emergency

contraceptive pills on a large scale through pharmacies, primary health care units, NGOs and the private sector, as it is an important way to reduce unplanned pregnancies.

- Providing the necessary incentives and facilities for the private sector to raise its contribution to service provision during the crisis period, because there is room for expansion; especially that private sector resources, unlike those of the public sector, have not been fully mobilized to face the crisis.
- Providing the necessary financing to purchase contraceptive methods, and supporting families to obtain them at an affordable price.
- Using leading international experiences in converting some types of methods that require a service provider, such as injections for example, into self-care methods by purchasing types that can be used without direct contact with the health system.
- Conducting a large-scale awareness campaign in Egypt of each method, its price, places of availability, possible side effects and how to handle them.
- Adopting pre-distribution strategies (providing women with enough for a period of 3, 6 or 12 months) to reduce the need to return to health outlets to obtain the methods. While this will reduce contact with the health system, it will place more pressure on the value chain. Hence, the ministry must strive to achieve an optimal balance between reducing the need to return again to obtain the method and satisfying the needs of the largest possible number of women.

2. Short-term actions:

- Expediting the issuance of the executive regulations for the new NGO law, in order for the civil sector in general to be able to practice its activities normally. Next, incentives should be provided to the civil sector to encourage it to provide family planning services.

3. Medium-term actions:

- The need for accurate and constantly updated statistical estimates of the actual need and use of methods in Egypt. This requires:
 - Automating the monitoring, evaluation and information gathering system in the Ministry of Health instead of relying on the paper-based system.
 - Promptly conducting the population health survey, and committing to implementing it regularly on time.
 - Building an accurate mathematical model that can employ the available data to predict the future use and requirements of each type of method in Egypt, and determine the volume of purchases needed of each method based on model estimates.
- Establishing a mechanism for effective and rapid handling of any similar crises in the future, which includes dividing the service delivery points into two plans according to a clear strategy: a regular plan, and a crisis plan that moves immediately and automatically when a crisis breaks out.

4. Structural reforms

- In general, the population issue must be managed in a well-governed manner by ending the affiliation of the National Population Council to the Ministry of Health, and making it an independent body in charge of developing plans and policies and coordinating efforts between all parties concerned with the population issue, including family planning, in addition to monitoring and evaluating the implementation of these plans.¹⁰
- Forming a unified procurement committee that includes the private and government sectors, pharmacies, and military and police hospitals, to obtain family planning methods at a better price.

¹⁰ The Egyptian Center for Economic Studies devoted a detailed study for the population policy in terms of the elements of its success and the optimal institutional form, which can be viewed through the following link: <https://bit.ly/3fyRyT4>

- Egypt joining the unified procurement system of the United Nations Population Fund.
- Exemption of family planning methods from any taxes.
- To overcome the problem of insufficiently trained personnel, the following must be done:
 - Establish a central body for training service providers, as an independent branch in the Ministry of Health that reports directly to the Deputy Minister.
 - Training of service providers in central hospitals to act in turn as trainers for service providers in the primary care sectors.
 - Make training on providing family planning services a prerequisite for graduation from medical and nursing colleges (during the internship period).
- Overcoming the shortage of female doctors by:
 - Licensing nurses to provide family planning services, including IUD installation, after obtaining specialized training.
 - Circulating mobile teams in villages, universities, schools and large companies, provided that they consist of a male and female doctor, and work according to a strict weekly schedule.
 - That the follow-up and evaluation process be carried out by an agency independent of the Ministry of Health, in which the public, private and civil sectors are represented.
- Commissioning a protocol contract with the Ministry of Communications to provide health units with the necessary technological infrastructure at low prices and easy payment terms (internet, computers, and databases).
- Integrating the private sector into the ministry's information system, so that the size of its inventory and the quality of service provision can be known.
- Increasing the number of female rural leaders in the neediest governorates, and distributing the tasks assigned to them according to their characteristics.
- Include reproductive and sexual health education in school curricula from the primary level to university level, provided that it is mandatory.

Appendix

Assumptions of Moving from one means to another (displacement):														Type of pills	Type of shots	Long term methods	
1. The transition from column to row (unscientific) occurs. A 100 percent means that there is no transition while, Zero means a complete transition. 2. More weight has been placed on the progesterone pill because, it is most appropriate in times of crisis, according to the recommendations of the Royal College of Obstetrics and Gynecology. 3. As for long term methods: Zero means removing the usual pattern while, 100 percent means not removing it at all due to service disruption. 4. For Example: number 0																	
Sterilization	IUD	Implanon	Injection: a service provider	Injection: self-administered	Pills	Condoms	Female condom (CDC)	EC	SDM	Other	Injection	COC	POP	Service provider	Self-administered	Percentage	
Scenario A: Minor/ Medium Disruptions																	
Sterilization	20%	15%	20%	20%		25%	0%				0%	20%	10%	90%			
IUD	20%	40%	10%	20%	5%	20%	0%	0%	3%	3%	0%	25%	30%	70%	80%	20%	50%
Implanon		0%	50%	20%	5%	20%	0%	0%	3%	3%	0%	25%	30%	70%	80%	20%	50%
Injection				50%	10%	35%	0%	0%	3%	3%	0%	60%	30%	70%	83%	17%	
Pills				0%	5%	90%	2%	0%	2%	2%	0%	5%	80%	20%	0%	100%	
Condoms				0%	0%	0%	95%	0%	3%	3%	0%	0%	30%	70%	0%	0%	
Other	0%	0%	0%	0%		0%	0%				100%	0%	10%	90%			
Scenario B: Major Disruptions																	
Sterilization	0%	0%	10%	20%		70%	0%				0%	10%	10%	90%			
IUD		5%	5%	10%	10%	50%	10%	0%	5%	5%	0%	20%	10%	90%	50%	50%	80%
Implanon		0%	10%	10%	10%	50%	10%	0%	5%	5%	0%	20%	10%	90%	50%	50%	80%
Injection				10%	30%	45%	5%	0%	5%	5%	0%	40%	10%	90%	25%	75%	
Pills				0%	5%	85%	0%	0%	5%	5%	0%	5%	80%	20%	0%	100%	
Condoms				0%	0%	10%	80%	0%	5%	5%	0%	0%	10%	90%	0%	0%	
Other	0%	0%	0%	0%		0%	0%				100%			10%	90%		

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6. Women as a Critical Engine for Economic Recovery

Racha Seif El-Dine

First: Introduction

1.1. Why are women viewed as an important engine for the recovery of the Egyptian economy?

Despite the fact that Egyptian women represent almost half of the society in terms of demographic composition, in addition to the high level of education among females at present, only slight progress has been made in women's participation in the labor market, as their participation does not exceed about 24% of the workforce. This is a waste of an important human resource capable of a real contribution to the desired growth of the Egyptian economy.

According to a report issued by the McKinsey Institute, Egypt's GDP could increase by 34% over the next decade, if the number of men were equal to the number of women in the labor market.¹ The economic empowerment of women is considered a means to combat poverty, support social justice, and give an opportunity for a better path for future generations, thus making women a major actor in achieving economic recovery.

With the increasing economic and social pressures associated with the lockdown and social distancing measures due to the COVID-19 pandemic, it has

become necessary to focus on providing all mechanisms, including policies and procedures, to enable women to play their role as one of the main drivers of change for economic recovery in general and to exit the current crisis in particular.

In this context, this report gives a brief description of the most important features of the female labor market in Egypt, and presents proposals to empower women in a way that maximizes the utilization of their real potential overcoming the difficulties they have been experiencing for many decades; and in particular as a result of the current crisis, considering the size of women's participation in the labor market.

Second: Brief Overview of the Most Important Features of the Female Labor Market in Egypt

In the report issued by the Egyptian Center for Economic Studies entitled "The Egyptian Woman," repercussions of the COVID-19 crisis on the role of women in the Egyptian economy were studied in detail.² A comprehensive analysis was also made of the most important features of women's participation in the labor market.

The following is a brief overview of the most important of these features (Table 6.1).

Table 6.1. Key features of the female labor market in Egypt³

Feature	Evidence
Low female participation in the labor market compared to males	<ul style="list-style-type: none"> The rate of participation in the labor force⁴ among females compared to males decreased by about four times.⁵ Females account for only about a fifth of the labor force (18% in 2019), compared to males (82% in 2019). Decrease in the share of females to less than one-fifth of the total employed (15.3% in 2019). Higher unemployment rate among females, reaching three to four times higher than that of males. The ratio of female to male participation in the labor force in Egypt is weak compared to other countries with different levels of income. This percentage increased in Egypt in nearly twenty years by approximately 4%, from 27.4% in 2000 to only 31.2% in 2018.⁶

1 Al-Mal Newspaper, <https://almalnews.com/وزير-التخطيط-تمكين-المرأة-ضرورة-ويمك/>

2 The hyperlink to download Issue No. 21 of Views on the Crisis on "The Egyptian Woman," dated 12/8/2020. [http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_12_27-14_51_14Views%20on%20News%20\(VViews%20On%20The%20Crisis\)%20-%20Edition%2021%20The%20Egyptian%20Woman.pdf](http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_12_27-14_51_14Views%20on%20News%20(VViews%20On%20The%20Crisis)%20-%20Edition%2021%20The%20Egyptian%20Woman.pdf)

3 According to statistics released until end of July 2020.

4 Participation rate = labor force / population * 100

5 Central Agency for Public Mobilization and Statistics (CAPMAS), press release for the annual consolidated bulletin of the results of labor force survey in 2019, version 2020.

6 The World Bank, Gender Data Portal.

Feature	Evidence																
Females' preference for government work vs. the private sector	<ul style="list-style-type: none"> Females enjoy advantages in the public sector compared to the private sector, as the public sector is obligated to give wages that are almost equal for both genders in exchange for performing the same work. The average wage of females may be slightly higher than that of males, in addition to other advantages in terms of departure time and childcare leave. This does not apply to the private sector, as the average wage for females is 16% lower than that of males in 2019. Female labor participation in the private sector decreases as they approach the age of marriage and later during marriage, while employment in the public sector continues to rise with time and is not affected by marriage. Unpaid work for women also increases, even more after marriage; this work is often at home, when it is easier to reconcile with the responsibilities of marriage. Female labor participation in the private sector decreases as they approach the age of marriage and later during marriage, while employment in the public sector continues to rise with time and is not affected by marriage. Unpaid work for women also increases, even more after marriage; this work is often at home, when it is easier to reconcile with the responsibilities of marriage. 																
Sectors that are the most employing of women and most attractive to them	<p>Table 6.2. Share of females in the sectors that employ the most females</p> <table border="1" data-bbox="382 799 1296 1106"> <thead> <tr> <th data-bbox="382 799 796 851">Sector</th> <th data-bbox="796 799 1296 851">The share of females in all workers</th> </tr> </thead> <tbody> <tr> <td data-bbox="382 851 796 882">Education</td> <td data-bbox="796 851 1296 882">68</td> </tr> <tr> <td data-bbox="382 882 796 913">Ready-made clothing</td> <td data-bbox="796 882 1296 913">49.4</td> </tr> <tr> <td data-bbox="382 913 796 944">Health and social work</td> <td data-bbox="796 913 1296 944">49.3</td> </tr> <tr> <td data-bbox="382 944 796 975">Communications and information</td> <td data-bbox="796 944 1296 975">32.7</td> </tr> <tr> <td data-bbox="382 975 796 1006">Agriculture</td> <td data-bbox="796 975 1296 1006">20</td> </tr> <tr> <td data-bbox="382 1006 796 1038">Retail trade</td> <td data-bbox="796 1006 1296 1038">18.5</td> </tr> <tr> <td data-bbox="382 1038 796 1106">Food and accommodation services</td> <td data-bbox="796 1038 1296 1106">13.5</td> </tr> </tbody> </table> <p>Source: Calculation was done according to the Central Agency for Public Mobilization and Statistics (CAPMAS) data, Annual Statistical Bulletin of Employment, Wages and Working Hours, 2019 and 2020.</p>	Sector	The share of females in all workers	Education	68	Ready-made clothing	49.4	Health and social work	49.3	Communications and information	32.7	Agriculture	20	Retail trade	18.5	Food and accommodation services	13.5
Sector	The share of females in all workers																
Education	68																
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Food and accommodation services	13.5																
Half of the female workforce is employed in paid jobs	<ul style="list-style-type: none"> The percentage of females working for cash wages reaches about half of the total workforce in 2019, followed, but with a large difference, by unemployed women who have never worked (19%), then contributors to unpaid family projects (17%). As for the percentage of female entrepreneurs, it was about 8% in 2019. There is an unequal distribution of family care work between men and women. In normal times, women and girls are responsible for pursuing productive household projects such as raising livestock and poultry, in addition to caring for the family, due to social norms. About 91% of women spend time on unpaid household activities compared to only 26% of men (OECD 2020). 																
Gender wage differential in a number of economic activities and occupations	<ul style="list-style-type: none"> Despite the equal average working hours between the two genders in many economic activities; for example, in manufacturing activities (including beverages) in addition to food services, accommodation and education; being higher among females in a number of other sectors, especially ready-made garments and leather, ranging from 2% to 31%, the average female wage in these activities is lower than that of males by 1% to 48%. The above also applies to a number of professions, where the working hours of females are higher than those of males, yet in which the wages of females are lower than those of males from about 17% to 53%. For example, workers in ordinary professions, factory operating workers, craftsmen, and workers in services, stores and markets. 																

Feature	Evidence										
The largest percentage of unemployed women are among those with an intermediate technical, university and postgraduate education	<ul style="list-style-type: none"> Female holders of higher university and postgraduate education represent the largest percentage of unemployed women, which is almost half. Then comes the second category of the most unemployed, which is the category of female graduates of technical intermediate education (34%), while the percentage is much lower among those with less than university education, and is lowest among those with less than intermediate school education in 2019. As educational attainment increases, a higher overall participation of females would be expected over time in the labor market. This does not happen however, as participation rates among educated women are decreasing dramatically over time. This is due to the decrease in job opportunities in the public sector, leaving many females to work in the private sector upon marriage, in addition to the presence of the so-called "glass ceiling," which prevents educated females from joining some jobs and denies them a number of leadership positions. 										
More than half of females employed work in the informal sector⁷	<ul style="list-style-type: none"> 53.2% of the total employed work in the informal sector, (ILO 2018) where women's jobs are mainly concentrated in informal, unsafe, low-wage and low-skilled jobs, or in areas where social protection and career advancement opportunities are not available. The largest share of female informal employment is in agriculture (81%), followed by a wide margin by services (16%). This contrasts with the distribution of informal male employment, which is characterized by a highly equal distribution between sectors. 68.8% of female informal employment is engaged in family work and activities for the benefit of others and is often without pay, while this percentage decreases greatly among males (8.5% only). 										
"Necessity" is the most motivating factor for female self-employment	<ul style="list-style-type: none"> "Necessity"⁸ is the most motivating factor for women to resort to entrepreneurship, as models of necessity entrepreneurs dominate among most women. Most of the groups who joined the labor market out of necessity are those with an intermediate education or less, and aged 45 years or more, especially if they happen to be in closed societies that do not encourage women's work, such as Upper Egypt or rural areas. Civil work represents a professional turning point for many women to experience establishing projects, especially with the knowledge it provides about opportunities and relationships in the economically developed governorates (Cairo, Alexandria and Port Said). For women with limited or no income, microfinance is often the only option to obtain funds to start a business that can help support families, in addition to using savings or borrowing from individuals. Women's resort to self-employment, especially in non-urban governorates, is usually out of necessity. But with the development of the economic structure of the governorates, the increase in the educational level of women, and their ability to recognize economic opportunities, patterns of "Opportunity entrepreneurship" emerged. Women-owned businesses tend to be informal, home-based, and concentrated in the microenterprise and traditional sectors, which primarily include retail and services.⁹ 										
The limited role of women in decision-making	<p>a. Weak political empowerment of women despite its improvement in recent years:</p> <p>Table 6.3. The size of women's representation in Parliament</p> <table border="1" data-bbox="372 1355 1319 1481"> <thead> <tr> <th data-bbox="372 1355 634 1417">Year</th> <th data-bbox="634 1355 743 1417">2005</th> <th data-bbox="743 1355 862 1417">2013</th> <th data-bbox="862 1355 1053 1417">Current parliament</th> <th data-bbox="1053 1355 1319 1417">New constitutional amendments in 2019</th> </tr> </thead> <tbody> <tr> <td data-bbox="372 1417 634 1481">Representation of women in parliament</td> <td data-bbox="634 1417 743 1481">2%</td> <td data-bbox="743 1417 862 1481">2%</td> <td data-bbox="862 1417 1053 1481">90 seats</td> <td data-bbox="1053 1417 1319 1481">25%</td> </tr> </tbody> </table> <p data-bbox="391 1500 1300 1618">Source: Al-Masry El-Youm https://www.almasryalyoum.com/news/details/1453818; State Information Service https://www.sis.gov.eg/Story/116462/%D8%A7%D9%84%D9%85%D8%B1%D8%A3%D8%A9-%D9%81%D9%8A-%D8%A7%D9%84%D8%B3%D9%84%D8%B7%D8%A9-%D8%A7%D9%84%D8%AA%D8%B4%D8%B1%D9%8A%D8%B9%D9%8A%D8%A9?lang=ar</p>	Year	2005	2013	Current parliament	New constitutional amendments in 2019	Representation of women in parliament	2%	2%	90 seats	25%
Year	2005	2013	Current parliament	New constitutional amendments in 2019							
Representation of women in parliament	2%	2%	90 seats	25%							

7 A separate report from the "Views on the Crisis" series has been devoted to analyzing the informal sector: [http://www.eces.org.eg/PublicationsDetails?Lang=EN&C=1&T=1&ID=1193&Views-On-News-\(Views-On-The-Crisis\)---Edition-7:-Informal-Economy](http://www.eces.org.eg/PublicationsDetails?Lang=EN&C=1&T=1&ID=1193&Views-On-News-(Views-On-The-Crisis)---Edition-7:-Informal-Economy)

8 Within the framework of the Egyptian Center for Economic Studies' collaboration with the National Council for Women in preparing a strategy for the economic empowerment of women in 2016, the Center conducted a field research that included fourteen in-depth focus groups that involved about 164 girls and women in 13 governorates. The sessions aimed to identify obstacles to the economic empowerment of Egyptian women, the most prominent factors that impede empowerment, and to highlight how these obstacles vary for different groups of women and their relevance to place of residence, age and social level, in addition to identifying the drivers of change that can have a radical impact on the reality of women. The research reached the following results regarding the most important features of females' resort to self-employment (for more details on this project, see Appendix 1).

9 Global Entrepreneurship Monitor (GEM) Report, different issues.

Feature	Evidence
The limited role of women in decision-making (cont.)	<ul style="list-style-type: none"> The constitution allocated a quarter of the seats for women in local councils, in accordance with Article 180 of its provisions. This is a positive step on the way to achieving better representation of women in parliament. The female share in ministerial positions is still limited, not exceeding a quarter. Allocating at least 10% of Senate seats to women (Law No. 141 of 2020 promulgating the Senate Law). <p>b. Women are underrepresented in boards of directors:</p> <ul style="list-style-type: none"> The presence of women among entrepreneurs and senior managers is very limited (2.4% and 4.9% of companies, respectively) (WEF 2020). Banks lead the percentage of women's representation on boards of directors, followed by companies listed on the stock exchange, and then public business sector companies.
A large gender gap confirmed by international reports	<p><i>For example:</i></p> <ul style="list-style-type: none"> Egypt is ranked 134 out of 153 countries according to the Global Gender Gap Index report issued by the World Economic Forum 2020, and is ranked sixth in the Arab world after the UAE, Kuwait, Tunisia, Algeria, Bahrain. According to the Women, Business and the Law 2020 report issued by the World Bank, the average value of the index for Egypt was 45, which is much lower than the global average of the index (75.2), while a number of countries succeeded in achieving full scores.

Source: Prepared by the Egyptian Center for Economic Studies (ECES) based on multiple sources.

Third: Proposals to Empower Women to Maximize the Utilization of Their Real Potential

3.1. Key determinants of the future of women in the labor market

- The extent of evolution of the COVID-19 virus, and its implications for schools and nurseries resuming their activities is a determining factor for the return of females to the labor market.
- The nature of women's participation in economic activity.

According to these determinants, there are three possible scenarios for the future of females in the labor market in Egypt, as summed up in Figure 6.1:

Figure 6.1. Three possible scenarios for the future of female employment in Egypt

Scenario (1)	Scenario (2)	Scenario (3)
<ul style="list-style-type: none"> Return to previous levels of female employment before the outbreak of the crisis* <p>If urgent, appropriate interventions are taken, which will be referred to in the next section.</p>	<ul style="list-style-type: none"> The deterioration of the status of females, so that their participation in the labor market is lower than those achieved before the crisis Because of the negative changes that have occurred in the labor market due to the current crisis, including, for example, layoffs in many sectors, and the return of a number of workers from the Gulf after their layoff. 	<ul style="list-style-type: none"> A positive boom in women's economic and social conditions in the medium and long terms as a result of their strong entry into the labor market If the necessary structural development is undertaken; some of its elements have already been initiated by the state, although more efforts are needed that have a greater and faster impact on the position of women in the labor market, most important elements of which will be indicated in the next section.

Source: Prepared by ECES.

* These levels are naturally below the desired levels.

Certainly, it is necessary to target the third scenario, which requires radical and urgent interventions, with the help of appropriate packages of policies and procedures to empower women at various levels. These proposed future actions and policies are based on a set of basic principles:

3.2. The basic principles underlying the proposed actions

- The need for policies and procedures to deal directly with the "causes" of the problems women have faced over the decades, not just the "symptoms" of these problems,¹⁰ the most important features of which were presented in the second part of this report.
- The state's provision for policies and mechanisms that ensure that women are viewed by business owners as a real and main "asset" to achieve the desired economic and social development, and not as a "burden."
- Most of the difficulties faced by females are, in essence, not gender-biased, as they are related to the weakness of the institutional environment and the business climate in general; and thus eliminating these difficulties will automatically reflect positively on the status of women.
- A great deal of the obstacles faced by females are related to customs, traditions and cultural legacies about the belief that women are less capable and less productive than men, and that their participation in the labor market is crowding out men and limiting their economic opportunities. This requires the adoption of policies and procedures that properly deal with these obstacles.

3.3. Proposals

The next part of the report presents the most important measures proposed to assist the Egyptian government in making a significant positive development in the role of women in economic activities in general, and addressing the negative effects of the current crisis in particular. The proposals are divided into two sets: Horizontal and vertical proposals. As for the **horizontal proposals**, they have positive effects on both males and females, although they will have a more pronounced effect on females due to their weak position compared to males. Horizontal proposals vary according to their goals, some of which are related to stimulating investments and providing more diversified, decent

and sustainable job opportunities, while others aim at achieving equal opportunities between different geographical regions. The latter aims at identifying the different needs of the target groups in order to be able to develop policies and procedures that respond to these needs.

As for the **vertical proposals**, they are directly related to women's problems. This set of proposals was extracted in light of five main drivers of change that directly affect the desire and ability of women to work, especially in the private sector, small and medium enterprises, and entrepreneurship.

The two sets of proposals are classified according to time horizons appropriate to the nature of each action, the circumstances surrounding it, and the period required for its implementation. They include an integrated set of: *immediate actions* (that can be implemented within six months), *short-term measures* (that can be initiated and implemented within a period not exceeding a year), *medium-term measures* (that require no more than three years), and *long-term measures* (that take more than three years to implement). Most of the time, long-term actions are a set of structural measures needed to reform the system in a sustainable manner.

3.3.1 Horizontal proposals

Most of the horizontal proposals are immediate proposals that can be completed within six months, as they do not require significant human or financial resources or any legislative intervention. The following is a review of the most important horizontal proposals according to their objectives and time horizon.

- **Stimulating investments and providing more diversified, decent and sustainable job opportunities:**
 - Improving the business environment in Egypt in general to stimulate investment and thus create new job opportunities (in the medium term).
 - Existence of detailed investment maps from which investment opportunities emerge, including available job opportunities and their

¹⁰ Two examples of this are noted in Table A2-1 in Appendix 2.

requisites in general, and those appropriate for females in particular; which provides a database on the size and type of demand for labor, including female employment (immediate).

- Establishing a unified comprehensive database that contains updated economic information and macro-statistical data related to the various economic activities in Egypt and analyzing them to find out the most important difficulties (in the short term).
- The proper completion of the digital transformation system, which saves women a lot of time and effort to carry out their work (in the medium term).
- Remediating the education system in a way that eliminates the gap between educational outcomes and the needs of the labor market, which will enable the desirable benefit from the real potential of both genders, furnish them with the required skills, reflect more positively on female employment, and achieve optimum utilization of idle female potential¹¹ (in the medium and long term).
- Systematic treatment of credit restrictions that hinder attempts to start and grow a business (immediate).

• **Achieving equal opportunities among different groups of society and geographic regions:**

- Adopting policies and taking measures that achieve geographical justice in various fields (immediate).
- Activating the local administration law, as decentralization enhances everyone's ability to participate politically and contribute more to the labor market, especially females (immediate).
- Designing and implementing policies that allow females to join the formal sector, which leads to their economic empowerment, as this is linked to increased

ability to control their incomes, unlike what they face in the informal sector (in the short and medium terms).

• **Identifying the different needs of the target groups to be able to develop policies and procedures that respond to all needs:**

- Follow-up and evaluation of all relevant measures taken by the state aimed at reducing the negative repercussions of the Corona pandemic, assessing their effectiveness in achieving goals, correcting their deficiencies, and maximizing the benefit from their results to help later inform crisis response plans if the crisis recurs or other similar crises occur (immediate).
- Measuring and monitoring the performance of the entities related to small, medium and micro enterprises, and improving their performance according to the extent of their customers' satisfaction. The aim is to eliminate the centralization of approvals, focus on supporting startups in self-employment, and train and educate human resources (employees in these agencies) to understand the needs of their customers, and to ensure the suitability of projects to governorates, which is sometimes absent (immediate).

3.3.2 Vertical proposals:

The set of vertical proposals was reached in light of five main drivers of change needed to achieve and maximize women's economic empowerment, namely:

- Providing information to females and enabling them to handle it: This is intended to provide various procedural and economic information with the ability to handle data and make sound economic decisions.
- Supplying communication technology to females: that is, the availability of all means and techniques necessary for women to carry out their work and the ability to use these technologies.
- Creating a supportive environment for women

¹¹ For example, it is necessary to develop technical secondary education in its various specializations, especially the most enrolled by females - for example - nursing and commercial secondary education.

in terms of infrastructure, support services, incentives and training: This means furnishing all conditions that ensure the improvement of female performance in the labor market.

- Carrying out structural reforms; provided these reforms include all aspects of institutional, legislative, and other reforms that directly benefit women.¹²
- Exposing females to external experience and culture, with the ability to adapt to the changes they witness.

These drivers were deduced in light of field research and studies conducted by the Egyptian Center for Economic Studies before the outbreak of the COVID-19 pandemic, in cooperation with the National Council for Women to identify

obstacles to the economic empowerment of Egyptian women (more details can be found in Appendix 1). Also, by analyzing various successful international practices and their implications for enabling women to successfully grow their businesses and create job opportunities, and hence develop their local economies (Ehlermann, Nicola and Romano 2020). This is in addition to the detailed study "The Egyptian Woman" prepared by ECES as part of the "Views on the Crisis" series to analyze the impact of the COVID-19 pandemic on women in the labor market in Egypt.¹³

The following is a detailed presentation of the main vertical proposals, categorized according to drivers of change and the different time periods for their implementation, as shown in Table 6.4.

Table 6.4. Vertical proposals for achieving decent economic empowerment for Egyptian women according to the five drivers of change

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months) ¹⁴	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
Driver of Change (1)					
Providing information to females and enabling them to handle it	Create a database with continuous advertising of its contents through campaigns, provided that it includes: - Information on establishment procedures, legal requirements, and investment opportunities to help females set up their projects, specifically in the ideation stage. In this respect, it is possible to use, for example, the "Egyptian Women Entrepreneurship Guide," ¹⁵ prepared by ECES in collaboration with the National Council for Women in 2018. ¹⁶				

12 The COVID-19 crisis revealed a number of structural imbalances that have existed for many decades with regard to the economic and social situation of females in Egypt, which if addressed, will have a great impact on the advancement of the role of women in Egypt in general, not only at the time of the current crisis, as they become a major driver for recovery and growing the economy. Hence, in the following Table (6.4), we present a number of proposals to eliminate the existing weaknesses.

13 "Views on the Crisis" series, Egyptian Woman, Issue 21, 30/9/2020.

14 The government announced a number of decisions and procedures, which are in the interest of Egyptian women and provide them with the necessary support, although the details and mechanisms for implementing some of these decisions are not clear enough, and we suggest taking the following measures urgently.

15 The Guide can be found on the center's website at the following link: <http://www.eces.org.eg/PublicationsDetails?Lang=EN&C=13&T=1&ID=787&The%20Egyptian%20Women%20Entrepreneurship%20Guide>

16 The Egyptian Women Entrepreneurship Guide is a complete reference for any woman wishing to start a private business or expand an existing one.

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months)	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
Providing information to females and enabling them to handle it (cont.)	- Support services that females need to facilitate their work, such as nurseries near their place of work, transportation, prices of basic products and production inputs needed to set up their projects, and the appropriate financial services for each project. - Initiatives and various supporting bodies and any changes therein, to support small and micro enterprises.				
	Using the branches of the National Council for Women, the Ministry of Social Solidarity, the National Bank and the postal service to provide all the information that females need when establishing and operating their projects, and to assist them when facing difficulties , especially during the pandemic, and to take appropriate and necessary policies to address deficiencies.				
	Providing legal consultation services on a balanced geographical basis, and for reasonable remuneration to help women learn about their legal rights, especially in the field of self-employment.				
	Working towards correcting the concepts of women's legal rights and identifying methods of claiming rights.				
Driver of Change (2)					
Providing females with communication technology, and associated requirements	Providing the necessary electronic devices and services for a suitable fee				
	Organizing training courses to learn how to use them, paying attention to the lowest income social groups and unprivileged areas				
	Developing and promoting digital literacy in rural institutions and societies				
	Introducing business-women - especially in rural areas - to electronic services, such as financial services, training, and others.				

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months)	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
Driver of Change (3)					
Creating a supportive environment for women in terms of infrastructure, support services, incentives, innovative ideas and training	Providing transportation and important services, especially health and education services, throughout the country , as women are the most affected by distance.				
	State support for social services supporting women's work at a reasonable cost, and with high quality, such as nurseries for children; taking into account geographical distribution and financial capacity.				
	Providing incentives¹⁷ to the private sector to provide flexible conditions for work that take into account the family responsibilities of female workers through, for example, part-time work or work from home with flexible hours to give women the opportunity to balance their work with their family role.				
	Coordination between entities concerned with children and others related to mother's work before making decisions related to vacations and work dates, with the need to discuss alternatives available. For example, work in government agencies ends at 2 o'clock while in the private sector it extends to 5, while schools end at 2.				
	Providing subsidies to institutions with a large representation of female workers or that are female-owned and that give workers paid leave ¹⁸ during the COVID-19 crisis.				
	Motivating the private sector to employ women through adopting innovative ideas, most important of which are: - Spreading the initiative "Your job is next to your home"¹⁹ as it is a successful model that can be replicated throughout the country for various industries, thus contributing to solving the problem of unemployment, and the scarcity of trained workers in				

¹⁷ It is necessary to encourage the private sector to provide these benefits to females in a way that motivates it to do so, without representing an additional that may prevent it from providing these flexible conditions.

¹⁸ Japan's Ministry of Health, Labor, and Welfare announced support for companies setting up paid leave systems for workers affected by school closures in exchange for continued payment of salaries to those on leave.

¹⁹ Under the "Your Job Next to Your Home" initiative, Qalyubia Governorate, in the first stage of the initiative, established 13 factories, in which the citizens of the province work with factories that export their products of ready-made garments.

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months)	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
	the private sector. Females particularly benefit from this initiative, as it is based on the fact that work places are close to places of residence, which enables them to undertake home affairs in addition to their work. - Provide incentives to female-headed or female-intensive enterprises across the value chains , while ensuring that suppliers who rely heavily on female labor receive concessions (credit benefits, for example).				
	The geographical distribution of appropriate training programs for females in all regions of the country, with diversification of age requirements in the training courses offered, especially programs related to different professional fields, which calls for the need to maximize the use of all branches of the National Council for Women.				
	Focusing on better qualification of females for the labor market through programs prepared by the Ministry of Social Solidarity, and implemented by the National Council for Women and the private sector.				
Driver of Change (4)					
Carrying out structural reforms that directly benefit women	Monitor and follow up on all policies and procedures directed at supporting females and the degree of benefit thereof, both before and after the outbreak of the COVID-19 crisis , and measuring the degree of their impact on different groups of females.				
	Activating "equal opportunity" units in each ministry , provided that one of its tasks is to ensure the availability of services that support the family; such as nurseries close to work, places for activities for children after school, and others.				
	Evaluate the programs and initiatives currently provided to empower women , such as the Takaful and Karama program, to ensure the eligibility of the beneficiaries, assess the impact on the beneficiary families and identify the disadvantaged groups.				

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months)	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
	Maximize utilization of women-related institutions drawing on the powers already available to them in the service and empowerment of women, ²⁰ especially the National Council for Women. ²¹				
	Establishing women's contact points at business associations and similar organizations with the aim of developing an open platform for microfinance business organizations to enhance financial inclusion as well as business development services for female entrepreneurs.				
	<p>Activating or amending relevant laws / implementing regulations / decisions to include a gender perspective, and to deal with women as workers or employers, not from the perspective of their reproductive role, with the aim of achieving the following goals: (Abu Al-Qumsan 2017)</p> <ul style="list-style-type: none"> - Activating the articles of the constitution and legal articles that stipulate equality between males and females. - Allowing family care for both the mother and the father, not just the mother. - Amending definitions related to work to include a discourse for both genders in the laws regulating the labor market. - Ensure that laws contain sufficient guarantees to prevent discrimination against working women. - Ensuring that laws refer to social services or infrastructure supporting women in reconciling their work with their other social roles (providing nurseries or family care as one of the requirements for obtaining a license, provided that this is done in the form of an incentive for the private sector and not an obstacle to the progress of work). - One of the prerequisites for obtaining quality certificates should be the degree of gender diversity in the board of directors and the number of male and female workers. - Revisiting the fields of work that females may be denied entry to. 				

20 Nazra for Feminist Studies. What happens after the amendment of its powers: A feminist comment on the new law for the work of the National Council for Women, 9 December 2018.

21 For example, many powers have been provided to the National Council for Women under the National Council for Women Organization Law No. 30 of 2018, including, for example, the power to collect data and statistics that enable it to perform its role, and to call on government agencies that have stopped or failed to perform their role in data and information collection, preparing and publishing reports to comply with its responsibilities and issuing and publishing updated data.

Drivers of Change	Proposals	Time frame for proposals			
		Immediate (within six months)	Short-term (within one year)	Medium term (within three years)	Long term (more than three years)
Driver of Change (5)					
More female exposure to external experience and culture, with the ability to adapt to the changes they witness	Conducting awareness campaigns involving the entire community to correct outdated cultural legacies and customs, and raise awareness of the importance of the role of women. The aim is to highlight the importance of educating females and making use of their capabilities in the labor market, targeting particularly rural and border areas (Abdel Mawla 2009).				
	Study of successful international practices in the field of women's empowerment and the use of mechanisms appropriate to local conditions.				
	Removing the social and cultural barriers that limit women's potential for entrepreneurship, by addressing stereotypes on many levels; within families, communities, the education system, and the business environment.				
	Eliminate old conventions that give males control over the financial resources and assets of females.				
	Celebrating successful models in self-employment and advancing early female applicants for funding or training programs, especially in rural and tribal societies. This could spread knowledge and encourage others to join.				




Source: Prepared by ECES.

Appendix 1

- The Egyptian Center for Economic Studies prepared a study entitled "Towards a gender-responsive economic policy in Egypt" in 2016 within the framework of joint cooperation between the National Council for Women and the Egyptian Center for Economic Studies.
- In this context, the Center held fourteen in-depth discussion sessions with 164 women from thirteen governorates during the period October - December 2016. The sessions aimed to identify obstacles to the economic empowerment of Egyptian women, the main factors that impede empowerment, and highlight the extent of these differences among the different groups of women and their relevance to place of residence, age and social level; in addition to identifying the drivers of change that can effect a radical change in the reality of women.
- The study highlighted a number of factors supporting economic empowerment (drivers of change), which the study considers necessary to rely on to bring about empowerment over the coming period. The drivers of change that the study highlighted are as follows:
 1. Openness to useful experiences and cultures.
 2. Availability of information and the ability to deal therewith.
 3. Facilitating technological means.
 4. Supportive environment in the form of education, infrastructure and the economic structure of the governorate.
- The figure below, No. A1-1, attempts to illustrate the differences between the factors / drivers of change according to geographical location, age group, and social segment.

Figure A1.1. Differences between drivers of change

	Openness to other experiences and cultures				Availability of information				The availability of communication technology				Supporting environment					
Geographical distance	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Age group	i	ii	iii	iv	i	ii	iii	iv	i	ii	iii	iv	i	ii	iii	iv		
Social segment	a		b		c		a		b		c		a		b		c	

Geographical distance	(1)	Urban governorates	(2)	Lower Egypt governorates	(3)	Upper Egypt governorates	(4)	Border governorates
Age group	(i)	18-29 years old	(ii)	30-45 years old	(iii)	46-60 years old	(iv)	60+
The social segment	A	Medium-Upper segment	B	Modest-Medium segment	C	Poor-Modest segment		
Color code		Strong appearance		Moderate appearance		Weak appearance		

Geographical differences

In general, urban governorates are the most fortunate in terms of availability of the four factors, followed by the governorates of Lower Egypt. The governorates of Upper Egypt and border governorates are the least fortunate, as follows:

- Participants from most urban governorates enjoyed good areas of exposure and good availability of information due to the development of the governorates, the diverse economic structure, and the multiplicity of areas of expertise.

- The governorates of Lower Egypt generally have good infrastructure and good access to technology. However, it is not possible to generalize across all governorates of Lower Egypt in terms of openness to experience and access to information.
- The border and Upper Egypt governorates suffer from long distances and the difficulty of moving internally and between governorates, which affects the areas of exposure of women.

Age differences

The differences between the age groups of the participants appear either because of the different responsibilities according to the age group, or because of the availability of new opportunities for the younger participants that were not available before, as well as the geographical differences and cultural differences that older age groups were most affected by, as follows:

- There are two age groups for which increased exposure has been observed: The first group is 30-45 years old and the second is for those over 60 years old. The first group was probably helped by the dynamics of the labor market with relatively less family burden in terms of caring for children after reaching ages where they can support themselves. As for the latter group, it depended on accumulated life experience.
- As for the two groups that are less open to experiences, they are: First, the 18-29 age group, which were students or women at the beginning of their working lives, or whose children are still in their early years, that need comprehensive care. Hence, the most open

models in this category were an exception. Technology has contributed to increasing awareness of this age group compared to this stage among previous generations. Due to the neglect of many initiatives of the technological side, this age group did not follow these initiatives. As for the age group of 46-60 years, it is the main reason for the inequality of exposure lies in the geographical differences that this group suffered from at the beginning of their lives, and lack of means to overcome this deficiency.

Social differences

The division of social segments was based on observations by the research team during the interviews due to the lack of data on the income of the participants, while making sure the division is realistic through the nature of work and places of residence of the participant. In summation, it can be said that the higher the social segment of the participant, the higher the availability of the four factors. The level of income has a direct and indirect effect on drivers of change. Despite the fact that limited income presents a challenge for both women and men, women are more likely to be negatively affected in obtaining resources either by choice or against their will (discrimination). The impact of the social level on the drivers of change in empowering women can be monitored through the supportive environment factor, from education services to infrastructure, which then affects areas of knowledge and exposure. The availability of technology also depends on the ability to purchase modern electronic devices, which may not be affordable in the case of low-income segments.

Appendix 2

Table A2.1. Correct measures targeting the real causes of female economic and political obstacles - examples from real life

Symptoms of the problem	Presumed reason	Actual reason	Insufficient current procedure to solve the problem	Necessary action
Females' preference for government work versus the private sector	Unwillingness or insufficiency of females to work in the private sector	<ul style="list-style-type: none"> Flexibility of working conditions in the public sector, where they are able to reconcile work and family care. The average wage for females is lower than that of males in many private sector jobs. The private sector does not favor female employment for several reasons, including the fact that an employer who employs 100 workers or more in one place must establish a nursery or commission a nursery to take care of the workers' children. The decline in working conditions for women, especially in the informal private sector, in which women are denied contractual protection, work rights, and special benefits. 	The provisions of the legislative framework regarding maternity leave and childcare, and the presence of nurseries for children in the private sector.	<ul style="list-style-type: none"> The state to provide appropriate incentives to the private sector to encourage more female employment in decent conditions, so that it sees women as a resource for its activities (for example, tax benefits). Providing flexible conditions for work in the private sector that take into account family responsibilities (part-time work, work from home and flexible hours).
Weak political participation of women in Egypt despite the large number of appointments	<ul style="list-style-type: none"> The low number of women who are willing and able to assume political offices. Females' reluctance to run for both Houses of Representatives, and being satisfied with their presence through the quota set for women. 	<ul style="list-style-type: none"> Lack of adequate training for women to play their politically appropriate role over successive years, which made them lose confidence in their competence to play this role. 	Allocating a quota for women of 25% for the house of representatives and 10% for the senate.	<ul style="list-style-type: none"> Training women on inclusive political activity by finding an effective role for local governments. This requires activating the local administration law and the associated constitutional requirements. Consequently, women will have sufficient qualification to run for the House of Representatives and Senate elections on their merit and not only for the legislatively prescribed quotas, and to play the desired political role.

Source: Prepared by ECES.

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7. Egypt's External Position

ECES Research Team

First: Introduction

1.1. Sources of vulnerability in Egypt's external position prior to the crisis

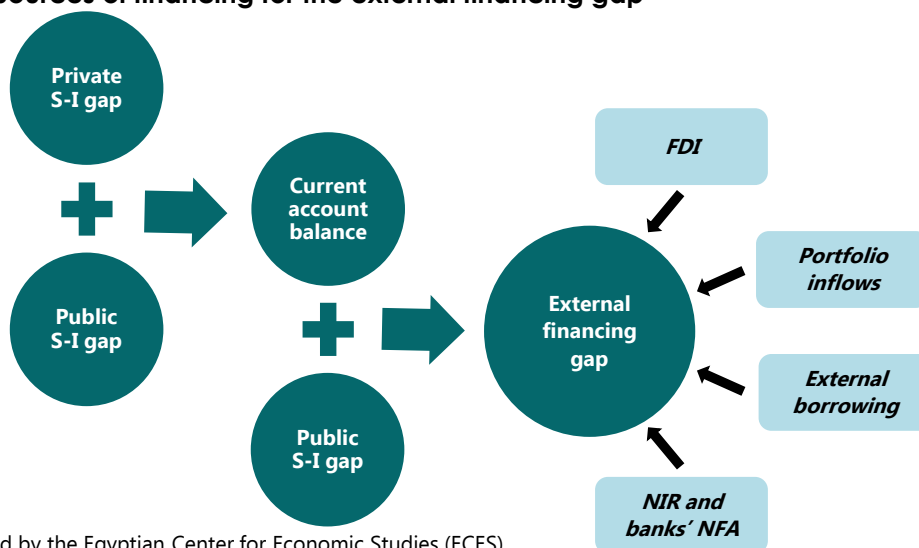
Before assessing the impact of the crisis, it is instructive to analyze recent external sector developments in Egypt, and their interlinkages with the macroeconomic policy stance. Egypt has consistently run a current account (CA) deficit which averaged 4% of GDP during the period from July 2014 to March 2020. This compares to a surplus of 0.1% in emerging and developing economies on average over the same period. In 2015/16, the CA deficit reached an alarming level of 6% of GDP in concurrence with a destabilizing currency crisis. The drastic devaluation of the exchange rate in November 2016 helped reduce the CA deficit; however, the root cause of the CA imbalance remained in place.

Egypt's CA deficit is best understood in terms of a basic macroeconomic identity stating that the savings-investment gap equals the CA balance. Therefore, the large and persistent CA deficit in recent years reflects the fact that the rate of investment in Egypt exceeds what can be financed by national savings. As a result, a CA deficit is realized, which in turn needs to be financed. One source of financing is foreign savings through foreign direct investment (FDI), portfolio inflows, or external borrowing. The other source of financing

entails using previously-accumulated savings of foreign currency, which results in the depletion of the Central Bank of Egypt (CBE) net international reserves (NIR), commercial banks' net foreign assets (NFA), or both. Noting that we can break down Egypt's SI gap into public and private savings gaps, and that debt service is a commitment that also has to be financed, we summarize these relationships in Figure 7.1.

The next point in our analysis is to analyze developments in both the public and private savings-investment gaps over time. As shown in Figure 7.2, the reason behind the decline in the overall savings-investment gap in Egypt is the increase in the government budget deficit, which increased progressively from 7% of GDP in 2004/05 to 12.9% in 2018/19. The trends in Figure 7.2 indicate that Egypt is currently experiencing a twin-deficit situation with persistent government budget and CA deficits. As fiscal policy became increasingly expansionary in recent years, the CA deficit became persistent and of a large magnitude. To put things in perspective, it is important to note that every 1 percentage point increase in the government budget deficit requires about USD 3 billion of financing, which translates into large external financing needs to avoid running down NIR and the NFA of commercial banks.

Figure 7.1. Sources of financing for the external financing gap

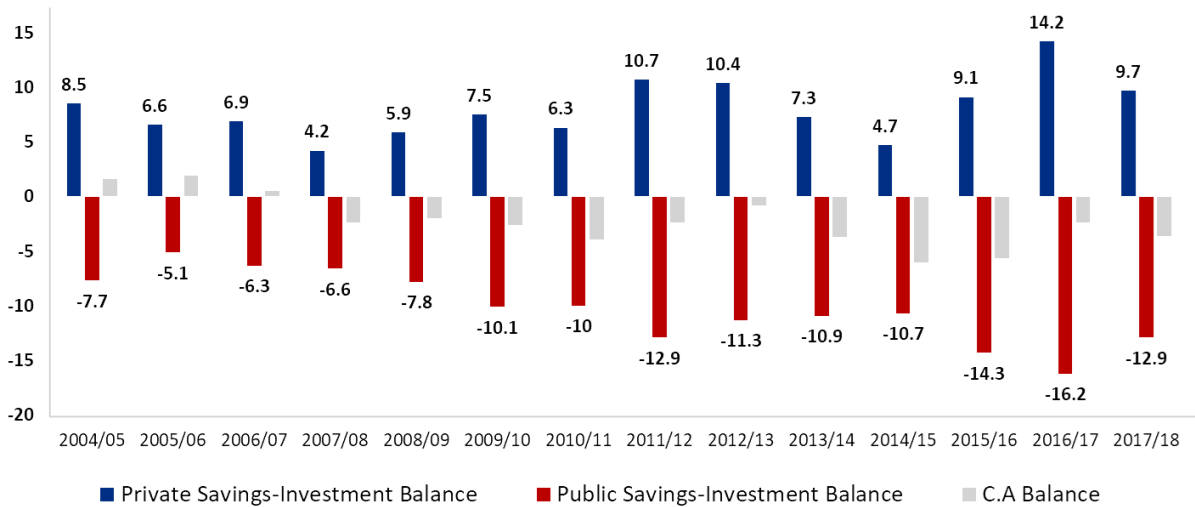


Source: Prepared by the Egyptian Center for Economic Studies (ECES).

The improvement in the government budget deficit since 2016/17 is due to the fiscal consolidation undertaken as part of the IMF Extended Fund Facility agreement for a total funding of USD 12 billion approved in November 2016. The agreement entailed targeting a primary

budget surplus which was achieved in 2017/18. This is a noteworthy achievement as it represents the first time since 2006/07 that a primary budget surplus is attained. However, the overall budget deficit remains high in comparison to other emerging markets.

Figure 7.2. Public and private savings-investment balance and the current account (% of GDP)

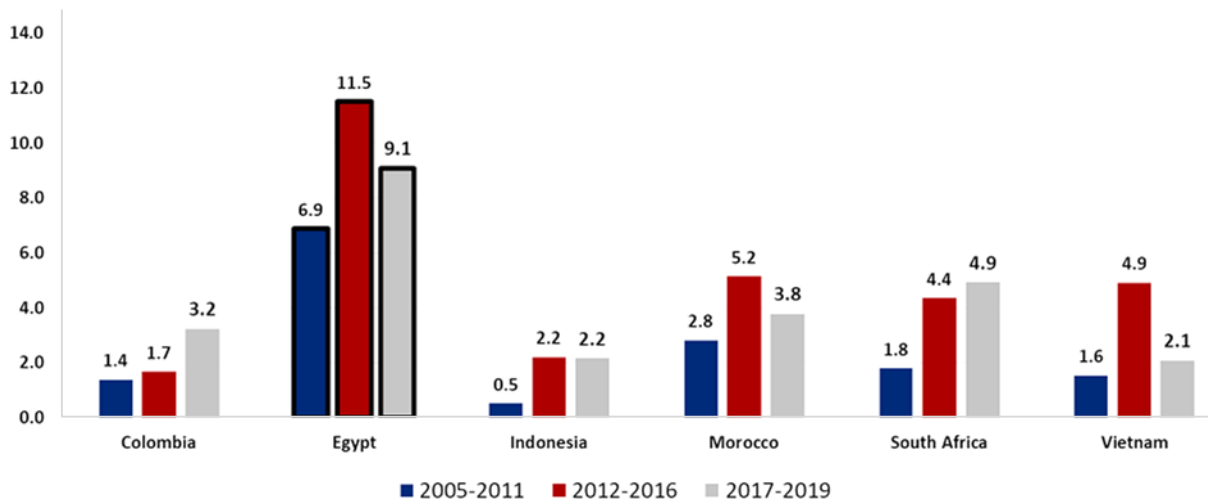


Source: International Monetary Fund (IMF) Egypt Country Reports (09/25, 10/94, 15/33, 18/14, 19/311, 20/271).
 Note: All variables are expressed as a percentage of GDP.

Despite the fiscal consolidation undertaken starting 2017/18, the overall budget deficit recorded an average of 9.1% of GDP in FYs 2017-2019 compared to an average of 3.2% of GDP in selected peer economies; see Figure 7.3. In addition to having a larger overall budget deficit,

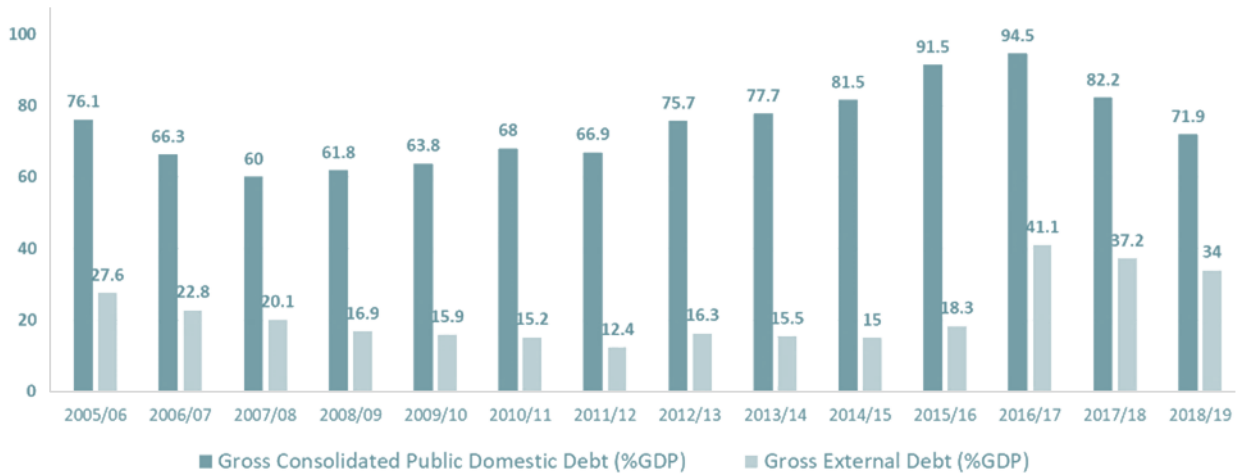
Egypt also has a high level of domestic public debt which recorded 71.9% of GDP in 2018/19. As for external debt, it reached a high of 41.1% of GDP in 2016/17, but declined thereafter to reach 34% of GDP in 2018/19; see Figure 7.4.

Figure 7.3. Overall budget deficit: Cross-country comparison



Source: IMF Fiscal Monitor database.
 Note: The overall budget balance is defined as the difference between total revenue and total expenditure using the IMF's 2014 Government Finance Statistics Manual (GFSM 2014).
 *All variables are expressed as a percentage of GDP.

Figure 7.4. Domestic and external debt (% of GDP)



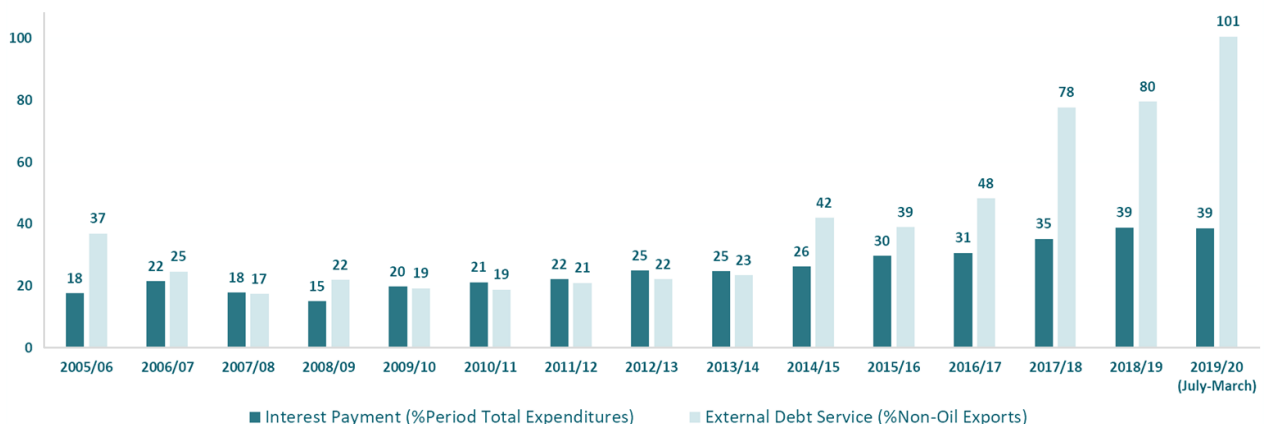
Source: Ministry of Finance (MoF) Bulletins (vol.15 no.10, vol.15 no.2, vol.14 no.3, vol.12 no.2, vol.11 no.3, vol.10 no.2, Sep Bulletins for 2013, 2012, 2011, 2010).

Note: Yearly figures calculated at the end of June, defined as consolidated domestic debt due on the general government and economic authorities, excluding outstanding debt of economic authorities to NIB as well as budget sector borrowing from economic authorities, gross external debt calculated using end of period exchange rate.

It is important to note that the debt-deficit spiral is becoming a challenge as seen in Figure 7.5. Interest expense on domestic debt has ballooned in recent years constituting around 40% of total government expenses in the Parliament-approved budget for 2019/2020. In addition, external debt service rose sharply to record 101% of Egypt’s non-oil exports during the period July 2019 to March 2020.

Before turning to the financing of the CA deficit, it is instructive to analyze the recent trends in Egypt’s BoP. As shown in Table 7.1, there has been an improvement in the non-oil goods’ trade balance, however, it is driven by a retrenchment of both exports and imports, with the latter retreating at a faster pace. At the same time, the services balance witnessed an improvement due to an increase in tourism revenue as the sector

Figure 7.5. Interest payments on domestic debt and external debt service



Sources: MoF Financial Monthly Bulletins (vol. 15 no.10, vol.14 no.3, vol.12 no. 2, vol.10 no. 2, Sep bulletins for 2012, 2013); Central Bank of Egypt (CBE) Monthly Statistical Bulletins (no. 165, 174, 190, 225, 250, 282), preliminary results for 2018/2019 and 2019/2020 (July-March).

Note: Yearly figures calculated at end of June.

witnessed gradual recovery in the years prior to the COVID-19 crisis. Private remittances have also played a significant supporting role rising steadily since 2016/17. However, primary net income outflows (mostly interest payments on external debt) have somewhat limited these Egypt's

dependence on tourism revenue and private remittances as primary sources of CA receipts has increased in recent years; however, these sources are not immune to de-stabilizing shocks. Non-oil exports remain a modest contributor to CA receipts.

Table 7.1. Selected balance of payments indicators

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Jul-Mar)
Current account	-3.7	-6.0	-5.6	-2.4	-3.6	-2.7
Trade balance	-11.8	-11.6	-14.5	-14.9	-12.6	-10.2
Oil and gas	-1.0	-1.1	-2.2	-1.5	0.0	-0.3
Other exports	-10.7	-10.5	-12.3	-13.4	-12.6	-9.9
Services balance	3.2	2.0	2.2	4.4	4.3	3.1
Services receipts	6.6	4.8	6.0	8.6	8.1	6.7
of which: Tourism receipts	2.2	1.1	1.7	3.9	4.2	3.5
Primary income (net)	-1.7	-1.3	-1.8	-2.5	-3.6	-3.3
Transfer	6.6	5.1	8.5	10.6	8.3	7.8
of which: Private remittances	5.8	5.0	8.5	10.5	8.2	7.7
Capital and financial account	5.4	6.4	6.0	5.2	1.4	1.5
Medium/long-term borrowing (net)	-0.1	0.4	1.1	0.4	0.4	0.5
FDI (net)	1.9	2.0	3.0	3.0	2.6	2.0
Portfolio investment (net)	-0.2	-0.3	6.3	4.8	1.4	-2.9
Commercial banks' NFA	2.4	2.5	-3.1	1.2	-0.6	2.9
Other items (inc. CBE deposits)	1.4	1.8	-1.1	-4.0	-2.4	-1.0
Overall balance	1.8	-0.8	-0.8	1.6	-2.3	-1.9
Memorandum items:						
Nominal GDP (EGP billion)	2,444	2,709	3,470	4,437	5,322	4,475
Nominal GDP (USD billion)	332	332	256	250	302	275
Exchange rate	7.4	8.1	14.7	17.7	17.6	16.1

Sources: CBE; IMF.

As a result of the chronic CA deficit, the economy has become increasingly reliant on two sources of financing: portfolio inflows in the form of “carry trade” in the local bond market, and external borrowing. As shown in Table 7.1, net portfolio investments rose from negligible values to a significant 6.3 of GDP (USD 16.1 billion) and 4.8% of GDP (USD 12 billion) in 2016/17 and 2017/18, respectively. As nominal interest rates were hiked in 2017 to contain the inflationary impact of the devaluation in November 2016, the increase in the interest rate differential on the Egyptian Pound attracted significant portfolio inflows. The stock of inflows into domestic government T-bills and bonds stood at USD 21.4 billion and increased further to USD 37.1 billion by the end of 2019.¹

Increased reliance on portfolio inflows as a source of external financing, encouraged by high nominal interest rates, marked an unprecedented development for the Egyptian economy and made Egypt’s external financing position vulnerable before the onset of the COVID-19 crisis. Furthermore, this dependence represents a conundrum in Egypt’s macroeconomic policy framework. Dependence on portfolio inflows makes it difficult to disentangle the key monetary policy tool of the CBE, the short term interest rate, from the needs of financing the CA deficit. Despite a 300 basis points cut in interest rates by the CBE in March 2020 in response to the COVID-19 crisis, nominal interest rates in Egypt remain high in comparison to peers. The level of nominal Interest rates seems to be intricately linked to keeping the carry

trade in Egypt attractive for foreign investors.² In addition, real interest rates have risen significantly with inflation moderating since the early months of 2020, which has depressed domestic private investment, and threatens the sustainability of Egypt’s debt dynamics if growth remains subdued.

Second: The COVID-19 Crisis: A Stress Test for Egypt’s External Position

The current pandemic crisis is the first in recent history to present a deep shock to demand and supply simultaneously, with a differential impact on the economy. Labor-intensive sectors such as hotels, restaurants and recreational activities have been hit particularly hard. Given the focus of this report, we focus on the flows in Egypt’s BoP that are directly impacted by the crisis.

Table 7.2 shows the change in the outlook for the Egyptian economy based on the revised IMF projections between October 2019 and September 2020. On the side of the CA, it is generally expected that the non-oil goods trade deficit will moderate as the drop in imports exceeds that in exports marking an improvement in the overall trade balance. However the balance of services trade is likely to deteriorate, driven primarily by lower receipts from tourism, and partly by lower remittances due to the decline in oil prices. Accordingly, the CA deficit is projected to deteriorate further to record 4.3% and 4.6% of GDP in 2019/20 and 2020/21, respectively.

¹ External balance assessment by the CBE for the year 2016/2017 (report no. 58), and for July/Sep 2019-2020 (report no. 67).

² Currently, Egypt offers one of the highest nominal yields making it one of the world’s most attractive destinations for the carry trade.

Table 7.2. Balance of payments: Change in the outlook due to COVID-19

	Actual		IMF Projections					
	2017/18	2018/19	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
			(October 2019)			(September 2020)		
Current account	-2.4	-3.6	-2.5	-2.1	-1.9	-4.3	-4.6	-2.7
Trade balance	-14.9	-12.6	-11.7	-11.5	-11.6	-9.6	-8.0	-7.4
Oil and gas	-1.5	0.0	0.8	0.7	0.1	0.6	0.5	0.2
Other exports	-13.4	-12.6	-12.6	-12.2	-11.7	-10.2	-8.5	-7.7
Services balance	4.4	4.3	5.1	5.3	5.5	3.0	1.2	2.6
Services receipts	8.6	8.1	8.8	9.0	9.2	6.1	3.5	5.4
of which: Tourism receipts	3.9	4.2	4.7	4.9	5.0	2.9	0.9	2.4
Primary income (net)	-2.5	-3.6	-3.0	-2.9	-2.7	-4.1	-4.0	-4.0
Transfer	10.6	8.3	7.1	6.9	6.9	6.4	6.2	6.1
of which: Private remittances	10.5	8.2	7.0	6.8	6.8	6.3	6.1	6.0
Capital and financial account	5.2	1.4	1.8	2.4	2.2	-1.1	2.5	3.1
Medium/long-term borrowing (net)	0.4	0.4	0.2	0.1	0.1	0.3	0.2	0.2
FDI (net)	3.0	2.6	2.3	2.5	2.8	2.2	2.0	2.3
Portfolio investment (net)	4.8	1.4	1.5	1.6	1.0	-3.6	0.8	1.6
Commercial banks' NFA	1.2	-0.6	1.2	0.3	0.9	1.7	0.4	0.9
Other items (inc. CBE deposits)	-4.0	-2.4	-3.3	-2.1	-2.5	-1.8	-0.9	-1.9
Overall balance	1.6	-2.3	-0.6	0.3	0.3	-5.4	-2.1	0.4
Memorandum items:								
Nominal GDP (EGP billion)	4,437	5,322	--	--	--	--	--	--
Nominal GDP (USD billion)	250	302	--	--	--	--	--	--
Exchange rate	17.7	17.6	--	--	--	--	--	--

Sources: CBE; IMF.

With a large CA deficit, the BoP is projected to record a deficit of 5.4% of GDP in 2019/20 and 2.1% of GDP in 2020/21 before recording a surplus of 0.4% of GDP in 2021/22. Capital flows are subject to a reversal in 2019/20 (an outflow of 3.6% of GDP) followed by a resumption of inflows starting 2020/21. The approval of COVID-19 emergency support from the IMF amounting to USD 2.8 billion, in addition to a stand-by arrangement equivalent to USD 5.2 billion were clearly needed to avoid a massive deterioration in NIRs.

The duration and magnitude of deterioration in the CA depends on the pace of recovery in the global economy from the pandemic crisis. Additionally, risks to the outlook revolve around

two dimensions: (i) sudden stops or reversal in capital flows to emerging markets, and (ii) higher borrowing costs due to an increased risk premium for emerging market debt. In what follows we outline two scenarios to highlight possible trajectories.

2.1. Two scenarios

In scenario formulation, our assumptions about global economic developments focus on two factors that currently have the largest impact on the Egyptian economy: The state of recovery in global demand, and the level of volatility of capital flows to emerging markets. While the Egyptian economy is not heavily integrated into the global economy given its low trade openness

ratio, global economic conditions impact economic sectors with a direct link to the CA, such as tourism and Suez Canal revenue. In addition, a recovery in

global demand is likely to increase oil prices which affects the flow of funds from the oil-rich MENA economies into Egypt in the form of remittances and FDI.

Table 7.3. Scenario assumptions

	Scenario 1	Scenario 2
Global demand	Slow, protracted recovery.	Quick recovery starting 2021H2.
International portfolio flows	Volatile portfolio flows, with recurring sudden stops.	Stable portfolio inflows into emerging markets.

Source: Prepared by ECES.

The assumptions listed in Table 7.3 indicate that Scenario 1 foresees a slow and protracted recovery in global demand due to the long-term economic scarring from the pandemic shock and its impact on the economy's supply side. It also foresees that portfolio inflows into emerging markets will be characterized by volatility and recurring sudden stops. This is based on emerging evidence of an alarmingly intense second wave of the pandemic in Europe and the U.S., coupled with the uncertainty accompanying the upcoming U.S. presidential election. Scenario 2 foresees a steady recovery in economic activity in the major advanced economies starting the second half of 2021, and relatively stable capital flows into emerging markets with no sudden stops or reversals.

2.2. Expected outcomes under different scenarios for FY 2020/21

Under the Scenario 1, it is expected that CA deficit will record 4.5% of GDP in 2020/21 implying a large financing gap. The CA deficit is driven mainly by the decline in tourism revenue, and to a lesser extent, by a drop in Suez Canal revenues. The resulting external financing gap is partly financed by external borrowing since global capital inflows are assumed to remain volatile and subject to potential sudden stops/reversals under this scenario. Given the magnitude of the external financing gap, a large negative BoP position prevails (around 3.5% of GDP), and this results in a drawdown in NIR, and possibly in commercial bank's NFA by the same magnitude.

Table 7.4. Macroeconomic outcomes for FY 2020/2021

	Scenario 1	Scenario 2
Current account balance	Further pressure on the CA deficit; deficit exceeding 4.5% of GDP; large external financing gap.	Maintaining CA deficit at slightly lower than recent levels to stabilize at 3.5% of GDP. This is driven mainly by higher tourism receipts.
Balance of payments	A large negative BoP position (around 3.5% of GDP) due to the inability of capital inflows to consistently close the external financing gap; reliance on external borrowing at higher cost due to higher risk profile for emerging market debt.	A negative BoP position around 1.5% to 2% of GDP. Steady capital inflows encouraged by high-interest rates help in partially closing the external financing gap. The mild negative BoP position improves as global recovery resumes.
CBE Net international reserves and commercial banks' net foreign assets.	A decline in NIR, and some volatility in the NFA position of the banking sector.	Stability in NIR and slight decline in NFA (as % of GDP) until global recovery begins. Stability in both NIR and NFA (as % of GDP) thereafter.
External debt	An increase in external debt from an already elevated level, and increased reliance on short-term debt.	Stability in external debt level (as % of GDP) if capital inflows are sufficient to close the gap, or a slow-paced increase if short-term debt is used in case of shortfalls in capital inflows.

Source: Prepared by ECES.

Under scenario 2 (optimistic scenario), with the assumption of a faster pace of recovery in global demand, we observe a milder CA deficit at around 3.5% of GDP. Stable capital inflows encouraged by the high interest rate differential help in partially closing the external financing gap. The resulting BoP deficit, around 1.5% to 2% of GDP, is mainly financed through the NFAs of commercial banks while NIR remain stable. Total external debt is either stable or subject to a small increase depending on any shortfalls in capital inflows.

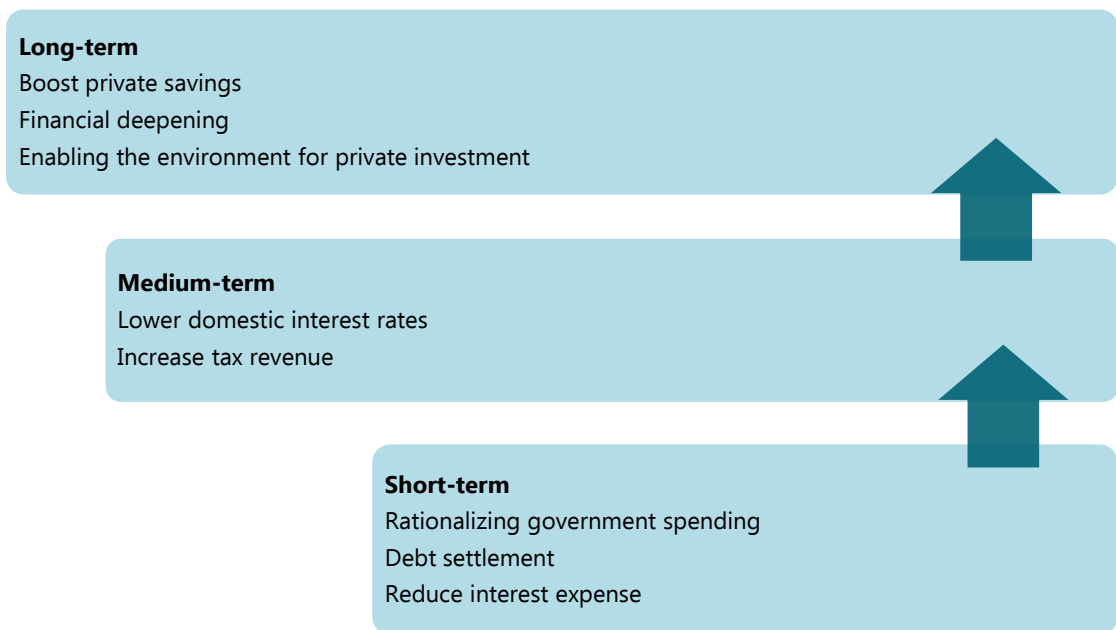
Our scenario projections differ from those of the IMF's latest projections in the following respects: Our baseline scenario projects the same CA deficit as the IMF projection, however, we project a wider BoP deficit (3.5% of GDP) compared to the IMF (2.1% of GDP) under our baseline scenario. This is due to our assumption of continued volatility in capital inflows which makes it an unreliable source of financing in an environment of heightened global uncertainty. On the other hand, our optimistic scenario projects a milder BoP deficit (1.5% to 2% of GDP), which is closer to the IMF projection (2.1% of GDP). Under the latter scenario, we are also projecting a milder account deficit compared to the IMF projection.

Third: Remedial Policy Measures

To reduce Egypt's external vulnerabilities, a multi-pronged approach is needed to achieve two simultaneous objectives: (i) reduce overall dependence on external financing, and (ii) change the balance of external financing sources in favor of stable, growth-enhancing sources. Figure 7.6 depicts the policy recommendations, which are organised in terms of duration needed for the implementation of policy changes, with more detailed descriptions of policies and policy outcomes presented below.

Fiscal consolidation is the key starting point over the short term to break the cycle exacerbating external vulnerabilities. A reduction in the overall government budget deficit will reduce the CA deficit and mitigate pressure on the BoP. It also frees the short-term interest rate as a monetary policy tool to achieve its objective, which is delivering low and stable rates of inflation. Measures to raise domestic private savings are also needed to improve the CA balance further. Finally, creating an enabling business environment for the private sector is key to attract domestic and foreign direct investments.

Figure 7.6. Policy recommendations sequencing



Source: Prepared by ECES.

The extent of fiscal consolidation needed in the short term should match the shortfall in the primary sources of CA receipts such as tourism revenues. If capital inflows into the carry trade witness a partial reversal as under Scenario 2, then further reduction in the budget deficit will be needed. It is also worth noting that fiscal consolidation is contractionary in general; however, the measures listed below are meant to minimize the contractionary impact of the consolidation effort.

The currently high real interest rates on the other hand are a direct threat to the sustainability of public debt. For government debt to remain steady or decline as a percentage of GDP, the real interest rate on debt should be less than or equal to real GDP growth. The reason behind high nominal interest rates despite the significant moderation of inflation in recent months is possibly linked to keeping the "carry trade" attractive and maintain steady capital inflows to finance the CA deficit.

It is therefore essential to ensure that such consolidation has little to no social impact, as well as to build a strategy for medium and long term sustainability. In light of this, we propose in what follows measures that do not impact spending on education, health and social safety nets, and that boost private sector savings and structural reforms. These are:

- **Rationalizing government spending (fiscal policy):** The key component that can be rationalized without significant negative socio-economic effects is capital spending on various investment projects. This can be replaced with effective public-private partnerships (PPPs), where the private sector can play its natural role. This measure is then expected to have a reduced contractionary impact since the total spending on infrastructure projects may be maintained but with a switching of the source of financing from public funds to private investments.
- **Bulk debt settlement (fiscal policy):** For financial adjustment to be successfully expansionary, it must be met with a decline in sovereign premium, which translates to reduced

interest rates. Interest payments on debt currently constitute around 40% of total government spending, which is due to a high stock of debt as well as high interest rates. Aiming for bulk debt settlement will help reduce interest payments and achieve a reduction in the overall deficit. This can be targeted as a short-term policy measure with significant payoffs, and it can be achieved via different measures: First, the current pandemic crisis has opened the door for international calls for debt forgiveness and debt restructuring for developing economies, which Egypt can capitalize on. Second, debt swaps can be arranged, especially in light of the increasing attractiveness of "debt-for-environment" swaps, in which debtors offer partial debt forgiveness in exchange for the forgiven debt payments being directed to projects with significant environmental benefits. Third, selling unutilized state-owned assets is also a viable option with the proceeds directed entirely towards debt settlement.

- **Reduce interest expenses (fiscal policy):** The debt management strategy currently adopted by the government is a good vehicle to target a gradual reduction in interest expenses via a combination of measures including, but not limited to; improved maturity management and exploring the options of refinancing at lower borrowing costs, given the currently favorable global environment with low interest rates. It is worth noting that this measure, combined with the debt settlement, has no contractionary impact since both measures relate to the management of the debt principle and its interest expense.
- **Lowering domestic interest rates (monetary policy):** This is a measure that is made available by the financing of the C.A deficit and relieving BoP pressures, which achieves a number of important objectives. First, and foremost, it frees the short term interest rate as tool of monetary policy from subservience to fiscal considerations. Second, it lowers the real interest rate which is critical

for debt sustainability. Third, it lowers the cost of borrowing which stimulates aggregate demand and counterbalances any contractionary effects due to fiscal consolidation. In a nutshell, lower domestic interest rates will effectively complement the fiscal consolidation effort.

- **Increasing tax revenue over the medium-term fiscal (fiscal policy):** A tax system that is predictable and progressive is needed for a successful and sustainable increase of tax revenue. Tax policy reform coupled with improved tax administration has proven to be the most effective way to sustain tax revenue. In order to facilitate such processes, tax code simplification and compliance to tax reporting is key, particularly in light of the large informal sector in Egypt. A simplified tax code will reduce barriers for smaller businesses to enter the formal sector, in addition to providing investors with a stable tax policy framework to confidently invest in projects without arbitrary costs. The digitization of economic transactions, which is currently a top priority for the government, is a step in the right direction. It is also necessary to revisit the current tax policy, assessment of a more progressive taxation structure is needed over the medium term.
- **Boosting private savings in the long run (financial development):** With regard to boosting private savings in Egypt, it is crucial to have a stable macroeconomic environment allowing for a sustainable high growth in per capita incomes. This also requires a general policy framework that promotes equitable growth. If inflation is kept in check and inflation expectations become firmly anchored, then financial planning is fundamentally improved, which enables households and corporations to assess the viability of alternative savings and investment vehicles.

- **Financial deepening (financial development):** Which is essential for increasing savings. Financial deepening requires enhanced financial inclusion to tap into the savings of the informal sector and channel them for productive use. Moreover, Egypt needs to evolve from the current financial sector dominated by banks where deposits are the main savings vehicle. Developing domestic capital markets is essential. Introducing new financial instruments to the Egyptian market, such as inflation-indexed bonds and exchange-traded funds, as well as expanding the bond market to be more inclusive are crucial steps towards developing the capital market in a way that attracts private savings.
- **Enabling environment for private investments (investment policy):** In parallel to fiscal consolidation and interest rate normalization, further institutional reforms are needed to create an enabling business environment for the private sector. In recent years, the government undertook massive infrastructure investments which positively impacts long-run productivity and growth. However, this can only be realized if the private sector resumes its role as the engine for growth and employment generation. Reforms in the investment environment should aim at removing all sorts of hurdles for investors, and creating a level-playing field in which the private sector can flourish. Well-tailored policies are needed to particularly boost private investment (both domestic and foreign) in manufacturing industries which have export potential. Over time, this will lead to growth in non-oil exports which could well become the driving force to achieve a stable CA surplus.

Fourth: Concluding Remarks

The objective of this report is to present a diagnosis of Egypt's external sector vulnerabilities. The report shows how vulnerabilities in Egypt's external position persisted well before the COVID-19 crisis hit the economy, mainly in relation to heavy reliance on portfolio inflows and external borrowing to finance the current account deficit. Through offering two scenarios for the evolution of the external sector during and in the aftermath of the COVID-19 crisis, we discuss projected trends for

the current account and the balance of payments, and the implied developments in net international reserves, banks' net foreign assets, and external debt.

The report concludes with a discussion of policy measures to mitigate the risks imposed by the current vulnerabilities. These measures focus primality on fiscal consolidation and boosting private savings, interest rate policy, and the creation of a hospitable environment for domestic and foreign investment.

8. Seeking Ground in a Bottomless Sea: Addressing Misconceptions about External Debt in Egypt

ECES Research Team

First: Introduction

In the grand scheme of the economy, a quintessential goal for governments lies in maintaining a growth rate that is high enough to achieve sustainable development goals regardless of economic pressures and - if insufficient - a complementary debt level that is used efficiently and serviced properly towards generating revenue for development and not cycle into more debt. Debt, by definition, is a fiscal tool that supports the target achievement of growth and development, not impede it by using debt to finance more debt. A sound debt management plan lies at the heart of it all; reducing the risk that accompanies international exposure, be it in interest or currency.

Managing debt then becomes a matter of meeting needs for development and growth while simultaneously ensuring the lowest cost of servicing, which is met at a certain level of risk. Debt analysis becomes a key aspect of the budget review as it not only advances macroeconomic stability, but it also allows for the mobilization of resources crucial for long-term development, in addition to boosting financial deepening within the domestic market. This is where certain pitfalls can appear within the debt diagnosis; there are hazards regarding the costs and treatment of such a debt level that seemingly appear to be manageable in the present, only to pose a high risk to the wealth of future generations. If such hazards are examined carefully and the government hedges against such risks, only then can debt be set on a sustainable path that buoys itself and - more importantly - becomes a driver of real change within the economy.

Much like most developing economies, Egypt is no stranger to debt dynamics. However, with the most recent global crisis, potential risks of rising debt accumulation, servicing and their respective impacts on the current and future budgets, there

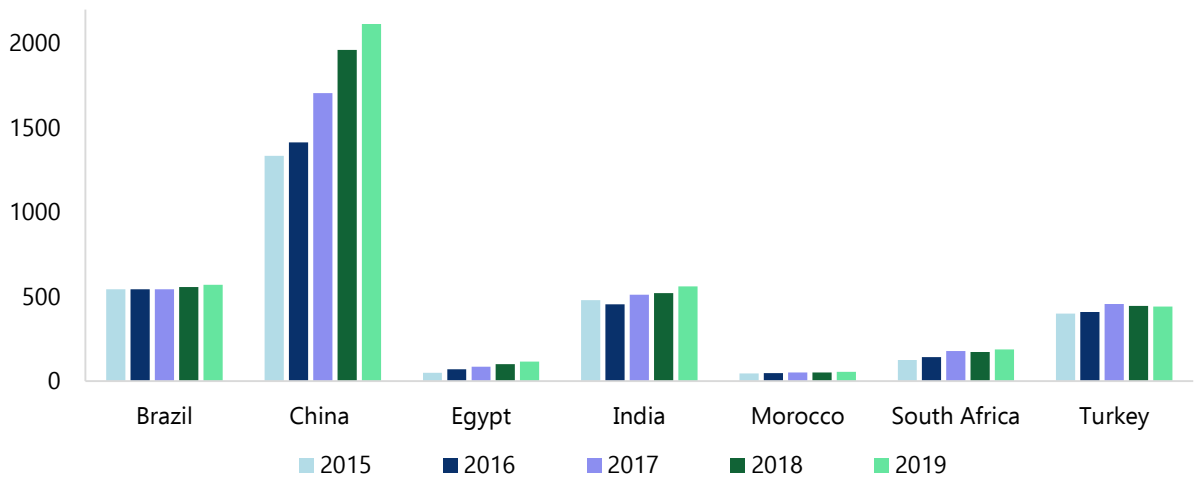
is a need to identify potential hazards and examine external debt accounts closely with these risks in mind. The following report then provides an assessment of the external debt position for Egypt, updating the existing narrative using recently published 2019/20 data. Framing Egypt's accounts in relation to selected peer economies, we then proceed to identify certain pitfalls that can cause a deviation in the debt path. Finally, a close examination of Egypt's external accounts, taking into account the recent effect of the crisis and debt projections, showing an understanding of these hazards, and a strategy for managing them could impact debt management for the better. We provide an all-round view of where the hazards can emerge and the key takeaways that can be drawn in order to revisit our understanding of the debt evolution and its pitfalls.

Second: Egypt's International Position on the Debt Map

In order to properly analyze Egypt's debt circumstances, it is essential to place Egypt on the debt map alongside a number of counterparts. The aim is to provide a well-rounded view of where Egypt's external debt position stands. Towards that purpose, Egypt is compared to selected economies in terms of growth and level of competition. This is done through using the categorization previously established by the ECES in the international positioning of Egypt; such that Egypt is weighed against role models, represented by China in the analysis, along with neighboring countries such as Morocco, as well as direct competitors in Turkey, South Africa and India, in addition to other relevant countries such as Brazil. The analysis covers debt, growth and export values of the selected economies in comparison to Egypt¹, as well as ratios for sustainability and capacity for repayment.

¹ Data for external debt values and other ratios used within this section for Egypt and selected countries are obtained from the World Bank Group's International Debt Statistics report for 2021 for consistency and fair comparison purposes.

Figure 8.1. External debt levels (USD billion)

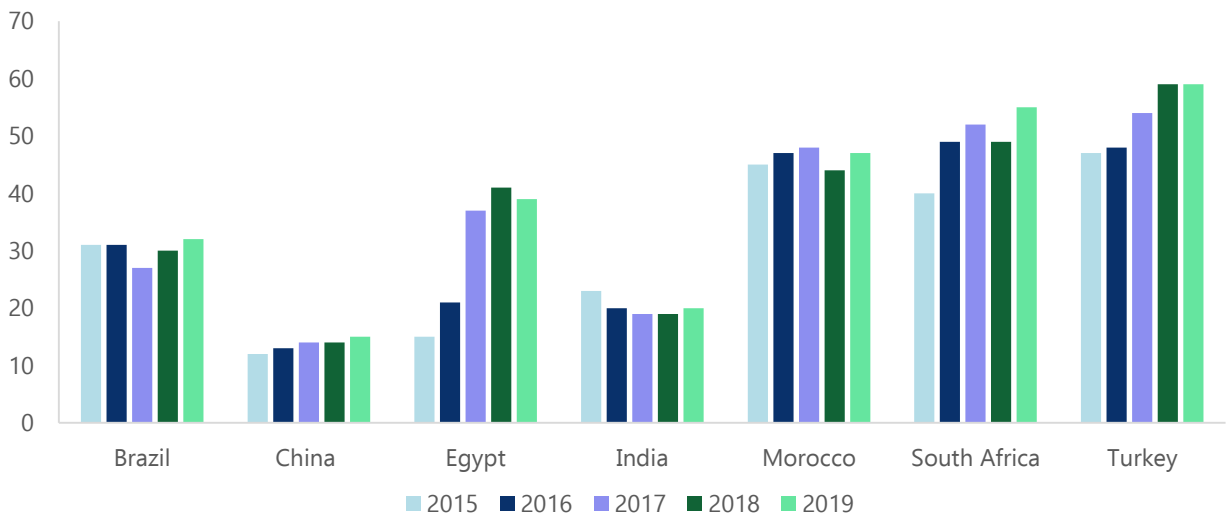


Source: The World Bank Group, International Debt Statistics 2021 report.

Figure 8.1 above features the development of the external debt stock for Egypt and the selected countries over the past five years pre COVID-19, specifically 2015-2019. A first glance immediately shows how China holds a remarkable external debt level; far surpassing the level of any other economy, and steadily increasing. Additionally, other economies such as Brazil follow China, suffering from a costly level of debt that has surpassed USD 500 billion for five years in a row. Among direct competitors, India and Turkey hold the highest levels of external debt, with even South Africa’s level of debt surpassing Egypt. At face value, Egypt appears to have a low level of external debt, exceeding only the external debt of Morocco.

Egypt has also been able to repay a sum of USD 35 billion since the 2016 devaluation despite the level of debt reaching its highest level thus far in 2019. Given the debt level, there must be an assessment of debt payment mechanisms. To assess debt capability, below is an analysis of several ratios including: (1) external debt in percent of GNI— a closer assessment of how much of the national income goes into debt management indicating the ability to repay such commitments, complemented with (2) external debt in percent of exports— a significant indicator of liquidity, particularly as a measure of external debt level to one of the main sources of foreign currency financing, export revenue, and (3) external debt

Figure 8.2. External debt in (% gross national income, i.e., GNI)



Source: The World Bank Group, International Debt Statistics 2021 report.

servicing in percent of exports— an especially important indicator for short-term liquidity as it examines short term servicing obligations in relation to incoming foreign currency revenue.

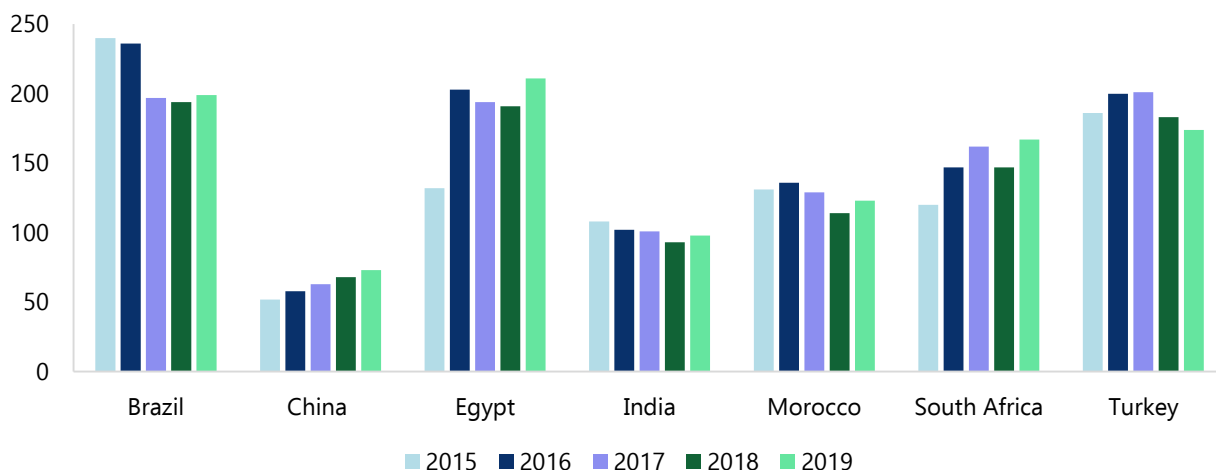
The ratio in Figure 8.2 assesses the percentage of debt in relation to incoming revenue, which is crucial in determining the extent a country can sustain current and future debt levels with its income levels, feeding into efficient debt management. Evidently, the ratio paints a different picture to the one presented by the debt stock in Figure 8.1, as China holds the lowest proportion of debt to GNI indicating a high ability to cover the debt levels with income streams, a situation found in India as well. Conversely, debt levels in most countries within the set eat away at income; Turkey holds the highest percentage of debt to GNI. Despite having moderate levels of debt and a low but positive growth rate of GNI (see Table 8.1 below), countries such as Morocco and South Africa have external debt levels that occupy a large portion of their national income, surpassing even Brazil. Egypt, while not having the highest debt to GNI percentage, has witnessed an increase in debt to GNI ratio with recent years, hovering around the 40 percent mark that, without necessary guarantees and monitoring, could push past the fifty percent mark of national income, consuming more funds within the budget which the growth

in income might not be able to sustain.

The external debt to GNI is a key measure for sustainability, however, in order to fully analyze Egypt's external debt flows, it is vital to examine the external debt to exports ratio, another measure of sustainability focusing on how foreign currency needs are met by one of the main sources of foreign currency, exports.

Foreign currency, especially for emerging markets, is difficult to come by. It is therefore imperative to weigh currency demand versus its supply. Since exports represent the traditional source of foreign currency, a high external debt to exports percentage signals that the debt level is increasing faster than the main external income source. While the threshold varies with each economy, the inability to repay debt increases with higher levels ranging between 200-250 percent². This presents problems for future debt obligations, where debt level can spiral beyond income coverage. Again, the same patterns emerge, with China having significantly low levels of external debt to GDP, highlighting efficient management of debt. What is of concern is that Egypt has on average one of the highest percentages of debt to exports. When analyzing the external debt to exports ratio in relation to direct competitors (chiefly Turkey, South Africa, and India) Egypt's recent levels,

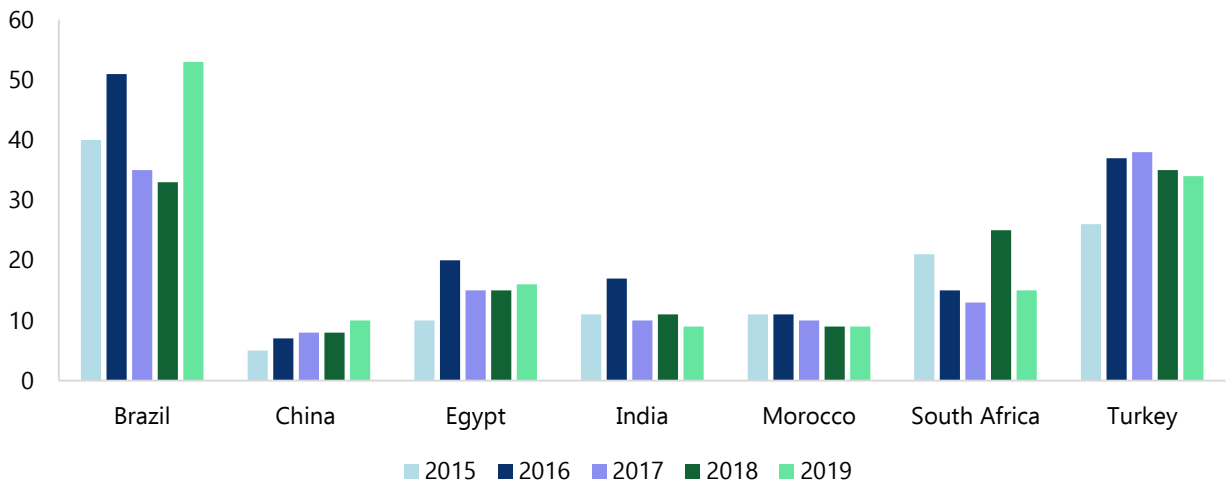
Figure 8.3. External debt in (% exports)



Source: The World Bank Group, International Debt Statistics 2021 report.

² See the World Bank paper "When is External Debt Sustainable?" for further comments on thresholds; http://documents1.worldbank.org/curated/es/180871468764989631/103503322_20041117151006/additional/wps3200externaldbt.pdf

Figure 8.4. External debt service (% exports)



Source: The World Bank Group, International Debt Statistics 2021 report.

particularly the figure for 2019, surpasses its counterparts and breaks the 200% ceiling for the first time since 2016. This highlights the need to assess the trajectory of debt accumulation against the flow of exports, particularly with the drop in export receipts earlier in 2020. The only other country reaching similar debt percentages is Brazil, where the 2019 figure is just shy of the 200 benchmark, and whose debt situation has been consistently poor across all indicators. Building on this, a closer look at the debt service to exports ratio will provide further insight on short-term liquidity status.

The external debt service to exports indicator presents a combined liquidity and solvency measurement, particularly for short term, immediate concerns. A country with a high debt service to exports ratio has a higher risk of default sooner rather than later. As shown above, Brazil currently occupies the most hazardous position, as its debt servicing has risen significantly compared to its exports for 2019. Turkey, combined with its high debt to export ratio, is also facing a high risk as debt burdens weigh in heavily in the budget. China, on the other hand, has fully met its short-term liquidity needs, despite the upward trajectory,

managing to keep debt servicing below or at 10 percent of its exports. While witnessing a rising debt service to exports ratio compared to India, South Africa and Morocco's decreasing trends. Egypt has kept debt servicing under 20 percent; however, with the increased need for external borrowing for 2020, there is an expectation that this ratio will surpass the 30 and 40 percent benchmarks for 2019/20 and 2020/21³. It is therefore increasingly important to assess the debt packages offered in order to weigh the risk of acquiring more debt versus the ability to meet its servicing obligations.

Analyzing debt level, debt payment and typical debt indicators is only one part of the story. Unless complemented by growth performance in the economy, the debt situation cannot be fully assessed. This is the case because the growth situation is a reflection of to what extent debt is properly used as a fiscal tool supporting growth and achievement of sustainable development goals. In explaining the growth performance, the study examines two indicative variables, the level and percent change of GNI and industrial export performance, both of which are shown in Table 8.1 and Tables 8.2.1 and 8.2.2 respectively.

³ See the International Monetary Fund (IMF) Egypt Country Report no. 20/271.

Table 8.1. Gross National Income (GNI)* (level and % change)

Country Name	2015	2016	2017	2018	2019	Percentage Change (2015-2019)
Brazil	2293.2	2212.6	2247.8	2254.9	2284.9	-0.4
China	8880.0	9485.9	10177.8	10814.9	11510.8	29.6
Egypt	245.5	257.3	266.5	279.0	291.2	18.6
India	2268.6	2434.2	2630.8	2792.1	2908.4	28.2
Morocco	111.2	112.3	117.1	120.8	123.8	11.3
South Africa	408.1	408.4	413.1	415.7	417.7	2.4
Turkey	1081.3	1117.9	1199.2	1231.7	1241.1	14.8

Source: World Bank national accounts data; and OECD National Accounts data files.

Note: GNI was used instead of GDP not only because of availability and consistency of data but also because it includes income from both domestic and foreign resource and is considered by the World Bank a good measure of a country's capacity to provide for the well-being of its people.

*GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

**Data are in constant 2010 USD billion;

The scenario is completely switched when observing GNI developments over the years 2015-2019, as well as the percentage change between 2015 and 2019. For the debt level to be sustainable, it must be met with sufficient income levels to cover debt payments. From the table above, it can be seen that most countries have had a positive growth rate of GNI over the five-year period, with the exception of Brazil. China, in spite of being the holder of highest external debt levels for several years - a situation known to be hazardous to an economy - has in fact achieved soaring GNI levels, with an average of approximately 30 percent growth in the five years pre-pandemic. Likewise, among direct competitors, India had one of the highest external debt stocks in the selection, yet it has also managed to achieve, in spite of this debt level, the second highest five-year growth rate in GNI. Other countries such as Egypt, Morocco and Turkey have had a reasonable five-year growth rate; however, the growth rates of South Africa and Brazil remain very low, with Brazil's even retracting over 2015-2019.

Table A1 in the Appendix is an analysis of the same figures of GNI in current USD billion and is calculated using the Atlas conversion factor, a method that takes into account inflation both

domestic and abroad. The figures reveal that most countries within the sample have positive growth rates both in current and constant prices. Even with inflation effects at play, China and India still hold the highest double digit GNI growth rate within the country selection; moreover that a country can witness a high level of debt and still achieve increasing growth rates. However, the growth rates are not as promising when taking into account price increase with some countries, even reversing signs all together with countries such as Turkey and Egypt.

The conclusion that can then be drawn here is that the issue is not in how high or low the level of debt is but in how debt contributes to the achievement of growth and the extent of which it is safely serviced. High debt levels in China happen to be occurring with a great performance within the economy while low levels of debt as seen have been associated with poor performance. The key must be in the way the economy is managed and growth is promoted. This is where most economies fall into a vicious debt cycle, where debt begets more debt and higher costs. Further analyzing growth, a breakdown of the exports, with a focus on industrial exports, in Tables 8.2.1 and 8.2.2 will provide an outlook on export productivity.

Table 8.2.1. Industrial exports (% total exports)

Industrial Exports (%Total Exports)							
Year	Brazil	China	Egypt	India	Morocco	South Africa	Turkey
2015	64.90	96.95	65.87	77.39	82.81	83.25	88.69
2016	68.12	96.46	71.40	79.46	83.86	82.62	89.77
2017	65.27	96.30	67.53	77.72	85.63	80.46	90.19
2018	61.36	96.16	63.79	76.00	85.15	82.04	90.58
2019	60.48	95.84	61.06	77.64	84.13	83.18	88.27

Source: UN Comtrade.

Calculated manually using tables 8.2.2 and A2 with HS codes 16-26,28-76, 78-96 over total HS2002 (i.e.: HS level 2) code;

Industrial exports are particularly significant in identifying the productive capacity within the economy, as well as how the country promotes its economic growth. The manufactured exports are classified as economic activities that produce a high value added within the economic cycle, as opposed to exporting resources that have a low value added. The result is an increase in productivity, in addition to the potential creation of a comparative advantage as a country starts to specialize in certain industries. At first glance, most of the selected economies seem to be exporting a high level of industrial products relative to their total exports, with China taking the lead at almost 96 percent. The same patterns found in Table 8.1 emerge, where economies such as Turkey, South Africa and Morocco, who overall

do not perform well in terms of debt indicators, have a high capacity for industrial production and seem to manage the economy in a way that encourages a high value added relative to their total exports, as all score above 80 percent of industrial exports. Furthermore, although India primarily exports services, there is a high level of industrialization within its exports sector, which leaves the Indian economy less vulnerable to fluctuations in external demand. Economies that ranked within the midrange of the sample, Egypt and Brazil, also exports a high level of services; however, they do not have a large industrial bundle within their exports and include exports of resources. Unlike India, this leaves such economies vulnerable to external shocks, as well as a low value added for exports.

Table 8.2.2. Industrial exports (USD billion)

Industrial Exports							
Year	Brazil	China	Egypt	India	Morocco	South Africa	Turkey
2015	124.0	2204.2	14.4	204.6	18.5	66.8	127.6
2016	126.2	2023.4	16.4	206.8	19.2	62.7	127.9
2017	142.1	2179.7	17.9	228.8	21.9	71.0	141.6
2018	147.2	2398.5	18.8	245.1	25.0	76.9	152.2
2019	136.3	2394.6	18.7	251.0	24.7	74.4	159.6

Source: UN Comtrade database.

Calculations based on the ECES classifications using the HS level 2 codes 16-26, 28-76, 78-96;

Looking further at Table 8.2.2, the numbers in absolute values are even more revealing. The absolute terms show how far ahead China, holder of the highest value of debt, is in industrial capacity, as its figures outweigh all of its competitors combined. Furthermore, good export performance has also been seen in countries such as India and South Africa. On the other hand, in Egypt, the economy of concern,

the lowest level of industrial exports has been observed. The key information here is that debt alone does not provide a lot of information, not without the context of economic performance.

To sum up, an initial assessment of debt stock revealed how most countries have seen increasing external debt through the years 2015-2019, with China holding the largest share of external debt amongst the selected economies.

However, a narrative cannot be built on debt levels and indicators only; the above depicts how a low level of debt can be associated with poor performance and a high level of debt, such as in the case of China, has also been associated with a high level of growth and productive capacity. Therefore, it must be the case that the debt is analyzed in context of how the economy is managed and if the debt is properly utilized. Not accounting for such a context makes for an incomplete analysis that is potentially hazardous when constructing the debt assessment and path. This gives way to a few misconceptions in debt management that could serve as potential hazards for the external debt sustainability trajectory.

Third: Analysis of Debt Misconceptions and Hazards with a Focus on Egypt

In order to assess the debt management position, it is often effective to provide context to the hazards and misconceptions within debt management that could potentially be realized, and represent serious risks. By investigating each misconception and hazard, we can provide recommendations for strategy that safeguard against these hidden risks and pave the way for change. Having said that, the misconceptions and hazards include risks, be it in the flow of debt or its treatment and dynamics, such as:

• Definition and Treatment of Debt:

The debt calculated by the Central Bank of Egypt's (CBE) bulletins is the gross external debt, which is defined as the outstanding amount of current contingent liabilities where payments of principal or interest to nonresidents are needed at a point in the future. This definition, per the IMF, has certain caveats to bear in mind: (1) It does not take into account the timeline of debt yet to be disbursed, nor (2) the timing of payment for certain instruments, which may be called upon at any moment with instruments such as the non-interest demand deposit schemes, and (3) it does not contain contingent liabilities, which if included, may raise the value of external debt beyond the published figures.

Furthermore, it is often the case that debt is often referred to as an isolated issue both in time - as taking on debt in the present day may have adverse effects on future generations - and space, as it is a multidimensional issue that is affected by the different sectors in Egypt, not just monetary and fiscal policy, and should ideally be fueled by revenue streams from those sectors rather than by extended borrowing.

• Contingent Liabilities:

Represent amounts that the government owes, but upon which the exact value is determined by uncertain events. Due to their unmeasurable nature, contingent liabilities are difficult to account for, particularly since the timing of their turning into actual liabilities is not known. There is therefore legitimate concern that during the COVID-19 crisis, contingent liabilities may arise pushing the debt further beyond what the reserve level can cushion. In this context, there is an essential distinction to be made here between explicit and implicit contingent liabilities; explicit liabilities are obligations specifically guaranteed by the government by law or contract; implicit liabilities are essentially more moral obligations that the government is expected to take responsibility of⁴. Explicit liabilities are those included in the Ministry of Finance's (MoF) General Framework of the Draft State Budget, which include guaranteed loans, public private partnership (PPP) guarantees, and international arbitration fees for cases against the government of Egypt (GOE). Measures to mitigate such liabilities include coordination with the MoF in project approvals, mid-year reports identifying key financial risks, and hedging mechanisms to protect against deviations from the budget⁵. On the other hand, there are implicit liabilities that are often not included in budgets, a most recent example is the relief of natural disasters such as the COVID-19 pandemic, which has pushed expenditures within the budget to a growth of 8.8 percent⁶. Other implicit liabilities include guarantees for sub-national government loans, financing in the event of a reversal of private capital flows⁷, and, most importantly, future recurring

4 See the International Budget Partnership (IBP) "Guide to Transparency in Public Finances: Looking Beyond the Core Budget"

5 See the Ministry of Finance's (MoF) "General Framework for the Draft of the State Budget FY2019/20."

6 See the MoF Co-Published Brief on State Budget FY 2020/21; Including Spending on COVID-19, Transparency Brief no. 4.

7 IBP, *op. cit.*

costs of public investments, often assumed to be a longer-term consequence of public expenditure policies, (Polackove 1999) and are therefore not included in the balance sheets. Contingent liabilities are therefore massively critical in tipping the scales of debt should there be a lack of appropriate provisions. The current guarantees in the 2020/21 budget include external guarantees at 12 percent of GDP, (Polackova 1999) with expected external gross financing needs of 10 percent of GDP for 2021. (IMF country report no. 271/20, Egypt)

• **Debt dynamics**

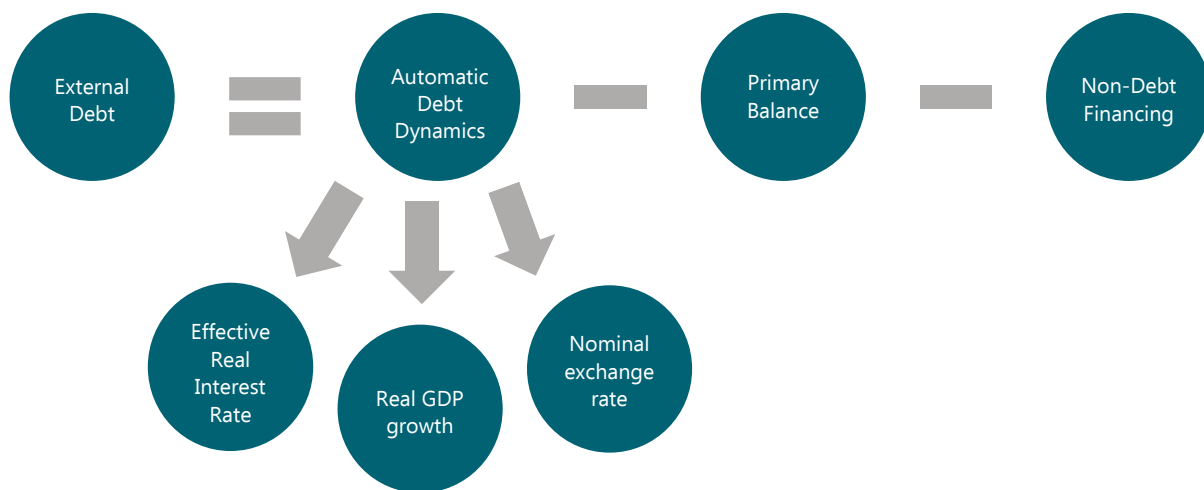
Irrespective of additional, unexpected obligations, a key assessment lies in addressing both the stock and flow of debt. Whereas debt stock provides a snapshot of current circumstances, the interactions between debt components in their flow state make for a deeper analysis of both trend and sustainability. To qualify for external sustainability, debt must be fully serviceable within the short-term and long-

term. This is mainly governed by how well the country manages its constraint, which takes the following form:

$$d_t = \phi_t d_{t-1} - (pb_t + \mu_t)$$

Where the present stock of debt is primarily influenced by the debt-financing components of primary balance and additional non-debt financing, as well as the crucial momentum of previous debt. The built-in component of automatic debt servicing, which ultimately determines the extent of which debt is explosive, is determined by the parameter ϕ_t which takes into account the differential between the real interest rate paid on external debt and the GDP growth rate, mitigated by factors such as the GDP deflator capturing price changes and the exchange rate depicting currency strength. Figure 8.5 is then simply a visualization of the constraint, focusing on outlining the key variables affecting external debt including:

Figure 8.5. Debt dynamics variables



Source: Prepared by the Egyptian Center for Economic Studies (ECES.)

This then translates the conditions upon which debt is sustainable and potentially declining. For this to occur, two conditions need to be met: (1) the country runs a primary surplus or obtains non-debt financing such as privatization receipts, and (2) that the value of the parameter ϕ_t is less than 1. For condition (1) to occur, a stable market condition both internally and externally where business is uninterrupted beyond the regular cycle

movement is needed, and a negative interest rate differential is required for condition (2), where the economy is growing at a pace that enables it to finance external interest rate obligations. With COVID-19, both domestic and external markets have been disrupted, and the concern here lies in Egypt being able to finance growing debt obligations in the face of such uncertainty, given the experienced deficit in external accounts.

• Debt types

The combination of extending the maturity of debt instruments with possible room for deferral seems to be the favored course of action. While this reflects a vote of confidence for the Egyptian economy, an aspect that was evident in Egypt's most recent stable credit rating, there exist certain challenges with debt accumulation. The main challenge stemming from the majority of the debt being of long-term maturity lies in the size of debt servicing accompanying such long-term commitment. While the major segment of debt is in the form of packages with international and regulatory institutions; there is not a lot of room for rescheduling for other forms of loans, particularly debt in the form of bonds. The MoF is taking positive steps with the introduction of green investments, which are both providing relief and room for debt swapping. Egypt has managed to maintain a stable credit rating, which reflects confidence in the Egyptian economy. However, there are certain expenses accrued in meeting "green" standards, particularly since a third party is required to supervise the projects using green funds and the Financial Regulatory Authority (FRA) does not guarantee "greenness" of bonds⁸, which potentially require special compliance expenditure pre and post issuance (Liaw 2020). Additionally, green bonds can carry their own rating, granted by environmental, social and governance (ESG) rating agencies, (AllianzGI 2017) that depending on the ESG performance of the project adds to the borrowing cost, which is more evident in short-term issuances, (Crifo, Diaye and Oueghlissi 2015) often in the form of higher interest rates. The commitment might also be risky if the government is in the midst of tightening its budget; promised outcomes may require more spending than what the budget allows for, (Claessens and Ghosh 2013) and it is therefore essential to ensure that it does not come at the cost of other social welfare projects.

• Changes in financing flows:

Given the main sources of financing, there is no surprise that Egypt relies heavily on the inflow of capital for foreign currency. There are two main concerns within this risk, primarily the flow of capital funds from abroad, as well as the cost of servicing such funds. Behaving as a counterpart to saving and investments, capital flows have a tendency to interconnect with the domestic financial market, amplifying the effects of business cycles within (Claessens and Ghosh 2013). As a result of this impact on the economy (as defined by the World Bank) capital flows affect macroeconomic variables such as inflation, exchange rate and current account positions. When the 'credit' granted exceeds the core of deposits within banks, financial vulnerability is heightened as banks resort to what are dubbed 'non-core' liabilities such as foreign funds. Should a negative shock occur, the structural and institutional weaknesses exacerbate the effects, increasing the uncertainty surrounding investments. Credit recently granted in large amounts also devastates local funding, as international institutions become the preferred source of funding. With little domestic investment, a shock in external financing may occur at any rate, leading to further depletion of reserves as well as the risk of rescheduling with extra costs. As it stands, Egypt has some of the highest interest rates within the MENA region, despite the interest rates cut of 350 basis points during 2020. This not only ties up monetary policy in keeping inflow level to fund the debt, but the high rates also remain a barrier to domestic private investment.

• Exchange rate shocks:

Exchange rate policy should be ideally kept floating and not tied down to debt levels or a currency overvaluation for that matter, limiting policy space. The capital flight risk has a heavy hand in determining exchange rate movements,

⁸ For more, see the FRA concept paper on green bond guidelines in partnership with the International Financial Corporation (IFC), https://www.fra.gov.eg/content/efsa_ar/pool_extra_efsa/UG43029UG43030.pdf

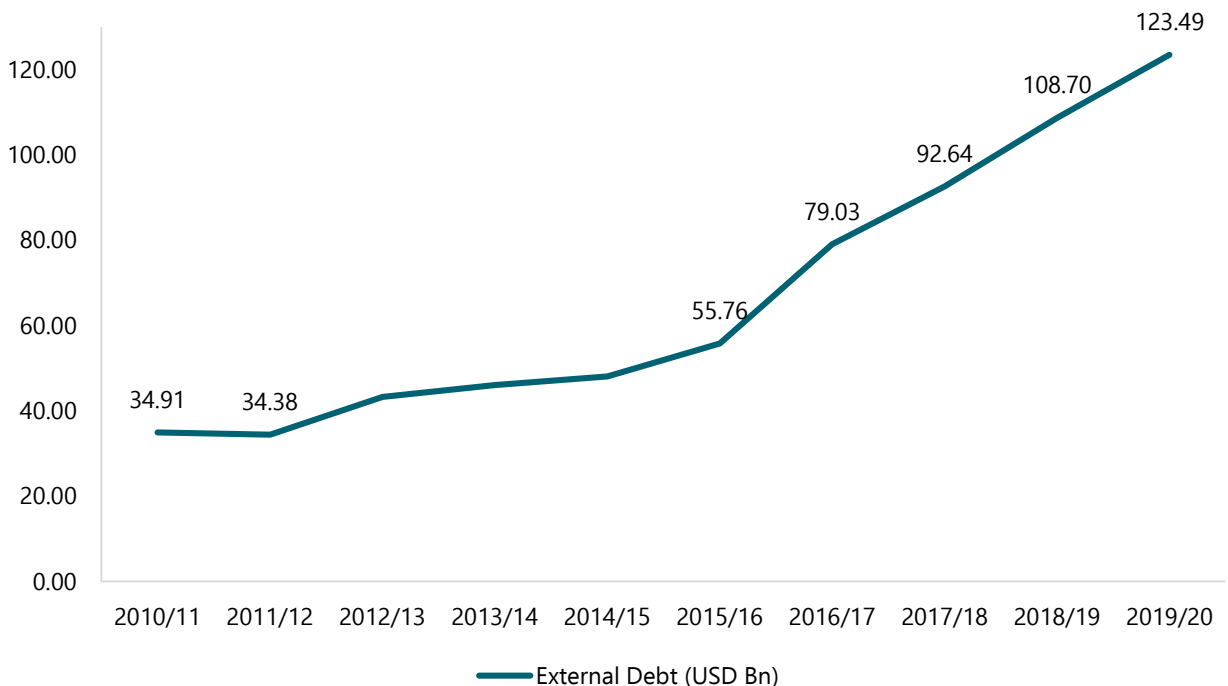
and could lead to an overvaluation adjustment of the exchange rate if the level of outflows is unanticipated and unbuoyed, as demand for foreign currency increases. Since debt dynamics (as displayed in Figure 8.5) indicate the crucial role exchange rate plays in determining the sustainability of external debt, changes in currency may worsen the debt situation, adding to the preexisting debt problem that has already restrained exchange rate policy in the first place. That being said, exchange rate movements in 2020 have been minimal, with a depreciation ranging less than 2 percent. Largely supported by the draw on reserves to manage the depreciation and avoid another 2016 crisis, this additionally triggered the need to obtain emergency funding. To this effect, we analyze the potential manifestations of these hazards through a detailed analysis of Egypt's external accounts and debt indicators. Capitalizing on what was done, a thorough examination of the indicators and ratios previously examined in the international position to provide a full picture on where the above hazards and misconceptions can emerge. Using the flow of data; trajectories and trends are reinstated to show how an alteration in debt management could drive real change.

Fourth: Detailed Analysis of Egypt's Latest External Debt Position

Focusing on the most recent changes taking place during the pandemic, we provide a four-fold analysis of the following: (1) Debt dynamics and levels for trajectory and payment capacity analysis, (2) quarterly comparisons for assessing the magnitude of change caused by COVID-19, (3) an evaluation of the debt types and the consequent debt servicing with the attached risks, and (4) projections of debt variables for the near future for trend and sustainability examination.

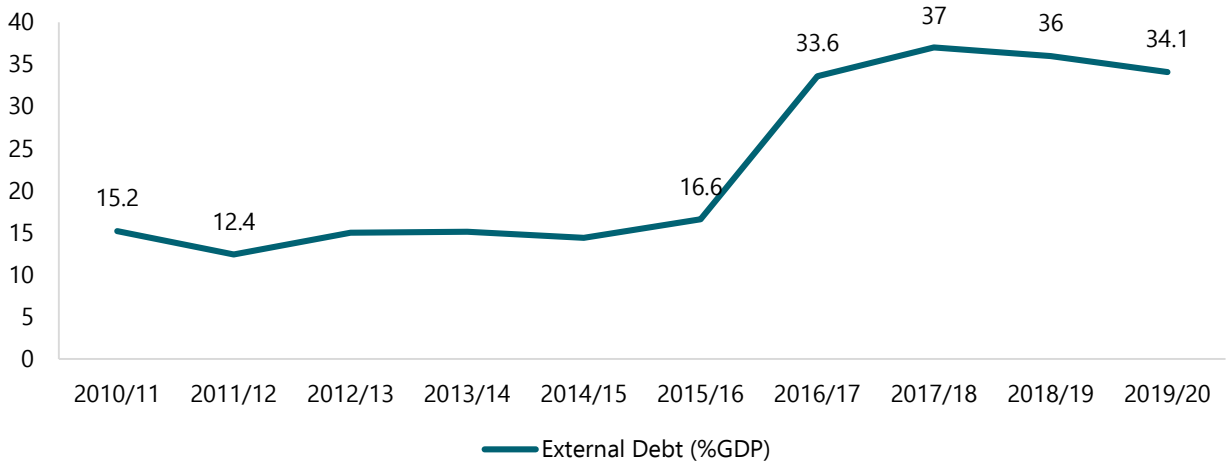
Figure 8.6 above is a close up of the evolution of the external debt level over the course of many crises taking place between 2010/11 and 2019/20. The challenge here lies not only in managing the level of debt accumulation to be below the threshold, but also in considering the servicing needed for the short and long terms. The debt level has been steadily increasing (the highest recorded level being in 2019/20) as a result of an unanticipated dual shock caused by the pandemic that prompted a rise in foreign financing to cope with the added spending and

Figure 8.6. External debt levels (USD billion)



Source: Central Bank of Egypt (CBE), Monthly Statistical Bulletins nos.233, 246, 251, 269, 282, 283.

Figure 8.7. External debt levels (% gross domestic product, i.e., GDP)



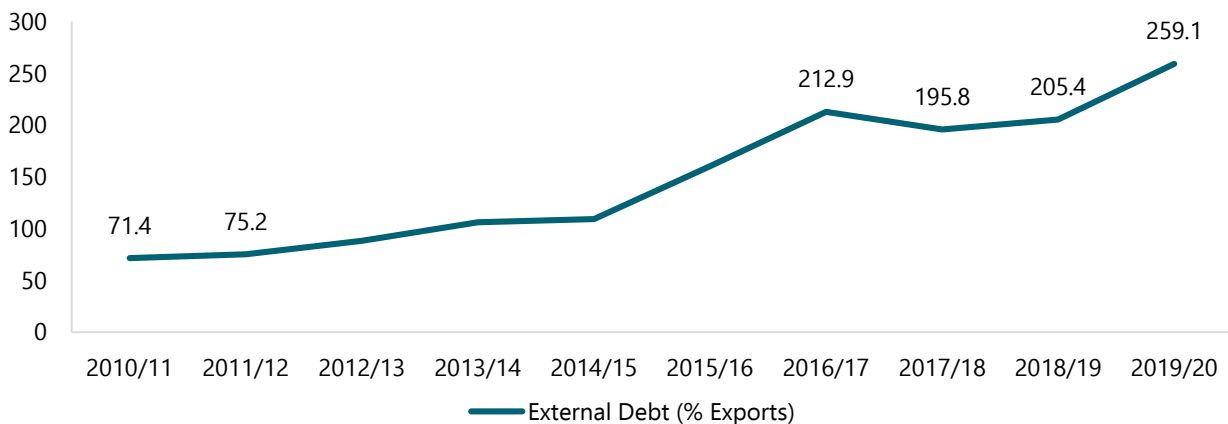
Source: CBE, Monthly Statistical Bulletins nos. 233, 246, 251, 269, 282, 283.

imbalances. With an upward trajectory going into 2020/21. What is concerning about the rise in debt level is the acceleration in the year on year accumulation; between 2017/18 and 2019/20, there has been a jump of 33 percent in the debt level. To determine the debt paying capabilities, a thorough analysis of debt is undertaken below with the indicators previously used for Egypt’s debt map.

The indicator depicted in Figure 8.7 (external debt as a percentage of GDP) serves as a link between debt and the main source of funding, often signaling when a reallocation in resources is needed to boost exports. Nonetheless, while the data depicted may indicate solvency of debt, solvency alone does not mean sustainability. It is undeniably the case that due to the emergency fund assistance in 2019/20, there is an increasing

accumulation of external debt up to USD 123 billion. Debt to GDP ratio reached as previously anticipated in the ECES Views on Crisis “Servicing Egypt’s External Debt” report (report no.8) at 34 percent. Essentially, the debt to GDP level has in fact decreased around 2 percent in 2019/20 from the previous year, an indication of relative solvency, more likely due to the increase in GDP figures. It is therefore crucial to determine both the reason for this decrease; a decrease in debt is not the same as an increase in GDP. The level at which debt to GDP stabilizes is important, as stabilizing above the benchmark of 30 percent is still potentially risky, particularly for an emerging market economy. An examination of the debt level against export receipts will shed more light on the management of payments in light of the global crisis.

Figure 8.8. External debt levels (% exports)



Source: CBE, Monthly Statistical Bulletins nos.251, 269, 283.

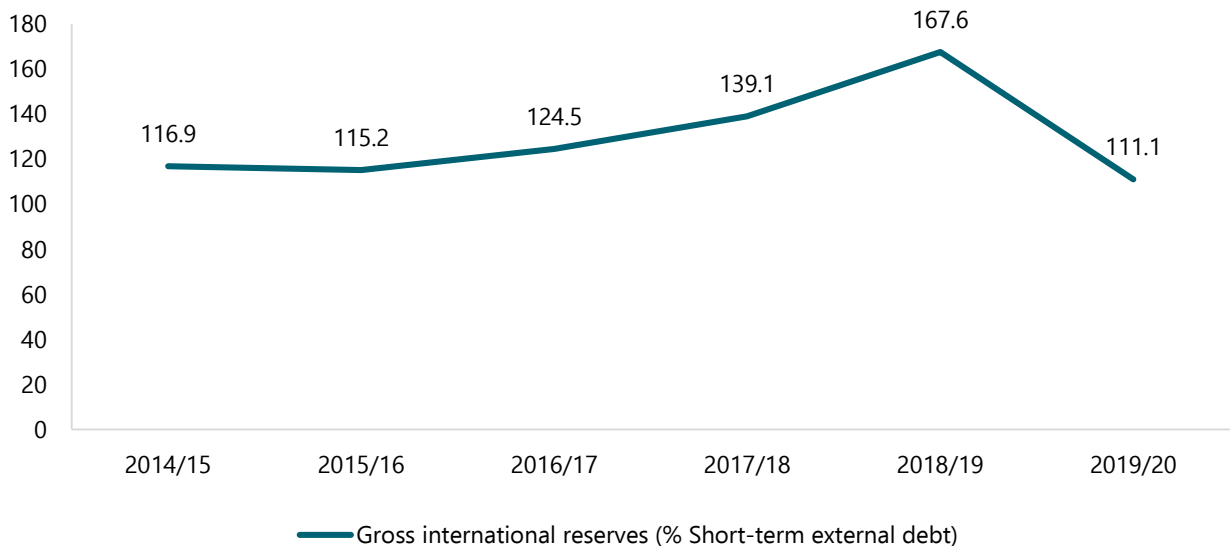
On the contrary, when examining the debt to exports percentage (a percentage indicating capacity for repayment as previously noted), the level of debt relative to the main source of foreign currency, exports, is past the 200 percent benchmark and has reached its highest level in 2019/20. The rise in percentage during the pandemic year 2019/20, surpassing even the 2016/17 currency crisis, is a reflection of the unique nature of the COVID-19 crisis; the product of both the need for emergency funding, relieving BoP pressures as well as supporting fiscal stimulus mechanisms, and the fall in export revenue due to the subdued global demand for exported goods and services. The result is an upward trajectory that should be carried forward into 2020/21 should current circumstances remain as is. Repayment capacity is an element worth vigorously assessing, as it serves as a benchmark for future sustainability of debt. Furthermore, as a short-term safeguard, short-term debt must be compared to a standard in order for short-term solvency to be achievable.

In this context, a stress test for liquidity is observed when comparing foreign currency reserves to short-term external debt (Figure 8.9). Seeing as how short-term debt is exhausting to

the budget, it is often constructive to assess reserve adequacy with the usage of debt to reserves ratios, especially when it comes to the substantial yet uncertain capital flows financing Egypt has experienced. The ratio has been seen to steadily increase after the 2016/17 devaluation, where reserves were rising to a peak of 167.6 percent. However, after the need for financing to compensate for the loss in foreign currency revenue streams, a depletion of more than USD 5 billion during the second half of 2019/20 left the ratio at least 30 percent less. The trajectory appears to be downward heading for post COVID-19 years, where the portion of the short-term debt reaching maturity increases and reserves are tied to investors' confidence reflected in capital flows.

A presentation of changes in the current external debt position, as well as its severity, in the form of a comparison between last year's figures as well as the quarterly progression of the COVID-19 crisis' effects makes for a cogent analysis. Table 8.3 presents the yearly changes between 2019 and 2020, with quarter on quarter monitoring, depicting the unfolding of the dual shock in supply and demand and the subsequent consequences on the external accounts.

Figure 8.9. Gross international reserves (% short-term external debt)



Source: IMF Country Reports no. 15/33, 19/311, 20/271

*Data for 2019/20 is preliminary.

Table 8.3. Quarterly comparison for the pandemic

Variable	Onset of COVID-19 Comparison		Direction of Change	Percentage Change	Mid COVID-19 Crisis Comparison		Direction of Change	Percentage Change
	Q1 2019 (January-March)	Q1 2020 (January-March)			Q2 2019 (April-June)	Q2 2020 (April-June)		
Balance of Payments i.e.: BoP (USD Bn)	1.4	-5.5	↓	-493%	0.2	-3.5	↓	-1850%
BoP (%GDP)	0.5	-1.5	↓	-400%	0.1	-1	↓	-1100%
External debt service (USD Bn)	3.06	6.81	↓	123%	3.09	3.46	↓	12%
Foreign currency gap*	1.64	12.34	↑	652%	2.84	6.94	↑	144%
Net International Reserves (USD Mn)	44112	40108	↓	-9%	44481	38202	↓	-14%
Net International Reserves in months of imports	8	7.7	↓	-4%	8	7.3	↓	-9%
Net bank assets (NBA) in foreign currency (1-2)	-12033	-61236	↓	409%	35758	-27116	↓	-176%
Bank assets (EGP Mn) (1)	318475	196659	↓	-38%	309602	267917	↓	-13%
Bank liabilities (EGP Mn) (2)	330508	257895	↓	-22%	273844	295033	↑	8%
Exchange Rate**	17.56	15.7	↓	-11%	16.96	15.91	↓	-6%

Sources: CBE Monthly Statistical Bulletins no.282, 283; Ministry of Finance, the Financial Monthly Bulletin for Nov 2020.

*Calculated as the sum of BoP deficit and external debt service.

**3-month average of the monthly averages.

The above table provides a close comparison between the pandemic quarters, Q1 and Q2 2020, and the corresponding quarters in the previous year, Q1 and Q2 2019. An initial look at the directions of change reveals that almost all of the indicators are declining in some form. The effect is more severe during the onset of COVID-19, where the unanticipated dual shock effects were not fully gauged. While there was space for adjustment in the succeeding quarter, though the figures are a great deal different than their 2019 counterparts. The drop is most significant in variables contributing to the foreign currency gap; the deficit in balance of payments has quadrupled early 2020; at the same time the external sector industries have received a sizeable hit and capital flows have decreased, leading to a large outflow of payments.

The resulting gap has risen to around 6 times in Q1 2020 and around 1.5 times in Q2 2020 than in 2019. An increase in this gap is perturbing as without a steady stream of foreign currency, the gap financed by reserves and net foreign assets for banks will continue to deplete both sources, and result in additional financing through loans and packages. Reserves, as can be seen, have been used to finance the emergency deficits arising from external accounts, thereby covering reduced imports, reaching up to 7.3 months from the stable 8-month level experienced in 2019. The sudden global conditions have led to a negative balance in net bank assets in foreign currency, the decrease in assets potentially attributed to valuation changes. That being said, bank assets in Q2 2020 have been catching up to

bank liabilities, the gap closing after the substantial difference in Q1 2020. Exchange rate, as previously highlighted, should be monitored closely as it plays into the debt dynamics of external debt, exacerbating the issue of debt accumulation further. Despite the support from foreign currency sources keeping the exchange rate from depreciating further, the quarterly figures reveal an 11 percent depreciation in Q1 2020 from its 2019 counterpart, the figure in Q2 2020 at 6 percent less than Q2 the previous year. Hence, a reassessment of the financing needs emerges, and weighing the cost that financing an extra amount of debt - both in dynamics and in servicing - will warrant. Naturally, different types of debt are managed differently, an aspect that is explored in Table 8.4 below.

The types of external debt in Egypt are becoming more diversified, which is favorable. Despite the slight decrease in long-term deposits, the majority of the debt tools used for 2019/20 are long term, and it doesn't go unnoticed that buyers and suppliers facilities have seen a fall, which considering the interest and penalty scheme within this debt tool, is much more advisable, as well as the fall in short-term debt. Since the 2016 floatation, a rise in borrowing from international institutions such as the IMF is evident. Ending with a reasonable increase in 2019/20, this type of debt instrument is preferred to bilateral loans that are subject to a change in terms, and that have seen a decrease for the past year. Another noteworthy increase is in the issuance of bonds, that require investor confidence for extension and make for 19.4 percent of the 2019/20 loan structure.

The Ministry of Finance (MoF) has been issuing different bond packages since November of 2019/20 with extended maturities surpassing regional averages, USD 500 million of which in the form of 40-year bonds. Additionally, the MoF has announced USD 750 million-valued green bonds at a 5-year maturity and a yield of 5.25 percent, making bonds attractive to a new investor base and advancing the agenda of investing in green bonds within the MENA region. The CBE has also recently extended its repo financing agreements with several international banks for an additional 1.5 years, making for a total period of 6 years.

Nevertheless, with long-term obligations, cost must be taken into account, in the form of payments and interest, which is what Figure 8.10 depicts. Despite postponing USD 6 billion of the USD 13.4 billion of GCC deposits due in 2020, as well as the postponement of debt owed to a syndicate of international banks, Egypt still had to make payments of USD 13.2 billion in principal payments as well as USD 4 billion in interest payments (Figure 8.10).

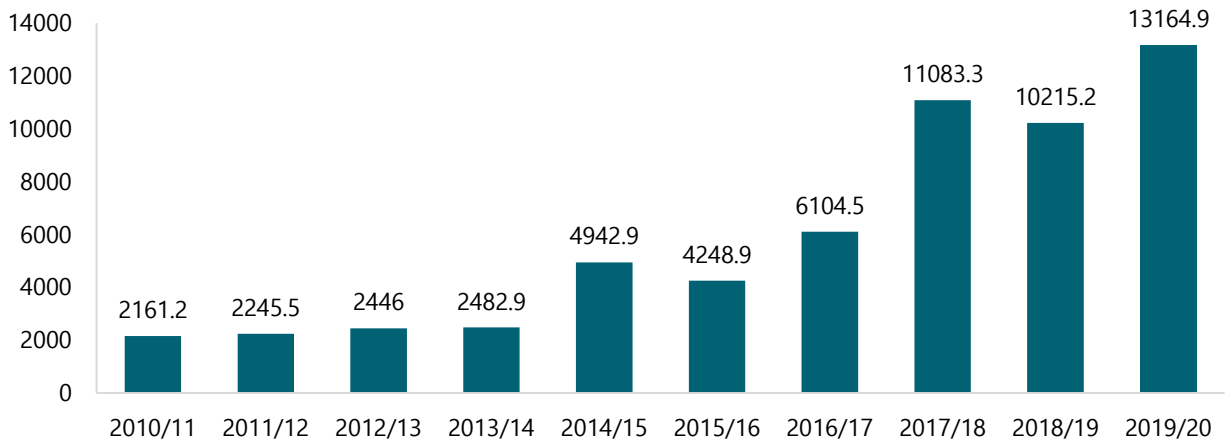
The amount of principal and interest paid in 2019/20 is nearly 3 times the amounts paid in 2016/17. This reflects the increasing burden of debt and the strain placed on external accounts, especially since there was a slowdown in inflows and a trade deficit. Such is a crucial step to consider when restructuring debt- that long-term debt can grant short-term advantages but gradually create unsustainable debt in the future through higher payments. This is taking into account that restructuring is matter of balancing increase in servicing and short-term benefits, and is highly dependent on exogenous decisions.

Table 8.4. Debt by type (% total debt)

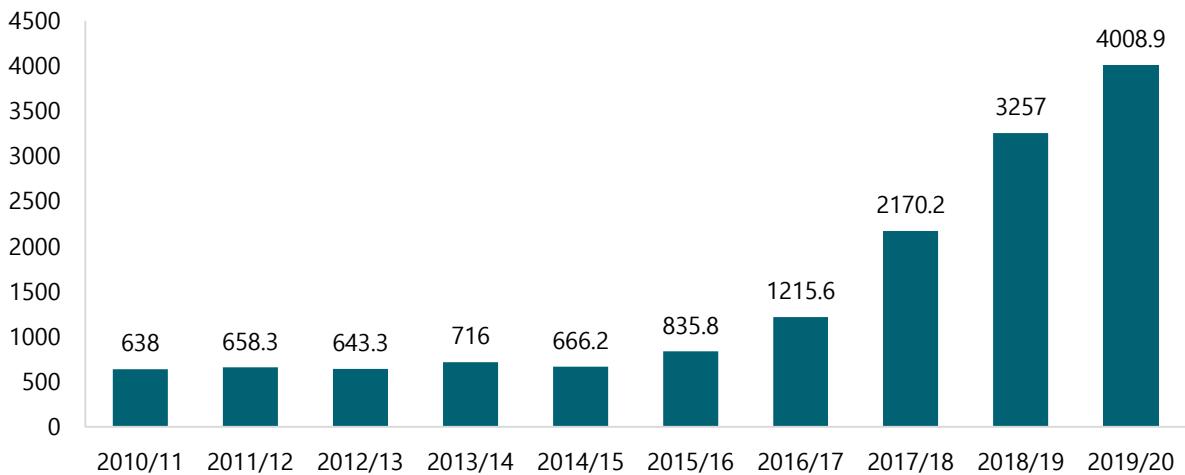
Debt Type (%)	2015/16	2016/17	2017/18	2018/19	2019/20
Rescheduled bilateral loans	9.4	5.4	4.0	2.9	2.0
Other bilateral loans	11.3	8.3	8.3	8.9	8.3
International Institutions (IMF, World Bank...etc.)	25.3	27.5	30.7	30.2	34.8
Buyers & Suppliers Credit	5.6	8.2	9.1	10.4	9.2
Long-term deposits	29.2	23.5	18.8	3.5	3.2
Bonds	6.3	11.4	15.4	17.8	19.4
Short-term debt	12.6	15.5	13.3	10.2	8.8

Source: CBE, External Position Reports, various issues.

Figure 8.10. Debt service (USD million)
A. Principal debt payments (USD million)



B. Interest payments (USD million)



Source: CBE, Monthly Statistical Bulletins nos. 283, 234.

Additionally, the level of servicing is known to exhaust the budget further, using a sizeable proportion in debt payment rather than allowing for an efficient allocation of funds.

There must always be an evaluation of the tradeoff that investments offer; the acquirement of “debt of exchange” may thereby increase foreign currency debt and provide a gateway for increasing interest payments, usually a reflection of risk premium. The country’s risk premium as of July 2020 lies at approximately 8.1 percent, a percentage considered relatively high compared to the Middle East regional weighted average of 2.92 percent⁹. This offers up two implications to

consider; namely the increase in the marginal cost of debt, which by acquiring more debt, raises the associated interest payments; and more importantly the rise in risk premium. The increased debt feeds into the feedback channel within the risk premium, essentially tying in the rise in the risk premium to an increase in refinancing costs when it comes to existing debt stock. To further explore future consequences, Table 8.5 below provides an appraisal of the most recent projections developed by the IMF in the country report for Egypt post emergency funding, accompanied by an analysis of what the figures mean for Egypt’s near future.

⁹ Based on calculations published as of July 2020 in the following NYU Stern paper: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3653512

Table 8.5. Debt dynamics variables

	Actual					Potential				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Baseline: External debt	16.8	30.8	37.0	36.0	34.1	33.9	30.8	27.3	24.7	
Change in external debt	2.3	14.1	6.2	-1.1	-1.8	-0.2	-3.1	-3.5	-2.5	
Identified external debt-creating flows (4+8+9)	3.9	7.4	0.0	-5.3	-4.7	2.0	-1.2	-1.6	-1.9	
Current account deficit, excluding interest payments	5.7	5.1	1.5	2.5	2.2	2.8	1.2	1.3	1.3	
Deficit in balance of goods and services	9.7	12.3	10.5	8.3	7.6	7.7	5.5	5.6	5.6	
Exports	10.5	14.5	18.9	17.5	13.2	9.8	11.1	12.9	13.9	
Imports	20.1	26.8	29.4	25.8	20.8	17.4	16.7	18.5	19.5	
Net non-debt creating capital inflows (negative)	-2.1	-3.2	-3.1	-2.6	-1.9	-1.4	-2.0	-2.5	-3.0	
Automatic debt dynamics	0.2	5.5	1.6	-5.3	-5.0	0.5	-0.4	-0.3	-0.2	
Contribution from nominal interest rate	0.3	0.5	0.9	1.1	0.9	1.4	1.4	1.3	1.2	
Contribution from real GDP growth	-0.6	-0.9	-1.7	-1.7	-1.1	-0.9	-1.8	-1.6	-1.4	
Contribution from price and exchange rate changes	0.6	5.9	2.4	-4.7	-4.8	-	-	-	-	
Residual, incl. change in gross foreign assets (2-3)	-1.6	6.7	6.2	4.3	2.9	-2.2	-1.9	-2.0	-0.6	
External debt-to-exports ratio (in percent)	160.3	212.9	195.8	205.4	259.1	346.6	276.7	211.3	178.0	
Gross external financing need (in billions of US dollars)	25.2	24.0	20.5	25.7	24.9	31.9	29.7	29.7	31.5	
in percent of GDP	7.6	9.4	8.2	8.5	6.9	8.1	7.1	6.6	6.5	

Source: IMF, Country Report no. 20/271.

Calculations are in percent GDP, unless indicated otherwise

Observing the debt dynamics in Table 8.5, there is evidence of a decreasing primary balance deficit (defined as the current account deficit less interest payments) for 2020; however, the deficit is expected to increase for 2021 in the aftermath of the pandemic crisis. While automatic debt dynamics as a figure remains below 1, the figure is expected to rise in 2023. What is of concern within this parameter is the gap between the nominal interest rate and the contributions from real GDP growth, as the gap is seemingly widening during the initial years post-pandemic. The gap between exports and imports is also evident which, despite the depreciation in both supply and demand during the pandemic period, imports remain higher. This once again reinforces the idea that debt is not an isolated case; it is entirely tied to the economy's performance and should involve key players in all sectors providing growth and investment opportunities. Policy action is required to increase export value added and by association, foreign currency inflows to repay the equally increasing external debt to exports ratio, fueled by price and exchange rate changes. Consequently, the estimation of the financing gap projected by the IMF remains at USD 24.9 billion and USD 31.9 billion for the years 2020-2021. The gap is funded mainly by exports, portfolio investments, and remittances, all of which are used to fill reserves. This leaves external debt financing vulnerable to external conditions, as the level of reserves is highly dependent on carry trade flows from non-residents that, despite the high interest rate, have significantly slowed down since the onset of COVID-19. Additionally, the level of non-debt creating flows, next to the projected primary

balance deficit, still provides a small buffer against the automatic debt dynamics that could stand to be increased.

To conclude, debt is a fiscal tool that is widely accepted as long as it is channelled to support high economic performance, and is serviceable on the short and long run. Adopting this perspective, the report aims to highlight the misconceptions often associated with debt which, if taken into account, could aid Egypt in promoting a healthier track of debt management i.e. that it is not treated in isolation of the economy and that it improves performance.

Benchmarking Egypt to a number of selected countries in terms of debt mechanisms and a few of the many indicators of growth performance provided support of such a track of analysis of the debt situation. Among the misconceptions related to debt, there are several improvements that can be undertaken in the case of Egypt in the following areas: (1) Adoption of a wider definition of debt, (2) management of debt as part of the economy and as a tool to achieve economic growth as opposed to simply financing existing debt, (3) the continuous benchmarking of Egypt to high performing countries in the context of both debt and economic performance, as this reflects how the debt is put into use, and it is often the case - as previously seen - that a country with a low level of debt can also have a low level of growth and productivity, (4) expanding the list of contingent liabilities covered, and (5) balancing a variety of debt types and structure in terms of present and future costs and benefits.

Appendix

Table A1. Gross national income, i.e., GNI (current USD billion)

Year	2015	2016	2017	2018	2019	Percentage change (2015-2019)
Brazil	1768	1758	2024	1832	1791	1.3
China	11020	11188	12301	13844	14308	29.8
Egypt	327	328	231	245	292	-10.6
India	2079	2248	2624	2684	2844	36.8
Morocco	99	101	108	115	116	17.3
South Africa	310	288	339	357	342	10.3
Turkey	850	855	842	759	742	-12.7

Source: The World Bank Group, International Debt Statistics 2021 report.

Note: Table A1-GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in current USD billion;

Table A2. Total exports (USD billion)

Total Exports							
Year	Brazil	China	Egypt	India	Morocco	South Africa	Turkey
2015	191.1	2273.5	21.9	264.4	22.3	80.3	143.9
2016	185.2	2097.6	23.0	260.3	22.9	75.9	142.5
2017	217.7	2263.4	26.4	294.4	25.6	88.2	157.0
2018	239.9	2494.2	29.5	322.5	29.4	93.7	168.0
2019	225.4	2498.6	30.6	323.3	29.3	89.4	180.8

Source: UN Comtrade database.

Table A2- Total HS2002 (i.e.: HS level 2) exports in USD billion.

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9. New Model for Agricultural Cooperatives in Egypt that Achieves the Required Developmental Take-off

Sahar Aboud, PhD

First: Introduction

Why are Cooperatives a Driver of Change?

1.1. Cooperatives, a globally successful development model that Egypt desperately needs

- Cooperatives are considered a successful development model that can play a pivotal role in promoting social and economic development, especially in poor societies. Therefore, the United Nations designated an annual celebration on the first Saturday of July to focus on the importance of this cooperative model and to discuss ways to support it.
- Globally, the cooperative sector is a major player in the economies of many countries. For example, it accounts for the majority of the insurance sector in Sweden, more than 75% of agricultural marketing and more than 60% of the milk and cheese industry in Canada, 40% of Finland's trade, 50% of the agricultural sector in Germany, in addition to 20% of the banking sector. Furthermore, 13% of electricity production in the US is carried out by the cooperative sector. The contribution of the cooperative sector in Denmark is 97% in the milk collection sector, 38% in the consumer sector, and 70% of consumer activity in Kuwait. A quarter of health services in India, Turkey and Colombia is provided by the cooperative sector (Zaki 2017).
- Cooperatives are considered a model for a participatory social economy that maximizes the benefits of the individual - especially the young, whether a producer, consumer or entrepreneur - by including them in a larger entity that organizes efforts and enables them to benefit from economies of scale. Hence, the individual benefits from this entity in achieving productivity and marketing objectives as well as increasing bargaining power with other actors.
- Cooperatives are an entry point for integrating the unorganized sector into the formal economy. As they are people-centered models that aim at meeting the demands of local communities, they can play a catalytic role to integrate the organized sector, through an organized structure that acts as a platform to bring together micro and small entities, such as fishermen and farmers, by reducing the cost of intermediation; and maximizing the efficiency of coordination between the government and small and micro productive units.¹
- Cooperatives have presented effective initiatives to confront the Coronavirus pandemic in various parts of the world. They have contributed to increasing awareness of the virus and ways to prevent it, providing food needs for those affected ,or ensuring that farmers' supply chains are not disrupted, and/or providing concessional financing to affected projects and vulnerable segments of the population. Therefore, many governments have taken the initiative to support cooperatives, especially small ones, by providing financing and liquidity during the Corona crisis so that they can continue their activities.² Cooperatives have also transformed their products and services to meet urgent local demand for protective equipment, food supplies and social care.³
- Egypt is in dire need of cooperatives as a development model in light of the huge size of the informal sector, the absence of entities that organize the efforts of small producers, consumers and entrepreneurs, and the presence of fragile entities that do not achieve their interests with the required efficiency and effectiveness.

1 A survey conducted in January 2021 by UNDESA.

2 For example, France and Canada have created several funds to facilitate obtaining loans for cooperatives, Malaysia has postponed loan maturities for cooperatives and restructured them, while Italy has availed Garanzia Italia or "Guarantee Italy" to non-bank financial institutions to offer loans that makes financing cooperatives easier.

3 ILO Director-General's statement for the International Day of Cooperatives 2020, July.

1.2. Why focus on agricultural cooperatives?

- Agricultural cooperatives are among the most successful in the world. For example, agricultural cooperatives account for a 50-60% market share of total turnover in the agricultural sector and food industries in the EU. In the US, the market share of cooperatives is 33% for manufacturing, marketing, and input supply. In Australia and New Zealand, dairy marketing cooperatives hold a market share of more than 60% and 90%, respectively. In Latin America, dairy cooperatives in Argentina and coffee cooperatives in Brazil are leaders across relevant sectors, whether in terms of their market share in the domestic market or exports (Rabobank 2012).
- In Egypt, agricultural cooperatives are among the oldest examples of cooperatives that arose in Egypt, for rational and valid reasons. However, they did not fulfill their principal role as a non-governmental participatory entity that works for the benefit of farmers and is self-managed according to their vision. Consequently, the change in the nature of the current needs of this model entails a radical change in our view of it as a promising sector that has ready opportunities to contribute to agricultural development and improve farmers' living standards.
- The Coronavirus pandemic demonstrated the need to pay attention to agricultural cooperatives, especially that achieving food security and ensuring the smooth flow of food supply chains - and thus availability and affordability - have become among the atypical future challenges facing the world.

Second: The Concept of Cooperatives and an Overview of Their Current Global Position

2.1. The concept of cooperatives

Historically, cooperatives are a separate institutional framework for a group of individuals who voluntarily unite to meet their common economic, social and cultural needs and aspirations. This framework is managed in a participatory and democratic manner.⁴ It is also considered a profitable economic model based on

community participation (a community-based economic model). If it is properly established and the appropriate environment is provided for its work, it can play a fundamental role in achieving national development goals. Specifically, it can contribute to the economic and social development of the local community, generate employment opportunities, alleviate poverty, and achieve social justice.

Cooperatives embrace the values of self-help, self-responsibility, democracy, equality, equity and solidarity. They are based on a set of principles that include: voluntary membership that is open to all, democratic governance through members, joint ownership of members, independent institutions that provide education, training and information to their members and their administration; and local, regional and international cooperation between cooperatives. They also aim to develop their communities.⁵

There are many types of cooperatives according to their different social, economic and environmental goals, including producer cooperatives, consumer cooperatives, retail cooperatives, housing cooperatives, utility cooperatives, insurance and financial services cooperatives, business owners' cooperatives, supply cooperatives, multilateral cooperatives, social cooperatives, and others.

2.2. Cooperatives around the world

Globally, cooperatives are prevalent in about 98 countries, with nearly 3 billion members, or nearly half of the world's population. The number of cooperatives is estimated at three million cooperatives and about one billion members, generating estimated turnovers of \$3 trillion (ILO 2014). According to estimates of the International Labor Organization, the number of jobs that cooperatives generate or that guarantee their continuity amounts to about 280 million jobs for at least 10% of the total employed in the world.⁶

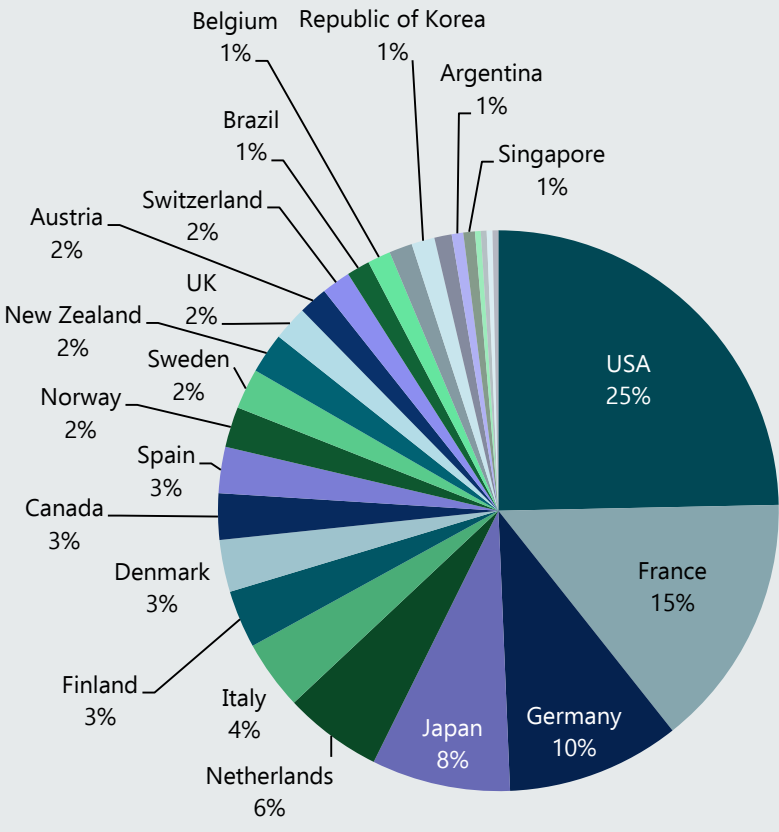
The following table displays the 300 largest cooperatives around the world in terms of annual turnover, according to their geographical distribution, economic activities, and type.

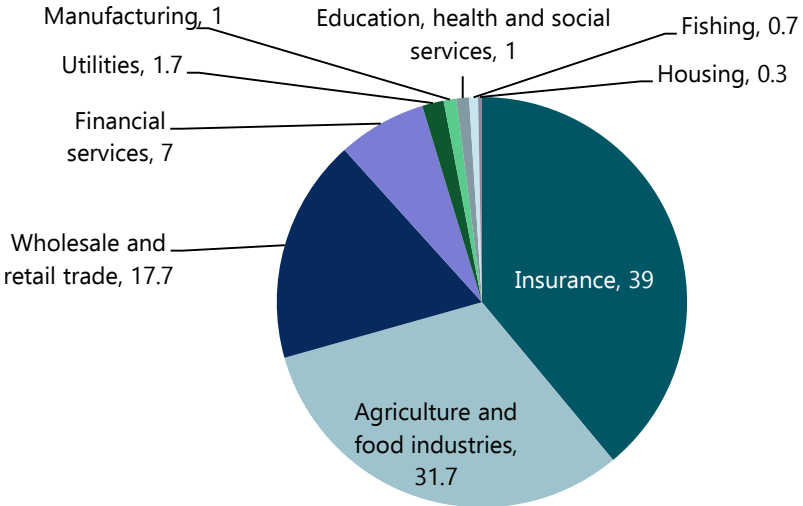
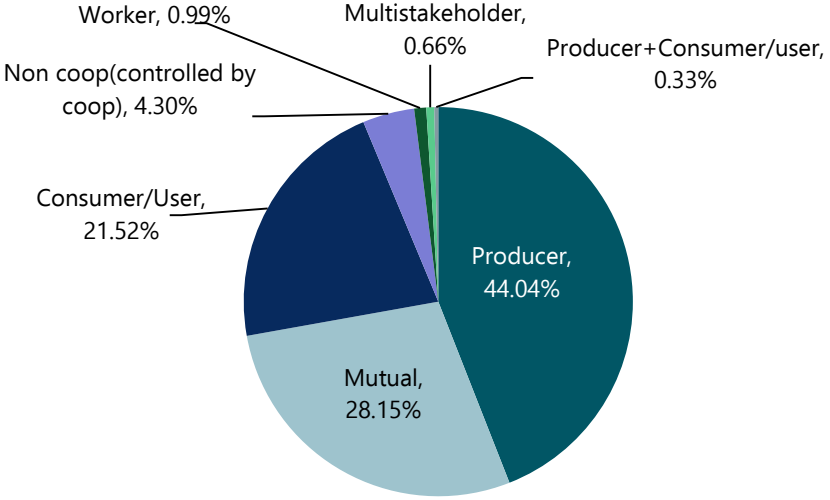
4 Statement on the Cooperative Identity. International Cooperative Alliance at: <https://www.ica.coop>.

5 International Cooperative Alliance at: <https://www.ica.coop>.

6 <https://www.ilo.org/global/topics/cooperatives/lang--en/index.htm>.

Table 9.1. The largest 300 cooperatives worldwide in terms of annual turnover

Item	Details																																												
<p>Geographical distribution</p>	<p>Europe is one of the world's largest regions in terms of the prevalence of cooperatives, followed by the US, as shown in Figure (9.1). Germany alone has 7,000 cooperatives with more than 20 million members, and 90% of farmers in France are members of one or more cooperatives.</p> <p>Figure 9.1. Percentage distribution of the largest 300 cooperatives around the world in 2020, distributed geographically</p>  <table border="1" data-bbox="499 580 1270 1408"> <caption>Data for Figure 9.1: Percentage distribution of the largest 300 cooperatives around the world in 2020</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>USA</td><td>25%</td></tr> <tr><td>France</td><td>15%</td></tr> <tr><td>Germany</td><td>10%</td></tr> <tr><td>Japan</td><td>8%</td></tr> <tr><td>Netherlands</td><td>6%</td></tr> <tr><td>Italy</td><td>4%</td></tr> <tr><td>Finland</td><td>3%</td></tr> <tr><td>Denmark</td><td>3%</td></tr> <tr><td>Canada</td><td>3%</td></tr> <tr><td>Spain</td><td>3%</td></tr> <tr><td>Norway</td><td>2%</td></tr> <tr><td>Sweden</td><td>2%</td></tr> <tr><td>New Zealand</td><td>2%</td></tr> <tr><td>UK</td><td>2%</td></tr> <tr><td>Austria</td><td>2%</td></tr> <tr><td>Switzerland</td><td>2%</td></tr> <tr><td>Brazil</td><td>1%</td></tr> <tr><td>Belgium</td><td>1%</td></tr> <tr><td>Republic of Korea</td><td>1%</td></tr> <tr><td>Argentina</td><td>1%</td></tr> <tr><td>Singapore</td><td>1%</td></tr> </tbody> </table> <p>Source: Egyptian Center for Economic Studies (ECES) calculations based on International Cooperative Alliance data.</p>	Country	Percentage	USA	25%	France	15%	Germany	10%	Japan	8%	Netherlands	6%	Italy	4%	Finland	3%	Denmark	3%	Canada	3%	Spain	3%	Norway	2%	Sweden	2%	New Zealand	2%	UK	2%	Austria	2%	Switzerland	2%	Brazil	1%	Belgium	1%	Republic of Korea	1%	Argentina	1%	Singapore	1%
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<p>Nature of economic activities</p>	<p>Cooperatives in the area of insurance account for the highest share of turnover, followed by cooperatives in the area of agriculture and food industries, followed by cooperatives in wholesale and retail trade.</p> <p>Figure 9.2. Percentage distribution of the largest 300 cooperatives around the world in 2020 according to economic activity (%)</p>  <table border="1" data-bbox="468 445 1263 948"> <thead> <tr> <th>Economic Activity</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Insurance</td> <td>39</td> </tr> <tr> <td>Agriculture and food industries</td> <td>31.7</td> </tr> <tr> <td>Wholesale and retail trade</td> <td>17.7</td> </tr> <tr> <td>Financial services</td> <td>7</td> </tr> <tr> <td>Utilities</td> <td>1.7</td> </tr> <tr> <td>Manufacturing</td> <td>1</td> </tr> <tr> <td>Education, health and social services</td> <td>1</td> </tr> <tr> <td>Fishing</td> <td>0.7</td> </tr> <tr> <td>Housing</td> <td>0.3</td> </tr> </tbody> </table> <p>Source: ECES calculations based on International Cooperative Alliance data.</p>	Economic Activity	Percentage (%)	Insurance	39	Agriculture and food industries	31.7	Wholesale and retail trade	17.7	Financial services	7	Utilities	1.7	Manufacturing	1	Education, health and social services	1	Fishing	0.7	Housing	0.3
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<p>Cooperative types (Producer/Consumer)</p>	<p>Producer cooperatives are the most widespread among the various types of cooperatives, followed by mutual cooperatives* then consumer cooperatives.</p> <p>Figure 9.3. Percentage distribution of the largest 300 cooperatives around the world in 2020, broken down by type</p>  <table border="1" data-bbox="442 1295 1263 1792"> <thead> <tr> <th>Cooperative Type</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Producer</td> <td>44.04</td> </tr> <tr> <td>Mutual</td> <td>28.15</td> </tr> <tr> <td>Consumer/User</td> <td>21.52</td> </tr> <tr> <td>Non coop (controlled by coop)</td> <td>4.30</td> </tr> <tr> <td>Worker</td> <td>0.99</td> </tr> <tr> <td>Multistakeholder</td> <td>0.66</td> </tr> <tr> <td>Producer+Consumer/user</td> <td>0.33</td> </tr> </tbody> </table> <p>Source: ECES calculations based on International Cooperative Alliance data. * Such as cooperatives in financial services, insurance ... etc.</p>	Cooperative Type	Percentage (%)	Producer	44.04	Mutual	28.15	Consumer/User	21.52	Non coop (controlled by coop)	4.30	Worker	0.99	Multistakeholder	0.66	Producer+Consumer/user	0.33				
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Source: Prepared by ECES.

Third: Best Cooperative Practices from Many Global Experiences

The cooperative system, especially agricultural cooperatives as a model, has been revisited in many countries in Europe, Asia, Africa and Latin America in addition to the US, either through the websites of some cooperatives in these countries or through the studies that have dealt with them (IMC 2008). Appendix (1) presents some basic features of agricultural cooperatives in

the Netherlands as one of the most successful models in the world.

With the emphasis on the different political, economic, social and environmental factors in each country and the impact of these considerations on the success / failure of cooperatives therein, it is possible to come up with a set of common factors that represent basic pillars for the success of cooperatives in achieving their goals and serving their societies, as follows:

Table 9.2. Common factors that represent basic pillars for the success of cooperatives in achieving their goals and serving their societies

Pillar	Details
Nature of cooperatives	<ul style="list-style-type: none"> • Cooperatives are a non-governmental institutional framework for a group of individuals who unite voluntarily to meet their common economic, social and cultural needs and aspirations, and this framework is managed in a participatory and democratic manner. • Governments have a facilitating and supportive role for cooperatives as one of the main pillars in the implementation of their national development plans. This supportive role is exercised by facilitating procedures for their establishment and management in order to enable them to carry out their tasks. Some governments offer several incentives to these entities such as to contribute to their financing or exempt them from taxes.
Organizational Structure	<ul style="list-style-type: none"> • Cooperatives operate in an organizational structure consisting of two or three administrative levels at the most. • Clarity of tasks for each level and ease of collaboration. • The national level: They set policies, communicate with the government, represent cooperatives externally and internally, and include representatives of all affiliated cooperatives. They can be divided according to sector, activity, or geographic region. • The Intermediate level (province/ governorate) is an intermediate link between local and national cooperatives. • The local level: Cooperatives that directly include farmers • A specialized technical department that manages cooperatives.
Legislative framework	<ul style="list-style-type: none"> • One legislation for all cooperatives or multiple legislations, but governed by general principles. • Clear, comprehensive, consistent and balanced legislations that guarantee everyone's rights and stimulate accountability for members as well as the regulatory authorities. • Legislations' guarantee: <ul style="list-style-type: none"> - A minimal level of government intervention. - The lowest degree of government spending. - The maximum degree of decentralization. - The highest degree of democracy. • Determine the degree of government intervention. • The government role is often limited to specific tasks: <ul style="list-style-type: none"> - Legislation. - Registration procedures. - Dissolution / liquidation. - Follow-up.

Pillar	Details
Membership	<ul style="list-style-type: none"> • Membership is optional, and a member can join more than one cooperative if needed. • Membership is for a fee, as are some services.
Services provided	<ul style="list-style-type: none"> • The services provided by cooperatives vary across the value chain and can be grouped into two main sets: <ul style="list-style-type: none"> - Technical and financial support: Training, research and development, dissemination and lobbying services, in addition to helping farmers obtain credit and providing appropriate financing for their projects. - Variety of services including supply of inputs and requirements, production and harvesting, manufacturing, sales, marketing and distribution locally and abroad. • The services that can be provided are determined by the size of the cooperative. and The cooperative may specialize in providing a specific service and may provide a range of services. • The profit margin that cooperatives get from technical and financial support is typically low, but high in the case of other services, especially marketing and distribution.
Financing	<ul style="list-style-type: none"> • Various sources for financing cooperative activities: Government funding / contributions / service fees / loans. • Direct government financing such as special annual grants for cooperatives at the national level, or indirectly, such as the government bearing the difference in production prices from market prices, or the government's commitment to purchasing products. • Member subscriptions. • Members' participation in the capital through subscription, in addition to offering quotas to finance specific capital needs in exchange for the services provided. • Loans either from specialized credit cooperatives (whose rates are lower) or through banks. • Many cooperatives succeed in achieving a profit margin that they are entitled to dispose of either by distributing or reinvesting.

Source: Prepared by ECES based on multiple sources, including Rabobank (2012) and IMC (2008).

Fourth: A Brief Description of Cooperatives in Egypt, with a Focus on Agricultural Cooperatives

The state realized the strategic importance of cooperatives and their economic and social role. This was reflected in the existence of a provision in the Egyptian constitution issued in 2014 in Article (23) that the state must sponsor and support cooperatives in all their forms. This is in addition to what is included in this regard in the national strategies for agricultural development, and the sustainable development strategy: Egypt Vision 2030. In Egypt, there are many types of cooperatives, including agricultural cooperatives,

consumer cooperatives, housing cooperatives, and educational cooperatives. Each type of cooperative is affiliated with its relevant ministry. Agricultural cooperatives are affiliated with the Ministry of Agriculture, consumer cooperatives are affiliated with the Ministry of Supply and Internal Trade, producer cooperatives are affiliated with the Ministry of Local Development, water cooperatives are affiliated with the Ministry of Irrigation, and housing cooperatives are affiliated with the Ministry of Housing. They are all under the umbrella of the General Cooperative Union⁷ except for educational cooperatives, which are under the Ministry of Education.

⁷ The General Cooperative Union was established by Law No. 28 of 1984 and comprises the central cooperative unions of consumer, producer, agricultural, housing and water resources. In its fourth article, the law defines the tasks of the General Cooperative Union, specifically: planning and coordinating the efforts of the cooperative movement in the economic and social development plans. It sets, in partnership with the relevant ministries, the general policy for the cooperative sector, and conducts studies, research and data, as well as spreads the cooperative movement thought and in the field. It presents cooperative and technical advice to cooperative unions and supplies them with what they may need in terms of assistance, expresses legal opinion, spreads cooperative culture, supports cooperative education, prepares cooperative leaders, establishes and manages cooperative institutes and training centers, sponsors graduate studies in the field of cooperative work, and finally, represents the cooperative sector at home and abroad.

The legislative framework for cooperatives is diverse. Each type of cooperative has a law that regulates it,⁸ in addition to a law that clarifies the universal principles of cooperatives (Law No. 317 of 1956).

In Egypt, there are about 14 thousand cooperatives that have more than 10 million members, with total financial contributions exceeding EGP 40 billion, more than half of which are in the field of agriculture and more than a quarter of them in housing.⁹

Currently, the total number of agricultural cooperatives stands at 5,697 cooperatives, with 4.6 million contributing members. The size of the capital amounted to EGP 327 million. About 18.9 thousand employees worked in cooperatives in 2018/2019. Agricultural cooperatives have cultivated lands amounting to 7.5 million acres, which represent 86%¹⁰ of cultivated land. In Egypt there are three types of agricultural cooperatives according to the nature of land affiliated to them, namely:

- **The first type:** cooperative societies for agricultural credit: to which old agricultural lands are affiliated.
- **The second type:** cooperative societies for agrarian reform, to which the lands reclaimed by the state are affiliated
- **The third type:** cooperative societies for reclaimed lands, to which desert lands are affiliated.

Agricultural credit cooperatives account for the largest share, whether in terms of the lands affiliated to them, the number of societies or members affiliated, or their capital, as shown in Table 9.3.

The number of local cooperatives (in villages) affiliated with the Cooperative Societies for Agricultural Credit is about 4310, with 3.9 million members, with a land area of 5.4 million feddans and capital of approximately EGP 2 million.

Lower Egypt has the largest number of agricultural cooperatives due to the largest area of agricultural land, followed by Upper Egypt, as shown in Figure 9.4.

Table 9.3. The percentage distribution of agricultural cooperatives in 2018/2019

Item	Cooperative Societies for Agricultural Credit	Cooperative Societies for Agrarian Reform	Cooperative societies for reclaimed lands
Number of cooperatives	%76	%13	%11
Number of contributing members	%84	%9	%6
capital	%62	%34	%4
Land area	%72	%8	%20

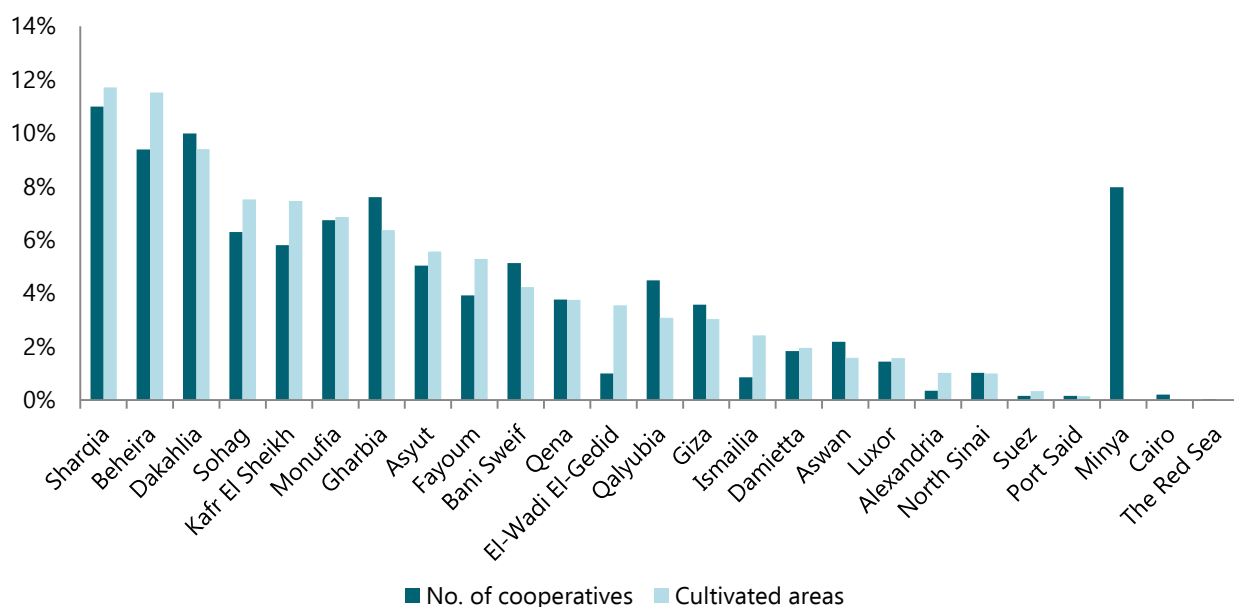
Source: Prepared by ECES based on CAPMAS (2020).

8 Law 109 of 1975 regulates consumer cooperatives, Law 14 of 1981 regulates housing cooperatives, Law 122 of 1980 and its amendments regulate agricultural cooperatives, Law 123 of 1983 fishing cooperatives, Law 110 of 1975 producer cooperatives, and Law 1 of 1990 educational cooperatives.

9 The statements of Dr. Ahmed Othman, President of the General Cooperative Union, in his review of the movement's role in modernizing Egypt until 2020 (from multiple press sites).

10 The total cultivated area in Egypt is 8.7 million feddans, of which 7.5 million feddans belong to cooperatives (the Central Agency for Public Mobilization and Statistics).

Figure 9.4. The percentage distribution of agricultural cooperatives over governorates and their share of total cultivated land



Source: Prepared by ECES based on CAPMAS (2020).

- Total loans obtained by farmers in 2018/2019 were estimated at EGP 13.8 billion, a decrease of 2% compared to the previous fiscal year, 95% of these loans are short- and medium-term loans.¹¹

4.1. The legislative and institutional framework for agricultural cooperatives in Egypt

- **Legislatively**, agricultural cooperatives are regulated by one law, namely, Law No. 122 of 1980 and its amendments.
- Law 122 of 1980 defines agricultural cooperative societies as "economic and social units aimed at developing agriculture in its various fields as well as contributing to rural development in their areas of operation, with the aim of raising the standards of their members economically and socially within the framework of the state's general plan and providing various services to its members."
- In addition to the concept, the law covers the agricultural cooperative structure, tasks of the

agricultural cooperative structure units, sources of cooperative financing and distribution of surplus, membership and members' responsibilities, the management of the cooperative, exemptions and benefits, supervision, cooperatives' termination, the central agricultural cooperative union, and penalties.

Institutionally:

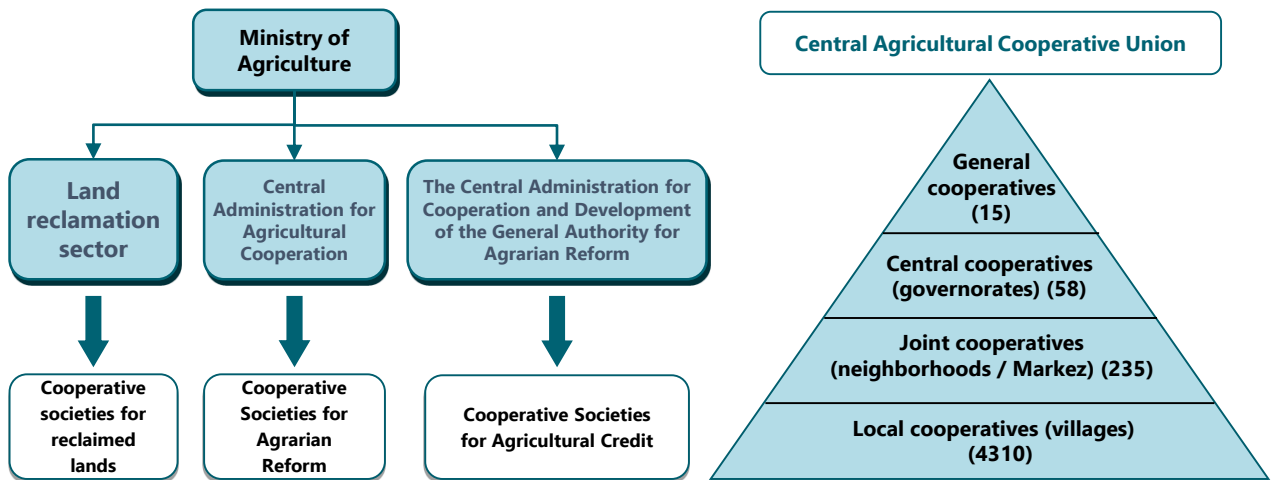
Figure 9.5 illustrates the institutional structure of agricultural cooperatives in Egypt, which indicates the following:

- The three types of cooperatives are supervised by three government agencies affiliated with the Ministry of Agriculture.
- The three types of cooperatives are organized geographically and functionally into four administrative levels, in addition to the Central Agricultural Cooperative Union,¹² which is an organizational umbrella for all agricultural cooperatives.

¹¹ Short-term loans have a maturity of less than 14 months and are used to finance the purchase of seeds, fertilizers and operations needed by the farmer until harvest, while medium-term loans have a maturity of more than 14 months and less than 5 years and are used to finance the purchase of agricultural machinery and others, while long-term loans with a maturity of more than 5 Years are used to finance the reclamation and cultivation of land. (CAPMAS 2020).

¹² The union consists of specialized and non-specialized (multi-purpose) general cooperatives, and all central cooperatives in the governorates (Article 70 of Law 122 of 1981).

Figure 9.5. Institutional structure of agricultural cooperatives in Egypt



Source: Prepared by ECES based on various sources CAPMAS (2020); Ghonem (2019).

- Each administrative level has tasks, including assisting the relevant cooperatives, in addition to a set of specific tasks, for example:
 - Providing technical support to farmers, whether through experts from the Ministry of Agriculture or specialized NGOs. Appendix A2 explains in detail the tasks of each administrative level.
 - Each administrative level has a general assembly, an elected board of directors and a manager appointed by the Minister of Agriculture. In local cooperatives, the general assembly includes all its members. In joint and general cooperatives, it consists of all the members of the boards of directors of the cooperatives that are its constituents, while in the central cooperatives it consists of a member representing each cooperative. Finally, the general assembly of the Central Agricultural Cooperative Union consists of members of the boards of directors of its constituent cooperatives.
 - The Central Cooperative Union's board of directors consists of at least thirty members, and the Minister of Agriculture may appoint five members.
- From the previous description of cooperatives in Egypt, many important points can be drawn that reflect the role of cooperatives in the agricultural sector over the past decades, as follows:**
- In conjunction with implementation of the agrarian reform program in the 1950s and the resulting fragmentation of the agricultural land, agricultural cooperatives were established for important reasons. These are combining the incentive of individual ownership and land management according to economies of scale. Hence the scope can be widened for farmers' access to various services, along with possession of bargaining power. Such power is reinforced through combined purchase/supply to obtain fertilizers, pesticides and all agricultural and animal supplies at reduced prices, and through combined sale at the highest prices. Services include facilitating financing for machinery and equipment, and increasing the quality of products and raising their added value.
 - Cooperatives did not operate at any point in the sense of the word. Rather, they turned into a financial tool for the state to manage the agricultural sector - a large part of which shifted to the private sector - through monopolizing the supply of fertilizers, seeds and pesticides, as well as purchasing strategic crops.
 - Despite serious reforms to improve the agricultural sector since the late 1980s, the decline of the government's role in managing

the agricultural sector, and the end of the state's monopoly on agricultural inputs and the purchase of crops; cooperatives did not witness a change that would enable them to perform their principal role in serving farmers, improving their economic lot and social conditions, and achieving agricultural development. The role of cooperatives has remained marginal to farmers, but they still exist as governmental entities in terms of their funds, employees and management.

- This is in addition to weak financing for agricultural development, as evident from the nature of loans obtained by farmers. Most of them are short-term loans used to cover needs

related to the agricultural process, such as buying seeds, fertilizers, and chemicals; indicating poor sustainability in the agricultural development process related to long-term investments.

Fifth: Where are Egypt's Agricultural Cooperatives Positioned among the Best International Practices?

Despite the state's awareness of the strategic importance of cooperatives in addition to their many strengths, including their wide geographical spread and direct link with farmers for many decades, they face many challenges that hinder their development and keep them away from best practices, as shown in the following table:

Table 9.4. Assessment of cooperatives in Egypt against best practices

Pillar	Best practices	Egypt
Nature of cooperatives	<ul style="list-style-type: none"> • Cooperatives are considered a non-governmental institutional framework for a group of individuals who unite voluntarily to meet their common economic, social and cultural needs and aspirations. This framework is managed in a participatory and democratic manner. 	<ul style="list-style-type: none"> • Egyptian law recognizes the international standards of the cooperative movement. However, in terms of implementation, cooperatives witness widespread governmental interference, as their funds are considered public funds, and their employees and members of their boards of directors are deemed public employees. Decisions are centralized, such as determining the amount of fertilizer and the price of agricultural crops. Supervisory authorities have the right to be represented in the board of directors of cooperatives, and to nominate managers at the higher levels of cooperatives. They also have the final say in appointing managers at the local level, and they can object to the decisions of the board of directors.
Organizational Structure	<ul style="list-style-type: none"> • Cooperatives operate according to an organizational structure consisting of two or three administrative levels at the most. • Clarity of tasks for each level and ease of cooperation • A specialized technical department that manages cooperatives 	<p>The structure is complex and has clear imbalances, including:</p> <ul style="list-style-type: none"> • The multiplicity of agencies that perform the same roles, including, for example, the multiplicity of governmental financial audit bodies, whether by the Central Cooperative Union, the Ministry of Agriculture, and the Central Auditing Organization. • The presence of parties that do not have a clear role. Specifically, the Central Union of Agricultural Cooperatives, albeit the law indicates the tasks entrusted to it. • The small range of local cooperatives and their large number did not solve the problem of maximizing benefit from the fragmentation of agricultural holdings, which is a major reason for establishing cooperatives. • Weak institutional capacities for cooperatives, whether human, organizational or financial. • Inefficiency of the decision-making process because it is often centralized, weak democratic practice, difficulty of the decision-making process due to the large number of members of the board of directors the higher the administrative level, for example.

Pillar	Best practices	Egypt
Legislative framework	<ul style="list-style-type: none"> • One legislation for all cooperatives or multiple legislations, but governed by general principles • Clear, comprehensive, consistent and balanced legislations that guarantee everyone's rights and stimulate accountability for members as well as regulatory authorities. • Legislations guarantee: • Minimal government intervention • Lowest degree of government spending • Maximum degree of decentralization • Maximum degree of democracy. 	<ul style="list-style-type: none"> • Despite the simplicity of the legislation governing agricultural cooperatives and being effectively one main legislation, namely Law No. 122 of 1980; it contained many articles that conflict with the global principles of cooperatives: • It stipulates that associations' funds are de facto public funds, and their employees and members of their boards of directors are effectively public employees. • Controls that limit the expansion of the scope of voluntary membership and impede a free, independent and democratic management system. • The amendments to the law that were introduced in 2014 restricted the participation of small farmers on boards of directors to only 8%.
Services provided	<ul style="list-style-type: none"> • The services provided by cooperatives vary across the value chain and can be divided into two main groups: <ul style="list-style-type: none"> 1. Technical and financial support: Training, research and development, dissemination and lobbying services, in addition to helping farmers obtain credit and providing appropriate financing for their projects. 2. A variety of services, including provision of inputs and supplies, production and harvesting, manufacturing, sales, marketing, and distribution locally and abroad. 	<ul style="list-style-type: none"> • Services are limited to providing some types of fertilizers (chemical only) for strategic crops (wheat, corn, sugarcane, rice, and cotton) as well as pesticides for cotton, and the provision of subsidized loans. • Purchasing some strategic crops according to prices set by the government.
Financing	<ul style="list-style-type: none"> • Various sources of financing cooperative activities: member quotas / contributions / government funding / services / loans. • Many cooperatives achieve a profit margin that they are entitled to dispose thereof either by distributing or reinvesting. 	<ul style="list-style-type: none"> • Limited financial resources. • Absence of a cooperative credit bank that enables cooperatives to engage in activities and projects of a wider scope. • A financing system that is not conducive to making profits and expanding the activities and services of cooperatives, as the law specifies fixed percentages for the distribution of profits (stipulating the distribution of 50-55% to non-members and the rest to members). • Financial accounting for government regulators and not members. Few members know about the size of profits made by the cooperative to which they belong, in which activities they are invested, and members rarely get profits. • Decline in members' contributions, weak services, and lack of participation in management are all factors that do not motivate an increase in growth nor development.

Source: Prepared by ECES based on various sources: Law 122 of 1980; IMC (2008); and Ghonem (2019).

Sixth: How to Shift to the New Model of Agricultural Cooperatives

A comparison of the model of agricultural cooperatives in Egypt against best practices reveals a large gap between the Egyptian model and best practices. Agricultural cooperatives in Egypt are governmental entities with a complex organizational structure governed by a law that contradicts the global principles of cooperatives. This renders them executive arms of the government, making them lose the strategic direction that reflects the aspirations of their members, dynamism, and performance efficiency. It also limits opportunities for their improvement, and makes members lose their sense of ownership, preventing their real participation in management and development. The description of cooperatives in Egypt also shows that despite their prevalence and the compelling motives for their inception, they fell short of operating in the proper manner at any point, and hence became existing governmental entities, with marginal contribution in serving the agricultural sector and improving the standard of living of farmers.

Egypt desperately needs a new model of cooperatives that achieves the required developmental takeoff. Such model should draw on best international practices, while taking into account the specificity of the Egyptian case.

The shift to the new model reinforces the existence of a constitutional provision requiring the state to sponsor and support all forms of cooperatives.

The new model starts from a different, modern view of cooperatives as a basic development partner alongside the government and the private sector, and as a major actor that contributes to the economic and social development of local communities, therefore improving the standard of living of individuals and breaking the cycle of poverty and informality.

The transition to the new model will gradually take place after ensuring the availability of the elements for its success, which are as follows

- **A review of the state's view of cooperatives as a major development partner** that helps achieve national goals at the local level. The success of this model requires allowing it to work freely and flexibly, which means a minimal degree of government intervention.
- **A supportive role by the state for the new model**, through mainly undertaking a regulatory role that includes:
 - Setting the outlines of these entities without going into details of their management.
 - Ensuring balance of internal relations between senior and junior members.
 - Giving incentives to large producers to encourage them to join cooperatives and help small producers.
 - Organizing the relationship between cooperatives and other market players in a way that achieves competitiveness and prevents any monopolistic practices.
 - Providing facilities for their creation, technical support, and disseminating successful models.
 - Completing the legislative framework that guarantees the success of these entities; specifically, implementing decentralization through the finalization of amendments to the Local Administration Law.
- **A radical change in the law regulating cooperatives** in a way that ensures their independence, efficiency and effectiveness. The law should aim to regulate the relationship between cooperatives and the rest of the actors while leaving their organizational rules to be set internally, addressing only the general principles that guarantee balance in the rights of large and small members.
- **Spreading cooperative awareness** through the media and agricultural extension to educate farmers about the new model of cooperatives, the opportunities that can be provided through it, mechanisms of practicing cooperative work, and elements for its success.

Appendices

Appendix 1. Some Features of Dutch Agricultural Cooperatives

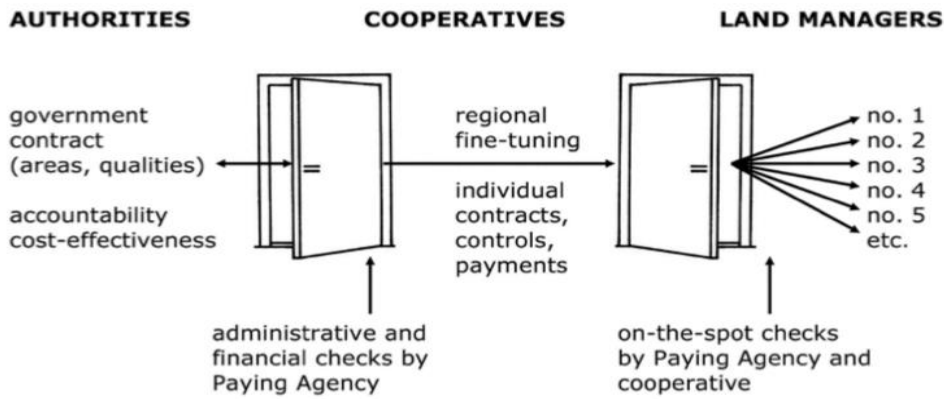
Introduction and History:

- The history of agricultural cooperatives goes back to the mid 19th century, when more and more agricultural associations were being established. Most of which were organized rather informally and were often supported by local dignitaries. With the enactment of the first cooperative legislation in 1876, the first formal cooperatives were established, specifically in purchasing inputs and processing milk. It took another decade before cooperatives become popular; a rapid increase in the number of newly established cooperatives can be found from the 1890s onwards.
- Interestingly, the number of associations grew in parallel to the number of cooperatives, indicating that farmers (and their supporters, mainly the farmer unions) saw the benefit of establishing farmer-owned enterprises, but were not yet convinced that cooperatives were the ideal model. This can be explained in part by the unfamiliarity of the new legal model, and in part by the reputation of cooperatives as a pure business model, while most supporters of cooperatives (farmer unions, priests, local dignitaries) also emphasized the community-element of joint organization, and the need to invest any surplus in the community instead to paying it out to the members. It was only after 1920 that most associations turned into cooperatives and the cooperative model become dominant.
- While the number of farmers has gradually declined over the last 50 years, agricultural production has remained stable. In 2015 only 60,000 farmers remained, while the total added value generated by agriculture, food processing and distribution continues to be 50 billion euro. Cooperatives take responsibility for a major share of this added value.

Governance:

- The institutional environment in the Netherlands has always been favorable for the development of cooperatives. This can partly be explained from its historical and sociological background. The Dutch have a tradition of self-organization, democratic decision-making and coalition governments; often referred to as the 'polder' mentality. The long history of decentralized government and the need for self-organization in "keeping one's feet dry in the polder" have supported the cooperative mentality.
- Cooperatives are governed by the elected board, where control rests with the 'general meeting of members' (GMM) or in Dutch the Algemene Ledenvergadering (ALV). One of the ALV's tasks is to appoint a board to manage the cooperative's affairs. The board enters into agreements with and for its members. Government intervention is virtually nonexistent as the elected board is solely responsible for governing duties.
- One of the key issues in cooperative governance is the allocation of decision rights between boards of directors, and professional management. The board of directors, representing the membership, needs to maintain sufficient decision rights so as to control the strategic development of the organization.
- Since 2016, a new scheme was introduced which disallowed individual applications. Which, fits perfectly with the long tradition of environmental corporations. There are four primary reasons for the Dutch government to implement group applications and dealing exclusively with cooperative applications, rather than the tradition of individual applications.

Figure A1.1. The principle of front and back doors



The "front door – back door system" of the Dutch agri-environment scheme with a key role for agri-environment cooperatives as final beneficiaries

- This newly adopted scheme was known as the "front door - back door principle," whereas the front door (the government) signs a contract with the regional cooperative setting the agri-environment targets, and describes the types of conservation activities that will be used to achieve these targets. The back door concludes the cooperative contracts with individual land users; this construct includes all the specific activities and payments needed. Between the front door and the back door, the regional fine-tuning of conservation activities and payments occurs. The figure below simplifies the "front door-back door principle," showing how the entire process works.
- Another innovation in cooperative governance structures is related to the composition of the board of directors and the supervisory boards; the Netherlands allows a minority of non-member experts on these boards. In addition, large cooperatives have introduced a member council of 100 to 200 members that has taken over most of the rights and obligations of the General Assembly. This member council is more likely to consist of committed members interested in the general affairs of the cooperative. Also, this member council is a pool for new board members.

Cooperative Legislation:

- The legal form most frequently used by farmers to set up a jointly-owned business is the cooperative. There is no state policy to induce

farmers to choose cooperatives over other legal business forms. Farmers will typically join a cooperative as it helps boost their bargaining power within the market via the cooperative as it is composed of multiple members. There is also no state support for the promotion of cooperatives, nor are cooperatives obliged to fund any joint support organization.

- Evaluating the current legislation for cooperatives, in general, the Dutch laws on cooperatives and associations has been regarded by practitioners as very flexible with regard to setting up a cooperative, and tailoring the cooperative’s articles of association to the needs of its incorporators. Cooperatives are easy to establish and maintain, in terms of money and time. Within a number of general rules on the internal governance structure of cooperatives, they are free to develop more detailed internal rules in their statutes, for instance regarding the type of activities conducted, members’ financial contribution, the distribution of surplus, and the communication between the members and the cooperative.

Memberships:

- The growth of the cooperative firm through internationalization and diversification results in different groups of members having different interests. Also, members may become more diversified in their individual strategies as their

farms specialize. This type of specialization is even furthered by the shift of (some) members from producers of commodities bound for spot markets, to producers of specialized products for specific processors or retail customers.

- Agriculture cooperatives are primarily organized for economic reasons, however; in the early 20th century, many considered cooperatives as a great source of social solidarity and collaboration, and as a means of linking farmers with one another. Obviously, this is still the case today but, in older times this was the primary reason. It is also worth noting that only after 1920 that most associations turned into cooperatives and the cooperative model become dominant.
- Decision-making may become more laborious, coordination between member firms and the cooperative firm may become more difficult, member commitment may decrease and member willingness to provide equity capital may be reduced.
- Several crucial decisions entail the (re)distribution of wealth among the members of a cooperative and thus may incentivize members towards gaining personal influence. The allocation of overhead costs, the assessment of members' product quality, and the geographical location of a new investment are but a few examples of such decisions.
- Cooperatives in the Netherlands are well funded given the "Dutch" nature of relying on cooperatives, the finance mainly comes through members, and is allocated and regulated via elected board members. Although government intervention in the affairs of a cooperative are kept to a minimum, in the case of financial disruption (as was the case of World War II) the government can intervene financially to prevent cooperatives from collapsing.

Structure, Scale and Scope:

- Where agency theory starts from the premise of conflicting interests and seeks solutions in designing mechanisms that align interests,

stewardship theory emphasizes the shared interests between the board and management in promoting organizational performance. Thus, from a practical point of view, the discussion is not just about organizing effective.

- In the 1960s cooperatives shifted to another corporate governance model because of changes in the competitive environment. In order to develop appropriate strategic and tactic responses to competitive pressures, cooperatives have felt the need to strengthen the autonomy of their management, reduce member influence on operational decisions, find new sources of equity capital, and professionalize their supervisory bodies. In other words, their strategic re-orientation towards more customer focus, diversification, and innovation has been accompanied by changes in the decision-making structure.
- Over the last 20 years, most agricultural cooperatives in the Netherlands introduced a formal division of labor between the Board of Directors, which took responsibility for decision control (ratification and monitoring) and the professional management, which was responsible for decision management (initiation and implementation). This division of labor has been institutionalized in new internal governance models (or board models). Besides the traditional model, which has been around for more than 100 years and is common in many countries, the authors found two new applicable corporate governance models: the management model and the corporation model.
- In the management model, the management of the cooperative firm is also the Board of Directors (BoD) of the cooperative society. In this model there is no longer a distinction between decision making regarding the strategies and policies of the cooperative and the execution thereof. The BoD has been professionalized, and the supervisory committee supervises the community and the firm at the same time. In the corporation model, the BoD of the cooperative community

has become the supervisory committee of the cooperative firm. A legal separation between association and firm has been established, turning the cooperative society into a 100% shareholder of the cooperative firm. This structure provides the management with relatively more autonomy.

Market Orientation:

- These are cooperatives with a specific field of operations, for example the supply of feed or the processing of only one crop, such as sugar beets. These are called specified cooperatives since, they specialize in a single or limited number of products. In other countries it is more common to find cooperatives that supply inputs, process, and market the agricultural and horticultural products. These are known as multifunctional and are tailored towards a number of products usually with similar traits. The combination of many different tasks in so-called multipurpose cooperatives may lead to high costs. Other explanations for membership homogeneity are cultural homogeneity, relatively small distances (thus allowing members to meet in person), the low differentiation in farm size.
- One of the challenges for cooperatives to become transnational - that is, to obtain members in different countries - is the expected increase in membership heterogeneity and concomitant decision-making problems. While the Netherlands is one of the European countries with the largest number of transnational cooperatives, most of these cooperatives are very focused on their product portfolio. The transnational cooperatives can be found in dairy (with milk as a very homogeneous product) and in fruits and vegetables, mostly for the same crop.

Rationale:

- Theories often used to explain the rise of cooperatives, such as transaction cost economics,

bargaining power, and economies of scale: In the late nineteenth century, market conditions were unfavorable for the multitude of small farmers, and the state followed a strict non-intervention policy. However, these theories need to be complemented by institutional theory to fully explain the success of the dairy cooperative model in later decades.

- The bargaining power of the individual farmer in relation to the processor has greatly improved since the 19th century, as farms have become larger and have more sales options. However, the issue of bargaining power has shifted towards the cooperative itself. Because food retail has become very concentrated, with only a few buyers left in the Netherlands as well as in the main destination countries for Dutch dairy exports, dairy processors have pursued mergers in order to strengthen their bargaining power against retail companies. As of 2018, a new situation in bargaining has appeared. Several farmers have chosen to not become a member of a processing cooperative, but of a bargaining association. Examples are EkoHolland, a bargaining association of some 175 producers of organic milk, and Noorderlandmelk and Flevomelk, two regional bargaining associations.
- Sustaining cooperatives in the Netherlands is very simple and highly likely given that the government follows a minimal intervention policy, and cooperatives can easily bargain with the government, so the more members present the higher the bargaining power. In the case of dairy cooperatives there are only 5 cooperatives that house all of the dairy farmers in the Netherlands, and each cooperative has strong bargaining powers and are financially sound and sustain high profits.

Appendix 2

Table A2.1. Tasks of the agricultural cooperative structure units in Egypt

Level	Tasks
General cooperatives	<ol style="list-style-type: none"> 1. Providing members' needs such as machinery, spare parts, production requirements, fertilizers, seeds and pesticides. 2. Carrying out cooperative marketing operations for production nationwide. 3. Exporting products on behalf of its members in accordance with the legally established rules. 4. Achieving coordination and economic integration between cooperatives at the level of the Republic on a national level. 5. Creating the necessary funds to support economic activity in accordance with the law. 6. Establishing major projects on cooperative bases, especially factories for feed, fertilizers, pesticides or machine parts; establishing agricultural industries across the country to package or manufacture some certain agricultural crops, including projects for the processing of dairy, meat and fish, diluting juice, and packaging vegetables and fruits. 7. Conducting the specialized research necessary for work development, organizing training programs for technical and administrative bodies and members of cooperatives, carrying out guidance and extension work, disseminating updated experiences and information, and following up on cooperative activity at various levels of policy-making, and preparing appropriate programs.
Central cooperatives	<ol style="list-style-type: none"> 1. Establishing a technical unit that undertakes control, supervision and inspection of administrative, financial, accounting, inventory, and book works for governorate cooperatives, and rationalizing streamlining administrative and financial work. 2. Establishing a central training center to handle cooperative, technical and administrative training operations for cooperative members and their functional apparatus. 3. Establishing projects for agricultural processing and rural industries. 4. Spreading cooperative awareness at the governorate level through various mechanisms. 5. Providing the necessary spare parts for the machinery owned by cooperatives and their members, and granting them the right to establish central workshops to carry out the repair operations that the joint cooperative workshops cannot undertake.
Joint cooperatives	<ol style="list-style-type: none"> 1. Establishing fixed or mobile workshops to carry out repair, maintenance and overhaul operations of all kinds of machinery and equipment owned by cooperatives. 2. Establishing, managing, and operating agricultural processing and rural industries projects for member cooperatives. 3. Establishing warehouses or refrigeration units for storing production material and crops preservation. 4. Owning and operating means of transportation to serve its members. 5. Contributing marketing services of crops to members.
Local cooperatives	<ol style="list-style-type: none"> 1. Examining the crop composition for agricultural rotation and following up on the implementation of plans agreed upon within the framework of the state's general strategy in the cooperatives' area of work. 2. Planning and implementing local production projects according to their economic potential, including projects of agricultural industrialization, animal production, poultry farming, beekeeping, rural environmental industries, land reclamation, or water conservation. 3. Contributing to the organization of land cultivation, and the aggregation of agricultural exploitation for the advancement of agriculture in accordance with modern scientific foundations, in cooperation with state agencies and local government units. 4. Carrying out cooperative marketing of members' crops. 5. Obtaining loans from various sources to finance necessary production and service projects and for its members, all in accordance with the rules, controls and conditions indicated by executive regulations. 6. Expanding agricultural mechanization by providing modern machinery for various operations, training workers on them; and organizing their management, operation and maintenance in a sound economic manner.

Level	Tasks
Local cooperatives (cont.)	<ol style="list-style-type: none"> 7. Managing and exploiting its projects and lands, as well as lands entrusted to legal persons and individuals. 8. Contributing to the conduct of public services for its members in cooperation with various agencies. 9. Creating savings awareness among members and organizing their investments.
Central Agricultural Cooperative Union	<ol style="list-style-type: none"> 1. Participation in planning the agricultural cooperative movement in Egypt. 2. Coordination between the general agricultural cooperatives within the set limits with regards to achieving their objectives, and drumming up support for the cooperative movement for agricultural development, spreading awareness about it, and sponsoring and developing it. 3. Supervising cooperative training operations in agricultural cooperatives, in coordination with the central cooperatives in the governorates. 4. Holding the General Agricultural Cooperative Conference once every four years, following up on the implementation of the conference's decisions and recommendations, and organizing specialized cooperative conferences through the general cooperatives. 5. Participating in the coordination between the agricultural cooperative sector and all other cooperative sectors, and linking them together. 6. Representing the agricultural cooperative movement abroad by participating in the membership of international, regional and Arab cooperative organizations, participating in foreign conferences, exchanging cooperative experiences with various international organizations, and accepting financial aid from foreign cooperative organizations, all in coordination with the Minister of Agriculture. 7. Proposing agricultural cooperative legislations. 8. Defending the interests of agricultural cooperatives in the units of the cooperative architecture.

Source: Law No. 122 of 1980.

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10. Egypt's "Future of Work": Restructuring to Cope with Global Trends

Salma Bahaa

First: Introduction

This report addresses new global trends in the labor market or what is known as the "Future of Work". It becomes increasingly important for the labor market structure to adjust to these changes as a new norm, and to be well prepared to face them with the speed and efficiency required; especially, in light of the current critical period workers are witnessing in terms of job and income losses, and more generally conditions of the post COVID-19 era. This shift in global trends of the labor market is not nascent, but rather imposed by new patterns of jobs since the 1990s. The global communication revolution, communication networks, and the Internet moved the system of "work" to the era of e-business.

However, what is new in the current wave of global changes is the different level of dynamism of functional tasks, which started with the entry of the world into the Fourth Industrial Revolution, and has grown rapidly with the accelerating pace of innovations and digital transformation. This, in turn, changed approaches of dealing with "work," introduced new important considerations that greatly affect its future. It also created a new labor market not only in developed countries, but all over the world, and has been accelerated due to the COVID-19 crisis.

The report covers six sections that begin with clarifying what is meant by the term "Future of work" in the first section. Section 2 provides an explanation of the most important reasons for its classification as a main driver of change. Section 3 reviews the most important global "Mega Trends," which contributed to the global shift towards certain patterns of work. While Section 4 deals with the new global patterns of the labor market. Examples of how countries dealt with recent changes in the labor market, such as China

as a leading country, Turkey as a competitor, and finally the United Arab Emirates as a neighboring country, are presented in Section 5. The report then extracts the most important elements of success from the three experiences. In the final section, the report provides a detailed analysis to answer the question «Where does Egypt stand in terms of coping with the new reality of the labor market?», through a quick overview on the Egyptian labor market; analyzing Egypt's position with respect to the elements of success, and what are the needed requirements for the labor market to become a strong driver for change. It should be noticed that ECES had previously presented a detailed [analytical study of the Egyptian labor market](#), addressed all its aspects, and analyzed it at the sectoral level through a set of sectoral studies on the impacts of the COVID-19 crisis on the Egyptian economy published in [two e-books](#).

Second: What is Meant by the Future of Work?

The term "Future of work" refers to major economic and social changes that were directly reflected on the supply and demand sides of the labor market, and completely changed its features, not only in terms of technological transformation but also in terms of how to prepare for and respond to these changes. This transformation is described through several mega-trends or phenomena, which acted as catalysts directing global labor markets towards certain patterns. Most importantly; the information revolution and its impact on re-arranging the priorities of countries worldwide, globalization and technological booms, the Fourth Industrial Revolution and how it contributed to shifts in the balance of global economic power, and finally the demographic development.¹ These mega trends combined have reshaped the features of the labor society as we know it. Added to this is the emergence of the COVID-19 pandemic over the past year, which came to confirm and even accelerate the impact of all of the above on "work" patterns.

¹ <https://www.mckinsey.com/featured-insights/innovation-and-growth/navigating-a-world-of-disruption>

Third: Why Developing the Entire System of Work at This Stage is Considered One of the Main Drivers of Change for Countries?

In general, employment and labor market activation play a vital role in any country as the primary source of production, and a major source of income at the individual level. This is in addition to the following:

3.1. Acceleration in the pace of global mega trends, such as leaps in emerging technologies and the demographic shift mainly in developed countries, which is a major source of change in the features of the labor market.

3.2. Noticeable difference in terms of the scope of change this time and the accompanying pattern, which imposed further preconditions compared to the previous industrial and technological revolutions. For example, what the labor market witnessed during the transition from the agricultural to the industrial revolution, such as movement of workers from agricultural work to assembly lines in industrial production, is described as an easy transition as it included limited training and did not require high levels of skill. However, the current wave of changes differs in terms of the educational background and skills required. Therefore, the transition process has become much more difficult and thus requires a different level of readiness.

3.3. Chronic structural and institutional deficiencies facing the Egyptian labor market, as well as the recent huge increases in unemployment rates, which weakened Egypt's position further on the global stage. Therefore, raising Egypt's readiness in the face of these accelerating developments requires more effort in grasping new global concepts and dealing with the evolution of the labor market.

Fourth: Major Global Trends behind the Changing Features of the Labor Market

Global mega trends are a major driver of shifting global patterns of employment, and the disruption of labor markets worldwide. There is a strong interrelationship between these trends, evident in the sequence they began to affect labor market dynamics. The **information and data revolution** comes at the fore, which changed ways of thinking

and the major goals of global economies; and began over time to spread to other countries, resulting in a parallel revolution in **digital technology**, and a new stage of **globalization**. These, in turn, were transformed into highly advanced technologies that formed a unique **fourth industrial revolution**. Adding to these three trends are the demographic transition that is threatening advanced economies, and the new normal imposed by the COVID-19 pandemic. It is quite clear that all of them witnessed previous influential waves, but the current wave has a new imprint that doubled its impact; with the exception of the COVID-19 pandemic, which is unique in both nature and repercussions. This section reviews the details of each of the previous trends separately.

4.1. The information revolution: "data and information" constituted the new norm for the capital of economies and the most important elements of the modern global system, known as the "machine knowledge capital" phenomenon. The real value of gigantic companies such as Google, Facebook and Amazon, whose market value ranges between 200 to 400 billion dollars, lies in the value of the data they own, (ECES 2019), and their wealth of intellectual property and patents. This tightened their control over global markets, and largely caused the difference in the current wave in terms of the speed of change and the pervasive spread of technology in our lives. While the old inventions of the telephone and radio began to spread after many years, ranging between 38-50 years, Facebook was able to attract 6 million users in its first year, this figure increased 100 times during the following five years, which encouraged these companies to accelerate the pace of innovation even more.² Hence, competition between companies around the world took a new form, such as how to acquire intellectual property rights and adopt the power of information in the face of rapid developments. Acceptance of technology and adjusting to it is no longer optional in light of

² <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-four-global-forces-breaking-all-the-trends>

the acceleration of its spread, and the replacement of human beings by artificial intelligence (ECES 2019). The trading volume of the artificial intelligence market is expected to grow by 2025 around the world to reach \$59 billion, compared to only \$1.8 billion in 2016 (Servoz 2019). Hence, countries' real capital form has shifted from labor force, equipment and machinery, or even natural resources, to the pace of innovation.

4.2. Globalization and the Technological Revolution: Globalization is an old term that goes back 20 years, but the current wave is very different compared to the previous waves in the early 1990s. This is attributed to the exceptional pattern we observed during the past few years, which characterized the modern **technological revolution**, with faster transformation rates and more continuous fluctuations than its predecessors had. This created, and continues to create, new types of jobs to replace older ones, especially with the increasing productivity witnessed by global economies recently.³ Rather than the simple routes that connected the major trading centers of Europe and North America to one another, the global trade system expanded into a number of complicated, intertwined and extended networks. Within just 10 years, global financial and trade flows witnessed an extraordinary leap, with Asia becoming the largest trading region in the world, the share of trade flows among emerging markets in global trade doubled, and the volume of trade between China and Africa increased more than 23 times between 2000 and 2012. Global capital flows increased 25 times between 1980 and 2007.⁴ In addition to the short-term challenges that faced the labor market as a result of replacing labor with machines, and the consequent need to upgrade skills and competencies; there are fundamental differences compared to previous technological revolutions, the most important of which lies in the speed of transformation and the scope of impact.

This accelerating transformation is the result of speeding up the pace of innovations and the discovery of new capabilities for machines. This has led to an almost complete layoff of labor as a result of the development of technologies such as artificial intelligence that adopt advanced methods of research or what is known as "deep learning"; which has gone beyond mere programming skills, to allow the possibility of machines to develop their own software.⁵ Therefore, the readiness of countries to face this transformation should see further improvements, i.e. upgrading training and skilling to a new level that adopts user-friendly technologies and not reinvent them.

As for the scope of the impact, these booms affect the service sector extensively to the point it was called "globalization of services". Thanks to the increasing electronic interconnectedness of nations, the service sector is the fastest growing economic sector of all; from business services, health care, to leisure services. It has become indispensable for managing complex and advanced industrial economies, whether for logistics, financial, information or other services. According to the latest data, the service sector contributes more than two-thirds of the economic output, attracts more than two-thirds of foreign direct investment worldwide, and provides nearly two-thirds of jobs in developing countries. This percentage rises to 4/5 in the case of developed countries.⁶

4.3. The urban revolution and the fourth industrial revolution, the latter being very different from the previous industrial revolutions that shared one goal, which is to develop production using different technologies such as hydro and steam energy, electricity, or electronics and information technology. This time, the industrial revolution is characterized by more precision and a faster pace, with lines blurred between the physical, biological and digital worlds. This was through the launch of highly advanced technologies such as artificial intelligence, cloud computing, robotics, 3D and 4D printing, the Internet of Things, advanced

3 <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

4 <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-four-global-forces-breaking-all-the-trends>

5 <https://www.weforum.org/agenda/archive/fourth-industrial-revolution>

6 https://www.wto.org/english/res_e/booksp_e/02_wtr19_1_e.pdf

wireless technology⁷, and other economic and social disruptions that have overturned the balances of labor and production markets, such impact on labor markets will be discussed later on.

Contributing to this was the parallel urban revolution taking place in emerging economies, which is represented in the qualitative shift of global economic activity hubs to emerging economies such as China; and more specifically to urban cities within those economies, and how the pivot points of the global economy have shifted to the east and south at an unprecedented pace. Nearly half of the global GDP growth between 2010 and 2025 came from 440 cities in emerging markets, 95% of which are small and medium-sized cities like Tianjin, whose total output is almost comparable to entire countries like Sweden! Moreover, more than half of the world's largest companies—with revenues of \$1 billion or more—are expected to be located in emerging markets by 2025.⁸

4.4. The demographic transition in developed countries:

The decline in working-age population represents a real problem that troubles advanced economies in particular and creates great pressures on their social security schemes. The latest statistics indicate that in 2020 there were an estimated 727 million people aged 65 years or more, worldwide. This figure is expected to double by 2050 to reach more than 1.5 billion people, and the proportion of older people will increase in the world population from 9.3% in 2020 to 16.0% by 2050. Once again, what is new this time is the precarious result of this evolution in demographic trends in developed countries in terms of raising the costs of pensions and health care services,⁹ in addition to the relatively limited capabilities of these age groups to use recent technologies. While the same situation is not applicable to

developing countries due to their demographic dividend and the high number of young people in working age. In fact, they have an opportunity to benefit from this unfavorable situation faced by developed countries, but their surplus of young people is not well equipped with the necessary skills and capabilities to cope with the digital revolutions and contemporary technology, which we will discuss in detail later.

4.5. The COVID-19 crisis: The COVID-19 pandemic has resulted in a further acceleration of the forced digital transformation, which is evident with the almost complete shift to remote work and the sudden wider spread of e-commerce. This has led to the reconfiguration of the features of the labor market anew to include mainly different mechanisms for the practice of job tasks remotely. At the same time, this represented a critical challenge to workers' ability to continue living under these conditions, as it was difficult to adapt to the new nature of work during such a short period of time. This showed differences between countries in terms of their readiness to respond to the new reality imposed by the pandemic, which is largely related to the ability to keep pace with the changes previously presented. Countries that were able to cope with previous global changes—albeit at a slower pace now—were not negatively affected by the pandemic as much as countries that are late in responding to similar changes (distance learning, e-commerce, comprehensive digital transformation, information infrastructure, trained labor, etc.). In the wake of the COVID-19 pandemic, the labor market was automatically classified into three categories: one that includes "essential workers" such as delivery workers, health workers, food store workers, agricultural workers and medical factory workers.

7. <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>

8. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-four-global-forces-breaking-all-the-trends>

9. https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/files/documents/2020/Sep/un_pop_2020_pf_ageing_10_key_messages.pdf

A second category includes "remote workers" who have been able to work remotely and are likely to keep their jobs. The last category is "displaced workers" who are likely to be replaced in the future; who work mostly in the sectors hit hardest by the crisis; such as the travel and tourism sectors, retail trade, and service work. These three categories are facing a comprehensive transformation in terms of the nature of the practice of their jobs, and hence the labor market is facing a new model of skills and competence that requires a new category of training and qualification (WEF 2020).

Fifth: The New Global Patterns of Labor Market

There are three patterns that reflect global changes in labor market trends, and it is clear that they automatically caused each other to emerge. The first pattern concerns recently discovered technologies that are getting more and more complex day after day, which in turn led to the loss of a great number of jobs, and the emergence of other new jobs representing the second pattern. The final pattern is the new structure of skills necessary to practice these new jobs. This is the most important element that distinguishes the effect of global changes this time compared to previous experiences; where the gap - represented by the preparations and expertise required to match new jobs - was insignificant, in that it could be overcome by training and compensating workers for losing their jobs due to technological progress. This section discusses these three patterns and their impact on labor markets.

5.1. Newly Emerging Technologies (WEF 2020)

The past two years have witnessed a clear acceleration in the adoption of certain technologies by international companies. Technology related to digital transformation such as cloud computing, big data analysis and e-commerce are at the top of the companies' priorities in terms of technologies adopted, in addition to a significant interest in adopting

encryption technology. Countries have also made a big leap in the number of companies expected to adopt more advanced technology, such as non-humanoid robots and artificial intelligence, which are slowly beginning to dominate the nature of jobs at the level of all industries. There are some other less complex technologies such as augmented and virtual reality, biotechnology, in addition to 4D printing and modelling techniques.

Technological adoption patterns differ according to the sector, as artificial intelligence is more concentrated in digital information, communications, education, financial services and transportation sectors, and biotechnologies in the health care sector; while big data analysis, internet services, and non-human robots are strongly embraced in the mining and metals sector. Government and public business sectors support encryption techniques.

5.2. New employment pattern

While the main objective of designing these innovative technologies is stimulating both the productive growth of industries, and the demand for new job tasks and their diversity of skills, this positive impact may be discouraged because of the disruption of these technologies to the workforce. Technological adoption will negatively affect workers by displacing some of the tasks performed by human power and replacing them with machines. The degree of impact of these disruptors on workers varies according to the nature of the profession and the complexity of skills necessary, as well as the companies' response to this development by adjusting their employment structure.

Most international forecasts indicate that such transformations inside companies have already begun in many fields, and are continuing to increase. The results of recent studies predict that by 2025, job tasks that have been eliminated by modern technology will increasingly decline from 15.4% of the workforce to 9% (a decline of 6.4%), and that emerging occupations will grow by 7.8% to 13.5% (i.e., a growth of 5.7%) of the total workforce. This type

of substitution, which is called "job disruption," is offset by the creation of new job opportunities in new fields known as "Jobs of Tomorrow," which are expected over the next decade to constitute a significant proportion in completely new professional fields; or existing professions, but are subject to a major shift in terms of their job content and appropriate skills.¹⁰ It is estimated that 85 million jobs may be replaced by machines by 2025, while 97 million new jobs may emerge that are more adapted to the new division of jobs between humans, machines and algorithms.¹¹

The following Table (10.1) shows the 20 most prominent job tasks in terms of high or low demand at the level of industries. This classification reflects a great development in the dynamics of the labor market, and a clear threat to those on the right side of the ranking, which shows the jobs that are witnessing lower demand. First, there is a clear difference between the type of jobs with lower demand and the corresponding jobs in the new fields. The first is mostly characterized by providing services, whether through workers only, or workers operating electronic devices, while a more precise dimension in terms of scientific specializations characterizes the newly created jobs, even if they are in the service

sector, occupying a position such as "fin-tech engineer". The difference is also clear in the level of jobs, as the lowest-demanded jobs range from factory workers and construction workers—at the bottom of the list—to managers; but the highly demanded jobs include only specialists and managers. This reflects the precarity of the situation for blue-collar workers versus white-collar workers. Second, it is clear that the mobility between the two groups of jobs entails an additional cost such as the type of new skills to be learned and adopted. Although some old skills may still be needed, they may require further rebuilding and training in line with the new operating model. For example, job mobility between occupations dealing with people, or in the fields of engineering is somewhat smooth as skill levels converge between jobs. While the situation is different for other fields, such as content development skills (in teaching for example) or specialized skills in precise fields such as data science or robotics engineering where the difference in skill level is relatively large. Among the most important fields that involve wide gaps in terms of skill level, are the disciplines of data analysis and artificial intelligence, as the specialized jobs in these technologies are associated with large disparities compared to the original jobs, which are witnessing declining demand.

10 For the first time, the World Economic Forum's Jobs of Tomorrow report, in partnership with data scientists at LinkedIn and Coursera, presented a simplified methodology to measure and track the emergence of a range of new jobs in the economy using real-world labor market data that helped identify 99 jobs in ever-increasing demand in 20 economies. These jobs were then organized into distinct occupational groups according to the similarity among their skills.

11 <https://blogs.imf.org/2021/01/07/the-jobs-of-tomorrow/>

Table 10.1. The 20 most prominent job tasks in terms of high and low demand

↙	Jobs with declining demand	↖	Jobs with growing demand
1	Data entry Clerks	1	Data Analysts and scientists
2	Administrative and executive secretaries	2	Artificial Intelligence (AI) and machine learning specialists
3	Accounting, book-keeping and payroll clerks	3	Big data specialists
4	Accountants and auditors	4	Digital marketing and strategy specialists
5	Assembly and factory workers	5	Process automation specialists
6	Business services and administration managers	6	Business development professionals
7	Client information and customer service workers	7	Digital transformation specialists
8	General and operations Managers	8	Information Security analysts
9	Mechanics and machinery Repairers	9	Software and application developers
10	Material recording and stock keeping clerks	10	Internet of things specialists
11	Financial Analysts	11	Project managers
12	Postal service Clerks	12	Business services and administration managers
13	Sales Representatives	13	Database and network professionals
14	Relationship Managers	14	Robotics engineers
15	Bank tellers and related clerks	15	Strategic advisors
16	Door to door sales, news and street vendors	16	Management and organization analysts
17	Electronics and telecoms installers and Repairers	17	Fintech Engineers
18	Human Resources specialists	18	Mechanics and machinery Repairers
19	Training and development specialists	19	Organizational development specialists
20	Construction Laborers	20	Risk Management Specialists

Source: World Economic Forum, Future of Work 2020 Report.

It is worth noting that development of the job structure stems from development of the sector itself, and then extends to intertwined and surrounding sectors, as the nature of these new or created job tasks is related to industry operations. For example, the profession of materials engineers appears in the automotive sector, and the profession of e-commerce and social media specialists relates to consumer sectors, renewable energy engineers in the energy sector, while fin-tech engineering is a profession that emerged as a result of the development of the financial service sector (WEF 2020).

5.3. New skill requirements

The fluctuations in job patterns resulted in a similar shift in the demand side for skills, as requirements emerged for new skills. The type of training required varies according to the field and the employment situation. It is notable that there is a high demand for training courses related to self-skills development or personal development, as well as training programs for health workers. There are also disparities between the employed and the unemployed, as employed persons focus more on managerial skills training programs, personal development

and human development, which increased by a large percentage of 88%. The unemployed, however, were more interested in learning technical skills such as digital skills including data analysis, computer science, and information technology (WEF 2020).

To measure the skills gap resulting from moving to work in emerging jobs or other more complex jobs (Table 10.2), the difference between the skill requirements needed to perform original jobs and new jobs over the past five years was monitored in a study of future employment trends issued by the World Economic Forum. This was done using an index ranging from zero to one, with the gap widening the closer we get

to zero and decreasing the closer we get to one. It is clear from the table that the skills related to marketing and management (Product Marketing, Digital Marketing) do not suffer from a lack of required skill level, which did not record gaps (1: there is no gap), compared to the precise technical skills that require a huge additional effort to be able to perform new jobs, such as data science skills, natural language processing, cloud computing, and signal processing; which represented about a third of the skills and recorded huge differences (0.10-0.27) in the level of required skills, and an almost complete gap in Artificial Intelligence capabilities.

Table 10.2. The skill gap resulting from the shift from original to new jobs

Skill	Skills gap as a result of job shift (0=full gap, 1=no gap)
Data Science	0.19
Data Storage Technologies	0.41
Artificial Intelligence	0.10
Development Tools	0.73
Computer Networking	0.78
Management consulting	0.86
Scientific computing	0.41
Product marketing	1
Natural language Processing	0.11
Digital Marketing	1
Advertising	1
Cloud Computing	0.27
Customer Experience	1
Signal Processing	0.16
Information Management	0.93
Software Development Life Cycle (SDLC)	1

Source: World Economic Forum, Future of Work 2020 Report.

Hence, the final impact of the dominance of new technologies on the labor market depends on several factors, the most important of which are: The types of new technologies and their degree of suitability to existing industries, the ability of sectors to localize technology and generate job

opportunities that offset job losses resulting from automation, the level of skills, which determines the gap resulting from the shift from original jobs to new ones, in addition to the percentage distribution of workers between white and blue collar jobs.

Sixth: Examples of How Countries Dealt with Recent Changes in the Labor Market and the Most Important Elements of Success

The readiness of countries for the previously presented developments in the labor markets varied. Some countries quickly realized these transformations and took steps to confront the technological disruption of jobs, while others recently realized the need to raise readiness in the face of these transformations to reduce job losses, which has been accelerated by the spread of the COVID-19 pandemic. Another set of countries is still looking at how to compensate for the losses. The next section of the report deals with the experiences of three countries that have made progress to varying degrees, namely China as a model for a leading country, Turkey as an example of a competitor country with Egypt, and the United Arab Emirates as a neighboring country to Egypt. The evaluation addresses three pillars of the system for adjusting to technological changes in the labor market directly and other aspects of economic activity indirectly. These sections are as follows: 1) Institutional framework, 2) Information framework, and 3) A third framework related to the monitoring and evaluation system to keep pace with technological development and ensure its sustainability.

These three pillars represented the vertices of the triangle upon which the strategies of the countries that have achieved tangible success in this regard were based. It is striking that these countries did not focus on developing their labor markets as much as they focused their efforts mainly on developing the mother system; which is based on developing the education system, the updated technological infrastructure serving it, and complementing all of this with smart technology cities. This resulted in an automatic generation of suitable job opportunities and a gradual adaptation of the labor market to the new normal. Hence, the success of countries came as a direct result of the comprehensive and intelligent view of the transformation system.

6.1. China's experience (ZHU 2019)

At the beginning of the twenty-first century, China adopted a number of policies aimed at developing the education system and achieving a level of equality in educational opportunities between urban and rural areas. The aim was to be able to completely shift from dependence on the agricultural sector, which was the largest employer of labor, especially those with low skills, to industrialization, which needs a higher levels of skill compared to rural ones. Accordingly, it began to take gradual serious steps towards transforming the entire education system into a technological system based on modern methods at the time, and took it as a base for building any new technological developments that might emerge. The following are some of the steps China had taken to raise the level of Chinese graduates and employment.

6.1.1 Information framework (inclusion of the technological component in the education and training system)

In 1994, China's most famous universities, including Tsinghua and Peking Universities, were established. The first educational network using the Transmission Control Protocol/Internet Protocol "Chinese Education and Research Network" (CERNET), initially connected five major cities to the Internet. In the following decades, CERNET developed rapidly. By 2008, the number of universities, primary and secondary schools, and scientific research institutes connected to the network had reached more than 2,000, with nearly 30 million users. CERNET came to own more than 30 international and regional communication channels in 2010, ensuring high-speed and secure exchange of information between educational institutions at home and abroad. Thanks to this network (CERNET), Chinese colleges and universities have moved into a whole new era of the "e-campus" that will lead the way for all Chinese universities. The term "e-campus" here means an enterprise based on the campus network and integration of digital resources, such as the establishment of an

e-learning platform, distance learning, multimedia broadband network, campus management information system, etc. with the aim of forming an ideal digital environment for expanding the application of IT gradually across the campus.

The e-campus program was based on four pillars:

- Digital storage of resources
- Transferring information over electronic networks
- Automation of management or transition to digital management
- Personalization of Communication

In 1999, the Ministry of Education also gradually approved the establishment of online colleges for 67 full-time higher education institutions as the basis for building electronic campuses in Chinese universities. By 2010, there were 299 majors, over 20,000 online programs and 2 million students.

By 2010, universities and colleges in China had already completed the construction of ICT infrastructure and began to focus on the application and integration of various management information systems. To some extent, Chinese universities have achieved infrastructure similar to those of developed Western countries.

Besides the in-depth development of the e-campus, ICT has become a vital tool for university teachers in their daily work, as professors in increasing numbers began to use various modern educational technologies in their classrooms. The special academic and cultural environment that was adopted in colleges and universities, such as the development of new measures and mechanisms in higher education institutions for "Education and Teaching" graduates, was reflected in the acceleration of the spread and development of information and communication technology applied in school management.

6.1.2 Institutional framework for the technological development process

- The central government issues general regulations; while governmental units responsible for educational administration innovate methods for specific applications, and through the appropriate executive mechanism, these procedures are implemented from top to bottom all the way to the schools, where each applies the methods according to its own conditions. Thus, the objectives of the national plan are achieved quickly and effectively in a shorter time and on a larger scale.
- The overall vision and general direction are provided by the Chinese government, and then region-specific policies, according to the economic and cultural differences between local regions. For example, the central government has allocated 10 billion yuan to ensure that the education system is developed equally between the backward rural areas in the West and the relatively developed regions, and has distributed teachers and equipment to implement the "modern distance education" project in rural primary and secondary schools to be completed within 3 Years. This has led to a significant improvement in the quality of distance education in rural schools, and has enabled them to share educational resources with developed regions.
- The central government manages educational activities in a unified manner while leaving room for the participation of various parties such as local agencies to implement according to local conditions. For example, educational administration entities, especially schools, under the direction of national policy, finance and purchase ICT equipment, and conduct teacher training and experiments that greatly improve the educational process.
- Civil organizations also play an important role in facilitating the dissemination of ICT in education.

The Chinese government considers educational technology NGOs to be complementary to government agencies. The entities established by the Ministry of Education to implement the technological development plan include:

- The Advisory Committee for Educational Technology Programs in the Ministry of Education, whose main responsibility is to direct specialized training in the use of educational technologies.
- The Chinese Committee for e-Learning Technology Standards in the Ministry of Education, which is mainly responsible for building standards related to educational technology.
- The Education Administration Information Center of the Ministry of Education and the China National Educational Research Institute, which are responsible for conducting research on educational technology in related business fields.
- The development plan in itself includes a strategic view targeting China's long-term technological future, and a guarantee to achieve a unified and clearly defined operational plan in terms of specific roles, responsibilities, time frame, indicators for follow-up and performance evaluation, in addition to flexibility in adapting plans according to developments and surrounding changes.

6.1.3 Monitoring and evaluation framework: keeping up with technological development (Shenzhen as a model for smart cities)

Based on the strong technological base from which the Chinese experience was launched, it came to have an updated and comprehensive technological infrastructure that started on a small scale and then shortly after covered most of the Chinese cities. This contributed significantly to raising China's ability to cope

with every new technology, whether digitally or industrially, or its reflection in the education and training system as a prerequisite for the sustainability of this process. This is clearly demonstrated in the remarkable progress that China has made in the field of smart cities and the extent of its competition with leading countries in this regard. Shenzhen, as we will see below about smart China, is an example of a successful experience among eight Chinese smart cities, in order to identify the most important elements of its success as an experiment worth studying.

The city of Shenzhen competes with major industrial cities and countries that are at the top of the global ranking of indicators in technological development, such as Tokyo and Singapore. In 1920, the gross domestic product of Shenzhen was about 2.7 trillion Chinese yuan (equivalent to about US\$ 390.6 billion),¹² compared to about US\$372 billion for Singapore for the same year,¹³ making it the third largest economy at the level of Chinese cities, after Shanghai and Beijing. Shenzhen's GDP growth between 2017 and 2018 exceeded 7.5%,¹⁴ compared to only 3.4% in Singapore and 2.8% in Hong Kong.¹⁵

In the Global Financial Centers Progress Index 2021, Shenzhen was ranked as the ninth most competitive and largest financial center in the world and sixth in the entire Asia Pacific (after Shanghai, Hong Kong, Singapore, Beijing, and Tokyo). The Shenzhen Stock Exchange (SZSE) is the eighth largest in the world. The World Economic Forum has included it among the most important ten cities in 2035 in the world, along with large cities such as New York, Tokyo, Los Angeles, Paris and London (with Shanghai and Guangzhou in China).¹⁶ According to the 2021 Hurun Global Rich List, Shenzhen is the fourth city with most billionaires (after Beijing, Shanghai and New York).¹⁷

In just four decades, China has successfully transformed Shenzhen from a primitive fishing

12 <https://www.statista.com/statistics/1025207/china-gdp-of-shenzhen/>

13 World Development Indicators <https://datatopics.worldbank.org/world-development-indicators/>

14 <https://www.globaltimes.cn/content/1140560.shtml>

15 Op. cit.

16 <https://www.weforum.org/agenda/2019/10/cities-in-2035/>

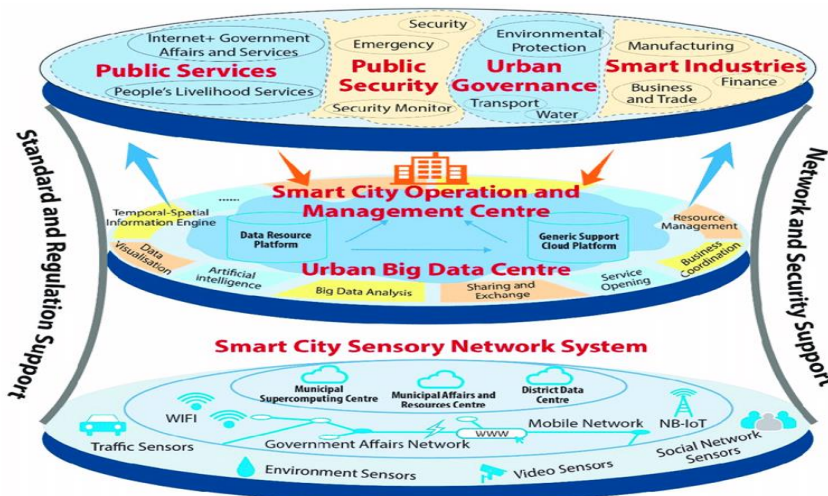
17 <https://www.hurun.net/en-US/Info/Detail?num=LWAS8B997XUP>

village into an international urban metropolis, now dubbed "China's Silicon Valley". Quite simply, the adaptation of AI and big data has changed the way Shenzhen residents interact with government; with tech giants such as Alibaba, Tencent and Ping An Smart City leading the city's innovation engines. Shenzhen now has a "digital brain" and a "central nervous system" that integrates the flow of big data across all government agencies and businesses (Shenzhen 2019).

Shenzhen has successfully digitized most government administration in recent years. The i-Shenzhen mobile app, for example, can handle more than 8,000 local government services, from paying utility bills and traffic fines, to managing housing benefits and even purchasing the Central

bank digital currency lottery. The AI-powered food regulator, Ping An, is limiting the approval period for a restaurant license to no more than an hour, compared to several weeks if the order is processed outside the network. As for the traffic system, it changes traffic lights according to traffic conditions in real time, which helps reduce emissions during waiting periods, and regulate traffic during emergencies.¹⁸ Figure 10.1 below reflects the administrative and executive structure of the city, which shows the importance of the institutional and organizational framework, and the mechanism for supporting the interlocking relationships between the three layers, the foremost of which are government, public services, and smart industries side by side.

Figure 10.1. The administrative and executive structure of the smart city "Shenzhen" in China



Source: Hu (2019).

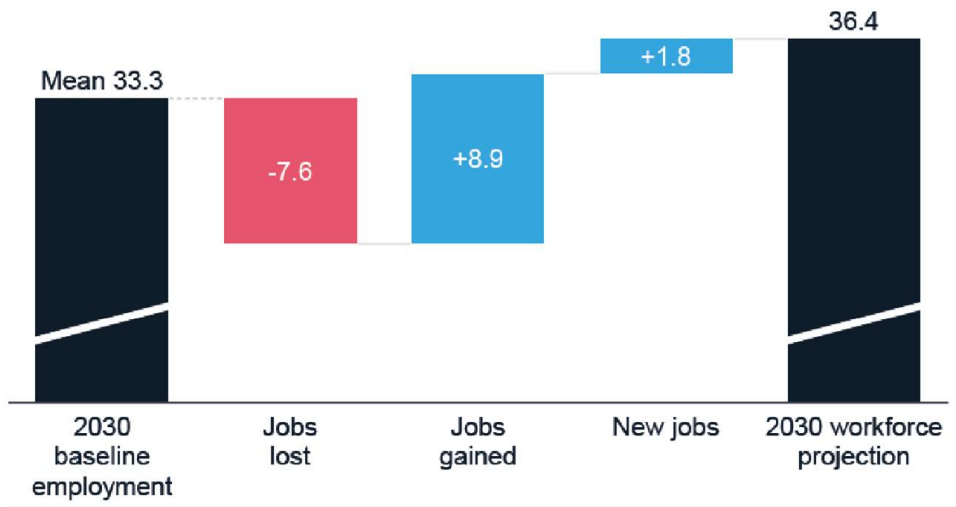
6.2. Turkey's experience

The number of essential workers in Turkey for 2030 is estimated at 33.3 million. It is possible to lose 7.6 million jobs due to the impact of automation and

digital technologies, and it is estimated that 8.9 million new jobs can be created by 2030 to achieve a net gain of 1.3 million jobs (Mckinsey 2020), as shown in the following Figure (10.2).

¹⁸ [Zeydv.com/index.html](https://www.zeydv.com/index.html).

Figure 10.2. Change in expected demand for labor in Turkey as a result of job automation*, for the period 2018-2030



Source: McKinsey & Company, Future of Work: Turkey's Talent Transformation in the Digital Era.
 * Automation level 20-25%.

In response to these changes, Turkey launched a national plan¹⁹ aimed at developing the educational process, and matching the skills of the workforce with the new requirements of the labor market. The most important pillars of the plan are based on education inputs from teachers, learning mechanisms and methods, educational content, and finally, the monitoring and evaluation system. The following are some important objectives of the plan.

6.2.1 Information framework (inclusion of the technological component within the education and training system)

Improving the quality of teachers

- Raising the level of the education certificate required for those wishing to join the Pedagogical and Teaching Colleges, through a program specialized in the teaching profession at the postgraduate level within the framework of professional development.
- Linking these programs, in cooperation with higher education institutions, to the urgent fields needed by the labor market and providing teachers with the skills of the twenty-first century.

Educational capabilities

- Adopting digital methods and interactive mechanisms in teaching, through applied simulation experiments that are difficult to conduct in normal environments, and animations to visualize abstract concepts and others in line with the scientific material. The use of this content is intended to help students to access information, skills, and develop their thinking abilities.
- Conducting assessments through daily life experiences during the learning process as in developed countries, instead of relying on traditional assessment tests. These educational methods aim to extend the learning process beyond the walls of the classroom.

Educational content

- Integrating programming skills, three-dimensional design, electronic design and production skills related to information technology within the educational curricula and applying them through activities that bring together students, teachers, and representatives of the government and the

¹⁹ Turkey's Education Vision 2023.

private sector, whether for school or university students in teaching disciplines.

- Introducing topics related to online communication techniques such as internet safety, cyber security, cyber bullying, and data security within primary education programs and courses.
- Developing curricula according to the new competencies required by the industry, and in line with the approaches to digital transformation.
- Strengthening cooperation between schools, scientific centers, culture and arts centers, and universities.
- Qualifying technical workers by creating opportunities for them abroad to meet the needs of Turkey's foreign trade sector.
- Developing curricula and courses to measure new generation digital skills and advanced meta-cognitive skills to help students achieve the desired results in international tests, such as the Program for International Student Assessment (PISA). Such a program for OECD countries aims to enhance students' cognitive abilities and international educational systems in an unconventional way, to test the consistency of the educational process outcomes with the ability to make decisions and manage career life.²⁰
- Creating Design-Skill Labs to help students explore and acquire life skills consistent with their interests, talents, and personalities.
- Organizing face-to-face training workshops for faculty in various fields, especially in topics such as the development of multidisciplinary projects, 3D design, and smart devices.

6.2.2 Monitoring and evaluation framework: A coherent and comprehensive database

- Establishing an electronic portfolio at all educational levels including files for students starting from childhood, with data related to each child, so that children's development

from early childhood to higher education can be monitored and evaluated in all fields.

- Designing training programs for parents about their role in the process of measuring the child's progress and evaluating his level electronically.
- Establishing special units for measurement and evaluation in all provinces to monitor and evaluate the social and educational skills of children.
- Conducting a questionnaire aimed at following up on students' achievements, through which the progress of the new system is evaluated, and based on the students' academic outcomes without using any student grades.

6.3. The United Arab Emirates' experience²¹

The United Arab Emirates has launched a National Employment Strategy 2031, which includes special programs to develop future skills. The most important are programs to enhance and localize skills of artificial intelligence, innovation and e-learning. The following is a brief summary of each.

6.3.1 The information framework (the technological component of the education and training system)

The Bachelor of Artificial Intelligence program was launched by the British University in Dubai in partnership with British universities to grant dual degrees, with the aim of providing the education sector with new skills and competencies to meet the challenges of the labor market and the knowledge economy.

The National Program for Artificial Intelligence (BRAIN) includes a set of cooperation and partnership initiatives in the field of artificial intelligence. These initiatives include:

The Emirates Artificial Intelligence Training Program for a period of one year for UAE government employees; The Emirates Artificial Intelligence Camp for high school and university

²⁰ Visit the following link for more details on how the program works and its objectives: <https://www.oecd.org/pisa/publications/pisa-2018-results.htm>

²¹ <https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/federal-governments-strategies-and-plans/the-national-employment-strategy-2031>

students, in partnership with the public and private sectors, which aims to provide the necessary support to enable the next generation to develop solutions to various future challenges.

The "Innovate" (Ibtakr) platform is an interactive electronic platform that is the first of its kind in the Arabic language for government innovation, and aims to build a generation of Arab innovators. The platform aims to reach 30 million participants globally, includes a huge number of online courses and programs, available to all Arabic speakers for free, and grants students accredited certificates.

The National Program for Field Training and Summer Work "Wajehni" was launched by the Ministry of Human Resources and Emiratisation, in partnership with the Ministry of Education and universities, with the aim of educating youth about the importance of working in the private sector, guiding them professionally, and employing them according to the needs of the labor market.

6.3.2 Institutional framework for the technological development process

The institutional framework of the UAE government for the development process brings together a number of national centers and programs, an independent ministry of artificial intelligence, and a number of foreign partnerships to localize technology, raise the level of youth skills and link them to the labor market in terms of skills or educational level. It also manages some development programs by the youth themselves. The most important forms of institutional management in the UAE experience are the following programs:

- The National Training Portal was launched to qualify 18,000 citizens for the labor market during the next three years through a package of specialized training programs offered by the portal to enable young people to obtain jobs and improve their practical skills. This is especially in targeted strategic economic sectors that include customer service, sales and retail, real estate, property management and technical programs in mech-

anical and electrical engineering, aircraft maintenance and others.

The duration of the offered programs ranges between 3-6 months, through which the trainee obtains a training certificate issued by approved training centers in the Ministry. The portal also targets non-employed job seekers or those wishing to change their vocations, and there is no academic requirement nor previous experience required to register in the training programs offered.

- Emirates Youth Vocational School (EYPS) - a crowdsourcing model that aims to bridge the gap between the academic experience of young people and the practical needs of the labor market, which is witnessing rapid changes in light of the development of professional sectors, and emerging jobs that require practical qualification. This school is based on a crowdsourcing model for teachers; using a group of experts, specialists and professionals to provide a practical education experience for young people.

This system is managed entirely by youth under the umbrella of the Federal Youth Foundation. The vocational school focuses on young people in the 15-35 age group, and invests their time in continuing education, and preparing them for the labor market through advanced career paths in various sectors.

- Dissemination of the UAE school model in the academic year 2017-2018, as the UAE unified educational systems, policies and paths among public schools all over the country. UAE Schools target a new innovation-based direction for education all over the country. In addition, the model supports creativity, and enhancing students' abilities, as well as providing students with programming and modeling skills, and creating interrelationships between technical, scientific and technological skills.
- UAE Hackathon. The UAE government organizes an annual event under the title "UAE Hackathon" to empower data analysis, which is an integral part of current and future skills.

- Development Fund for Communication and Information Technology Sector, which aims to achieve rapid and tangible developments in the titular information and communication technology sector in the country, and to promote innovation in the areas of smart research and incubation of start-ups. The Fund offers scholarships to outstanding students to encourage studies in scientific and technical fields.
- UAE Skills is an initiative of the Abu Dhabi Center for Technical and Vocational Education and Training. It aims to raise awareness of professions that depend on technical education and vocational training among youth. The activities focus on organizing competitions, training programs, and professional technical activities at the regional and international levels. The National Skills Competition is also organized annually aiming to raise efficiency standards in the industrial, technical, and vocational sectors in the UAE towards professional excellence. This is through improving competitiveness among UAE youth and benchmarking performance and skill competency with global standards.

The initiative also aims to enhance skill inclusion by attracting different age groups, such as competitions for young people, which allow participation for young citizens in the 9-15 years age group, in addition to new societal segments

such as special competitions for people with disabilities.

6.4. Elements of success based on the previous experiences

- An Executive plan under the direction of the central government, engaging civil organizations and educational departments in the implementation process.
- Involving youth in the institutional management of the technological development process.
- Beginning with the inclusion of new skills in higher education institutions first - especially in the majors of teaching and pedagogy - then to basic levels of education.
- Foreign partnerships with more than one country to localize new technologies and skills.
- Upgrading the level of technical education to international levels in accordance with foreign trade requirements.
- A strong, comprehensive and unified database at all educational levels since childhood.
- Monitoring and Evaluation units to follow up on the system as a whole on a regular basis.
- Achieving an equal level of opportunities between different educational administrations.

Table 10.3. Key elements of success and their importance based on previous experiences

Elements of Success	Importance
Design a coherent institutional framework	<ul style="list-style-type: none"> -Tasks are gradually arranged from top to bottom within a central, unified and comprehensive institutional framework. -The executive plan is drawn up under the guidance of the central government, as well as policies for each region. -Necessary funding is directed in accordance with the development plan. The plan is implemented through educational departments with the engagement of civil organizations. -The development plan does not change with the change of responsible officials. -Establishing specific entities to be responsible for development, similar to the Ministry of Artificial Intelligence in the United Arab Emirates.
Localization of new technological skills	<ul style="list-style-type: none"> - Foreign partnerships with more than one country, towards creating a strong base to build on in the future, and for the country to minimize dependence on other countries, and thus lagging behind. -Upgrading the level of technical education to international levels in consistence with foreign trade requirements.

Elements of Success	Importance
Giving priority to teaching departments in higher education	- Beginning with the inclusion of skills in higher education institutions first, especially in teaching and pedagogical departments, then moving to basic levels of education to improve teacher's abilities first, so that he/she can transfer skills to students.
Educational content development	- Integrating new information technology skills required by the labor market within the educational curricula. - Applying these new skills in a comprehensive framework that brings government, private sector and teachers together to: <ul style="list-style-type: none"> o Involve employers with teachers in the development process. o Match between labor supply and demand. o Match between education outcomes and labor market requirements. - Conducting assessments through daily life experiences during the learning process, as in developed countries, instead of relying on traditional tests; to help students improve their cognitive abilities, explore, and acquire life skills in line with their interests, talents and personalities. These teaching methods aim to extend the learning process beyond the walls of the classroom.
Building a comprehensive monitoring and evaluation system	- A strong, comprehensive and unified electronic database at all educational levels starting from childhood. - Monitoring and Evaluation units to follow up on the system as a whole on a regular basis.
Unifying educational system	- Creating an equal level of opportunity among regions at the national level.

Source: Prepared by ECES.

Seventh: Where Does Egypt Stand in Coping with the New Normal of the Labor Market?

It is clear from the previous experiences presented that the state's readiness to face future demands is based mainly on the status of its education and labor systems, how consistent the relationship between them is, and the degree of flexibility and dynamism that allows for rapid engagement with the new changes. This is mainly related to three pillars, namely: The institutional framework, the information framework, and the technological base. The following is a quick overview on the Egyptian labor market as well as an analysis of Egypt's position regarding the elements of success previously presented.

7.1. Quick overview on the Egyptian labor market

The Egyptian labor market is characterized by a number of structural deficiencies that make it fragile facing crises, and very rigid while coping with global changes. As a result, desired transformation becomes very difficult process that requires excessive effort. Over the past three decades, previous events exposed clear weaknesses in the dynamics of the labor market, most importantly:

- a. Simultaneous excess in demand and supply, which reflects the severe structural weakness of the labor market, and the inconsistency between educational outcomes and market requirements. Such weakness is burdening the labor market with an annual work force beyond its capacity.
- b. Weak institutional and legislative frameworks governing the Egyptian labor market, and their failure to respond to structural challenges it faces due to different local, regional and global changes over the last decades.

This is clearly reflected in the characteristics of the Egyptian labor market, as follows:

- Unemployment is higher among the educated; especially university graduates, reaching more than double among those with intermediate technical education, while it is much lower among the illiterate. It is also higher among youth, reaching about 20% or 5 times the unemployment rate in the 40-49 age group. As for females, the unemployment gap between males and females is about 10%, which is nearly 2.25 times among females compared to males (CAPMAS 2020).

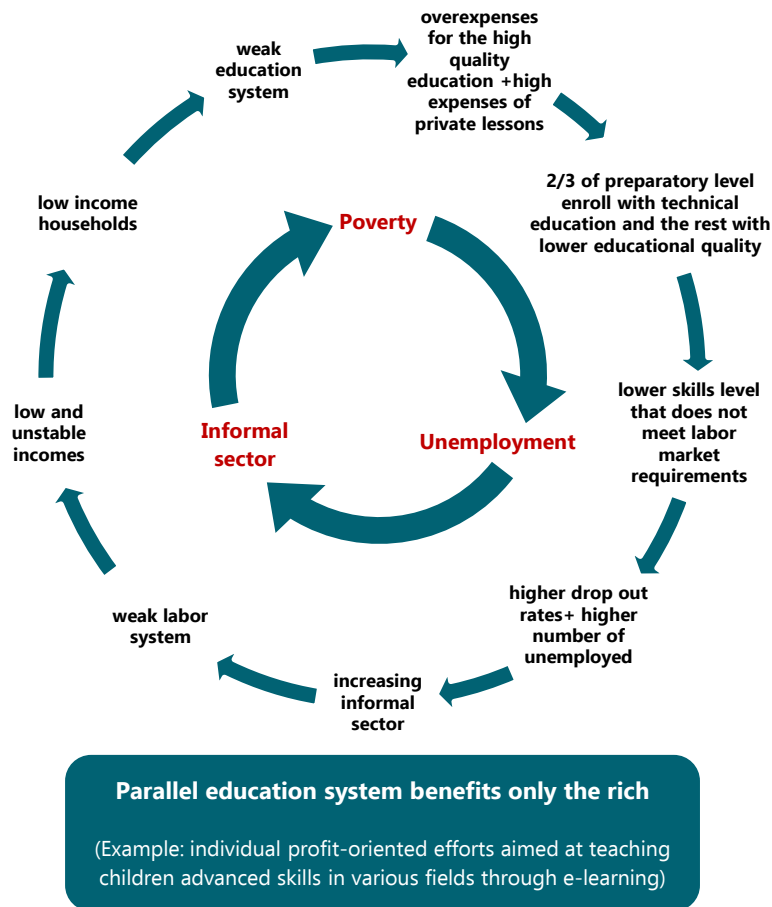
- The position of women in the Egyptian labor market is remarkably low in terms of equal opportunities. In addition to the high unemployment rate among women, their contribution to the labor market is significantly lower, and they suffer from a noticeable wage difference compared to males despite the equal average working hours among them in many economic activities. In addition, the largest percentage of women work in the informal sector (53.2% of the total women workers in Egypt in 2018). The role of women is limited in general in the decision-making process, or occupying administrative positions.²²
- Unemployment rates in urban areas are about

two and a half times higher than those prevailing in rural areas, despite the concentration of industrial activities in urban areas.

These indicators represent a contrast to the normal conditions in which educated young people obtain better job opportunities in urban areas compared to rural areas, with a noticeably high gender gap (CAPMAS 2020).

The negative impact of the weak education and labor systems on Egypt's future opportunities over the coming generations is evident, as it reflects the nature of the vicious cycle around which students and graduates, especially in public schools, revolve.²³ This is illustrated by Figure (10.3):

Figure 10.3. Vicious circle resulting from weak education and labor systems



Source: Prepared by ECES.

22 For more details on the situation of Egyptian women in the labor market, see [the "Views on the Crisis" report on Egyptian Women, No. 21.](#)

23 For more details on the dynamics of the Egyptian labor market and analysis of the structural distortions it suffers from, see [the "Views on the Crisis" report on the Impact of the COVID-19 Pandemic on the Egyptian Labor Market](#), prepared by ECES as part of facing the supply and demand shocks due to the repercussions of the COVID-19.

7.2. The Egyptian system versus the elements of success

In order to take a deeper look at the ability of Egyptian labor market to cope with the global changes and new patterns of employment. The following table (10.4) shows where Egypt stands

regarding the success factors of previous experiences in terms of the three pillars: the institutional framework, the information framework and the monitoring and evaluation framework, and what is required to cope with the new normal.²⁴

Table 10.4. Egypt's position in terms of the elements of success, and requirements to cope with the new normal of the labor market

Elements of Success	Egypt's Position	Requirement
Dimension 1: Coherent and Effective Institutional Framework		
<p>1. Proper design ensuring good governance of development plans</p>	<ul style="list-style-type: none"> • Fragmented affiliation between many bodies and authorities with different specializations for the same field, including Ministry of Education and Technical Education, Ministry of Higher Education and Scientific Research, Ministry of Manpower. As well as Ministry of Planning and Economic Development and Ministry of Finance, as they determine together the education funding allocations. Adding the Ministry of Trade and Industry that are concerned with vocational training. <p>In addition, there is a huge number of councils, bodies and projects that lack coordination, and some of them are not addressed by the relevant legislation.</p> <ul style="list-style-type: none"> • Each ministry develops its own sectoral strategy, and thus we end up with a number of conflicting development strategies from several ministries. The same is true for sectoral socioeconomic medium-term plans that are not binding; in the sense that they may change with the change of the responsible minister, despite their presence in the five-year national socio-economic development plan. • Development initiatives are associated with separate committees that do not meet periodically and are centered inside the ministries. Furthermore, there are no specific rules or standards for development. For example, in higher education, there is no unified scheme for development at the university level, but the decision is left to each university (and sometimes to each college). • The institutional framework is generally outdated and not updated with the new qualifications and expertise required. 	<ul style="list-style-type: none"> • Integrated institutional framework for the system as a whole (education, labor and technological development), which are no longer separated as before, a fact that was realized by countries that were able to adapt to new developments and achieve integration between them as mentioned in the country experiences previously presented. • Promote the proper institutional framework in terms of the flow of the strategic view through more centralized thinking, while having decentralized implementation. This way development directions emanate from a unified vision at the national level (top bottom approach), and do not change with the change of the relevant minister. • Coordination between various responsible authorities, defining clear specializations and roles. The responsibility of the entire sector should be assigned to one authority to avoid conflicting, fragmented, and unsustainable development plans. This also ensures consistency between different policies targeting the same objective.²⁵ • An updated qualified institutional framework to deal with the new background, away from old structures and expertise, which are no longer compatible with global developments.

²⁴ In a recent report - unpublished (July 2020) - entitled "The Fourth Industrial Revolution, Artificial Intelligence and the Future of Work in Egypt", the International Labor Organization in cooperation with the American University in Cairo - Advancing the Decent Work Program in North Africa ADWA - analyzed the response of the Egyptian labor market to the COVID-19 pandemic and its ability to automate at the sectoral level.

²⁵ For example, imposing a tax of up to 14% on e-commerce operations contradicts the main objective of promoting digital transformation

Elements of Success	Egypt's Position	Requirement
<p>2. A unified and comprehensive implementation plan in its objectives, and diverse in time frame</p>	<ul style="list-style-type: none"> The variety, multiplicity and inconsistency of time and technical frames of relevant ministries' plans and strategies, such as education, labor, communications and information technology, which result in overlapping and unclear priorities. Each of them formulates their own development strategy timeframe without coordinating amongst each other. Therefore, the sectoral dimension of the plans is absent, and they do not take into account the differences between sectors, and the skills required for each of them. 	<ul style="list-style-type: none"> A Consistent time-frame based on roles and priorities, through developing a diversified staged framework to cope with global changes (immediate – medium term – long term), according to the degree of necessity of each sector separately, and each activity within each sector. This means giving priority to immediate changes required in the short term to compensate for job losses. Then gradual progression of the action plan according to the nature of the sector, its complexity, and expected impact. For example, starting immediate steps to reform education and training systems in order to achieve adaptation in the long term. Though giving the same importance to all staged actions of the plan.
<p>3. Consistent and sustainable financial plans</p>	<ul style="list-style-type: none"> The final decision in determining the allocations for financing the education development plan is in the hands of the two Ministries; Planning and Economic Development, and Finance, not the Ministry of Education or Higher Education. If the ministry needs more funding for development, it relies on other resources. The education budget, in general, represents a very small percentage of the gross domestic product, not exceeding 2.7%, and less than the percentage stipulated in the Egyptian constitution. Therefore, it does not fulfil the desired development. Furthermore, most of the budget is directed to wages and not development (about 74% of it is allocated to wages and salaries (that are ultimately low)). 	<ul style="list-style-type: none"> A higher-level decision (at the level of the Republic) to allocate a certain percentage in line with the unified development vision and in coordination with relevant ministries. China has successfully done this to ensure sustainability of the implementation plan in the short and long terms, with a clear time-dimension for financing plans in consistence with the varied time-frames of the action plans.

Elements of Success	Egypt's Position	Requirement
4. Comprehensive system for teacher development	<ul style="list-style-type: none"> The teacher development system is weak, and not taken into account when choosing new educational systems for development. The educational curricula in faculties of education are outdated and do not conform to the new requirements of the educational system, whether in terms of content or teaching mechanisms. The inferior view towards the faculties of education, and lack of interest in them due to placing them among the bottom of specialization faculties. This is also reflected in the social status (in terms of salary and career advancement) of the teacher after graduation, compared to other professions of less importance that receive higher salaries (inverted wage pyramid), without having a higher level of education, experience, culture, or any other wage determinants. 	<ul style="list-style-type: none"> Developing higher education curricula in teaching departments (Faculties of Education) and incorporating modern technological skills into them, in line with the educational system requirements for the new generations. Raising the social level of the teacher, in terms of wages and privileges, to comparable levels with other professions that enjoy higher wages; similar to developed countries which give due credit to teachers and offer them competitive wages in recognition of their role in educating new generations. For example, Germany which rejects paying professions salaries equal to those who taught and trained them. Benefiting from the Turkish experience with regard to the dynamics of the development system, pooling students and teachers together when learning newly emergent skills.

Dimension 2: Information Framework

1. Sustainable localization of new skills	<ul style="list-style-type: none"> There are some successful projects that are concerned with localizing skills, such as the Mubarak Kohl initiative. However, such projects lack sustainability due to the following: <ol style="list-style-type: none"> Weak funding, as it depends on donation and not government funding with specific percentages within the development plan. Not generalized, as they are applied to certain groups in some schools and not at the national level. Not addressed by the legislation related to the educational process like other educational tracks. Not binding to the private sector, as in successful developed countries. 	<ul style="list-style-type: none"> Localizing new skills through sustainable partnerships established by the central government with developed countries in a way that ensures sustainability. Expanding the scope of benefiting from these partnerships via "Training Of Trainers", to ensure the sustainability of the process so that they are employed in subsequent projects on a larger scale, and so on. Involving the private sector in the process of development, training methods and performance evaluation, especially in technical education tracks. This can be done through the application of industrial parks that combine factory, technical school, or technological college and the market in one place. Upgrading the technical education system by creating a path equal to general secondary education, and opening opportunities for them abroad.
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Elements of Success	Egypt's Position	Requirement
2. Comprehensive and up-to-date development of educational content	<ul style="list-style-type: none"> Weak educational curricula at the basic levels and their lack of a digital component, especially in public schools. The ineffectiveness of the academic performance evaluation system for students, whether during basic levels (albeit undergoing some development now), or after the secondary level to enroll into universities, on which the future of students in the labor market depend. This is evident in the high unemployment among the educated, especially among higher education graduates. 	<ul style="list-style-type: none"> Equipping basic education curricula with the fundamentals of e-learning, the internet, and learning new skills. Revising assessment methods for students in different educational levels, using international tests that depend on the intellectual abilities of students. Priority of private sector skills requirements can be included in assignments and applied projects of practical colleges such as engineering, computer science and others.
3.Unified educational system	<ul style="list-style-type: none"> Huge differences, whether between regions or the types of education itself. This is clearly reflected in the high unemployment rates and the spread of the informal sector in the labor market. The quality of education varies between urban and rural areas in terms of quantity and quality, so that the latter (most of which suffers from a high poverty rate) face severe weakness in capabilities. Starting from the availability of schools, educational tools and equipment, internet, and others; to the quality of teachers, availability of textbooks, means of transportation and others. There are great disparities in education systems between government, private, and international schemes, in terms of the quality of education, which creates educational layers in the labor market after graduation, and a parallel system of education that benefits only the rich, and weakens the quality of government education, that embraces the largest number of young people. 	<ul style="list-style-type: none"> Gradually unifying the educational system at the national level to ensure equal opportunities between urban and rural areas and a uniform level of graduates. Unifying educational curricula, and learning-paths, and integrating parallel education systems into official government education so that all students receive the same educational service.
Dimension 3: Monitoring and Evaluation system		
1. A unified and comprehensive database for the educational levels, linking it to labor market data	<ul style="list-style-type: none"> There is no unified, comprehensive and updated database for the educational levels or the labor market. 	<ul style="list-style-type: none"> Building a strong, unified, comprehensive, and updated database to be used in student assessment and evaluation of the education system performance as a whole even after joining the labor market. It can also be used in matching labor supply and demand.

Elements of Success	Egypt's Position	Requirement
2.Comprehensive system for monitoring and evaluation at the National level	<ul style="list-style-type: none"> There is no system for follow-up and evaluation of the development plans objectives on the ministerial level. Rather, development projects and proposals are implemented by relevant ministers without any follow-up, which leads to the emergence of weaknesses in late stages of implementation. 	<ul style="list-style-type: none"> Establishing special monitoring and evaluation units that end up into a unified system at the National level on a regular basis, so that adjustments can be made according to evaluation results, and quickly identifying any technical problems during implementation. The aim is to reduce costs and ensure the sustainability of development plans. This should be done electronically so that it is linked to the M&E database, similar to the Turkish experience.
3.An objective evaluation mechanism to achieve good governance	<ul style="list-style-type: none"> The responsible ministry evaluates its own performance through performance indicators set at the beginning of the planning process. 	<ul style="list-style-type: none"> The recipient of the educational service (the private sector and parents) does the evaluation and not the provider. The Turkish experience can be useful in this regard, as it has integrated the parents within the evaluation system and allowed them to enter the database and communicate with the service provider, with the possibility of teaching them how to do so if necessary. Develop clear, timely, consistent performance - measuring indicators and an implementation framework, so that the evaluation process is staged and carried out periodically and within a measurable achievement range. (For example; exceeding targeted, exactly targeted and below targeted). The aim is to allow for accountability and adjustment throughout the implementation phase.

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11. Entrepreneurship Between Yesterday & Tomorrow

Adly Thoma

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."
(Charles Darwin)

As we navigate our way through 2021, we come to the conclusion that the changes the world witnessed last year were not temporary, that they were a signal for the beginning of a new era; not just from an economic perspective, but for humanity as a whole. Such drastic changes and turns of history are not a novelty; they are a necessity for evolution and development. However, these paradigm shifts can only be led by the catalysts of change.

Catalysts of change are usually the superheroes of their time. They are the doers not the dreamers. They are the most daring and the most willing to face hardship for the establishment of a safer and brighter future for all; and throughout history, entrepreneurs demonstrated that they are those super heroes, with their innovations, agility, dedication, and persistence towards reaching success. They are the catalysts leading and carrying out change. They pave the road for the rest of us.

Entrepreneurs - or as we will refer to them in this article "The Superheroes" - played an undeniably pivotal role as the aftermath of COVID-19 started to kick into economies worldwide during the first half of 2020. The whole world turned their eyes to them, looking for their creative ideas to unveil new technology and utilize the latest digital transformation trends to solve the newly encountered challenges that no one was prepared for.

And as anticipated, when crisis shook the world off its feet ... entrepreneurs were the ones ready to catch it!

With the super heroes' vital contributions - not just during crisis but across the board - towards shaping the world's economy and to redefining the business world by capitalizing on technology

and innovation, it becomes our duty to empower and support each and every resilient one of them in order to help them craft a better tomorrow and to always be ready for the next fight!

But before we embark on our support journey by unraveling the entrapments that challenge the entrepreneurial mindset, and the inevitable evolution they have to go through in order to establish robust, sustainable, winning startups Let us get a glimpse on the history of entrepreneurship, how it originated, and the crucial role it played over the years.

Evolving Yesterday...

First let us begin by shedding light on who is an entrepreneur, and how the term was formulated... An entrepreneur can be defined as someone who, starting with little, organizes and manages a new venture while assuming its associated risk (Price 2011). An entrepreneur can be a business owner, an innovator, or an executive starting new projects, introducing new products, or expanding lines of business.

The concept and wording of "entrepreneur" were initially derived from the French word "entreprendre", meaning "one who undertakes". The word was first introduced as an economic concept by theorist Richard Cantillon in a paper published in 1775 on the General Nature of Commerce, where he developed early theorizations of the entrepreneur modelled after merchants, farmers, and craftsmen of the 17th and 18th centuries (Price 2011).

However, the first theorist to explore our modern conception of entrepreneurship and the role of entrepreneurial capitalism in society was the Austrian-American economist Joseph Alois Schumpeter. In The Theory of Economic Development, he argued that entrepreneurs are distinguishable from other business people on the basis of innovation and creativity. He illustrated entrepreneurial activity as the creation of "clusters of innovation" that give rise to

business cycles, as they create gigantic and disruptive waves. Schumpeter stated that instead of merely inventing new things, entrepreneurs find ways to exploit and restructure existing inventions, a process that he described as “creative destruction” (Price 2011).

While the origins of modern enterprise are often associated with the industrial revolution, there is ample evidence of contemporary entrepreneurial activities from significantly earlier dates ... let us take a look back and see how it all started.

Humanity’s first recorded instance of entrepreneurship comes from New Guinea, during 17,000 BCE, when locals began extracting obsidian and fashioning it into arrowheads with the purpose of exchanging it for other needed goods (Allis). Such an early venture, and countless barter-based ventures that followed, created the first economies known to mankind and set the stage for the development and exchange of human knowledge.

The first big shift in entrepreneurship occurred with the ushering of the agricultural revolution, around 12,000 years ago. People began domesticating plants and animals, and populations began settling for prolonged periods of time in order to farm and manage domesticated herds (Hur 2019). This was a fundamental shift in human history; as villages and towns started developing close to fertile lands, individuals no longer needed to hunt and gather for their personal sustenance. Instead, people began specializing in different areas, such as hunting, gathering, cooking, shelter- building, clothes-making (ibid). Such were the earliest entrepreneurs in human civilization.

Dependable sources of food and the specialization of labor allowed people to build permanent settlements and homes, around which social institutions such as religious centers, marketplaces, and courts arose, providing further business opportunities for entrepreneurs to explore. New areas of specialization like pottery, carpentry, and masonry emerged, and entrepreneurs were always at the forefront of innovation (Hur 2019).

As cities, markets, and the volume of trade grew, banking was invented and the perception of business as an impersonal entity, separable from its owner, took hold (Allis). Early entrepreneurs - traders and explorers - began to raise capital, take risks, and stimulate economic growth, ushering the beginnings of today’s world economy.

Between the mid-13th century and the 16th century, religious institutions, merchants, and members of socio-political institutions such as royal courts were largely engaged in activities that demonstrated entrepreneurial characteristics of risk-taking, evidence-based judgement, and innovation (Casson & Casson 2014). During the 15th century, a global population spurt began, solidifying the market’s connection with entrepreneurship. Banking became a complex and integral system as the needs of small-business owners grew. The guild system also grew, providing skilled craftsmen and entrepreneurs with methods for organizing their businesses, regulating their quality, and developing professional reputations across entire continents (Hur 2019). During that period, entrepreneurs were able to import materials, turn them into innovative goods, and sell them on an unprecedented scale.

Entrepreneurship continued to be a primary cornerstone in the development of human civilizations and enterprises across the years despite encountering processes, social conventions, and laws that risked halting their advancement. They still keep moving forward, circumventing, and innovating to ultimately obtain and implement what they want. Not only have entrepreneurs historically improved standards of living and created wealth, but they’ve also consistently driven social and economic change through innovation.

Crafting Tomorrow...

Becoming a Camel ... not a Unicorn!

After thorough analysis of the entrepreneurial ecosystem and world trends during 2020 and emerging into 2021, it is fair to say that the only startups who were able to survive were the ones that had real sustainable operations on ground. They were the ones that were ready with solutions to the most inherent needs of the business world. The ones that have established a proper profitable business model. The ones that used all of their sources of income efficiently to grow their transactional operations and create new business channels.

These are the startups that have given up on becoming unicorns and focused on being camels. Unicorns seek attention for the appeal of their innovations and ideas, not for adding real value. They look out for admiration and demand, not for creating a real need for their existence. On the other hand, camels don't require a lot of attention but can sustain longer and endure harder situations, making them more resilient and prone to survival. So as inspiring as unicorns' acclaim may be, their existence is only transiently aesthetic while camels, although not the most attractive, have made themselves indispensable when it comes to adding value!

In order for startups to become camels, they need to focus on two things: Their financial sustainability, and operational continuity through providing innovative, tangible technological products/services to improve customer experience and add real value. This is the name of the game!

By taking a closer look at startups that have rocked the Egyptian scene at the end of 2020 and during 2021, one would realize that winning companies were the ones seeking to offer innovative added value to the market guided by a futuristic vision ever since their establishment. They were taking the right steps towards refining their products/services following market needs and were intently focused on developing products/services to

provide users with on-ground solutions to pressing problems, while incorporating the world trends and the shifts that are taking place due to the digital transformation, not just garnering media attention and seeking investment rounds.

Services ranged from on-ground shipping to delivery platforms like Trella (2018) and Bosta (2017), to online payment platforms like Paymob (2015) and Fatora (2017), to wellbeing and medical platforms like Yodawy (2018) and Chefaa (2017).

One would ask what are the common traits between all of these startups?

They all started years ago and created a robust organization that was ready to fly at the right moment.

The outbreak of COVID-19 along with the changes that took place in the day-to-day activities following social distancing and lockdown, created the right catalyst for these startups to flourish, with the offered products/services being answers to market needs at these difficult times, proving over time that the right entrepreneurial mindset at the right moment will definitely become a winner!

If these startups hadn't sufficiently developed their offerings as well as their readiness to serve huge customer segments, they wouldn't have been able to endure the vast growth in their market shares overnight. If these startups had just focused their energy on their marketing activities and social media presence, they wouldn't have had the resources to offer invaluable products/services that would alleviate some of the most pressing pains humanity was facing at this time.

And so just like a camel ... these startups had enough resilience and readiness for the challenging journey they were about to start!

Avoid the Traps!

So we are encouraging our fellow entrepreneurs to seek becoming more of a camel organization than a unicorn, and here follows some of the traps they should avoid:

The Money Trap: Availing the right amount of money hoping it will maintain financial sustainability for a long while, in order to reach the right numbers for traction and transactional operations is very tricky. It entraps entrepreneurs in trying to attract investors and maintain their approval to raise the needed funds. They are tempted to become investment-focused not customer-focused! Defying one of the most inherent purposes of the existence of startups! Adding value to customers through their provided products/services.

Don't get this wrong, working on attracting investment and raising funds is by itself a required necessity for each startup at the right stage; however, being alert to the vicious circle that raising money can create is something that startups should be aware of.

Every round of received investment should be directed to the development of delivered products/services, team capacity building, process creation, and development of sustainable revenue channels to help operational continuity, thus financial sustainability; not to attract more funds that are not spent on the right channels.

The Marketing Trap: Marketing is also another illusion that gives entrepreneurs enticing promises, yet never delivers at this early stage. Focusing on spending money to show something that is not tangible is a waste of both time and resources. Startups' success should not be measured by how branded they are, and how much availability they offer on social media anyway.

Having a proper image and market introduction are fundamental things to attract the right attention from both investors and customers. However, the balance of how much money should be pumped into these marketing operations has to be considered wisely. Branding and marketing with offline

and online activities will always remain significant for companies' survival, yet they shouldn't be considered the one and only way.

Over the course of time, it is proven that staying focused on traction and transactional operations will direct investors' and customers' attention to startups, yet the other way around is not really sustainable!

Startups should never overlook the amount of time and effort needed for the actual product/service development, and should use every bit of their resources and capacities to get recognized for their products/services.

Mindset Change!

Becoming catalysts of change, developing the mindset, and adopting proper business strategies to become camel organizations is crucial, and will help vitalize the entrepreneur ecosystem, however it is worthy to note that what is expected from the entities providing support also need a paradigm shift!

Supporting Organizations

Supporting entities, including both the private and public sectors, need to encourage entrepreneurs towards real growth for their business, not to just try to impress stakeholders to attract more money that just leads to burn out. Here are some ideas on the how the support needs to be directed:

- **Governmental Support:** It cannot be denied that providing the proper legal infrastructure, relevant funding entities, and various incubation and acceleration programs can help in supporting the entrepreneurial ecosystem, however injecting the entrepreneurial mindset within governmental bodies is what will really make a difference.

By interwinding this mindset with the experience and resources existing in different governmental institutions, we will always be able to innovate and offer different solutions that would be tailored to the most essential needs of the startup scene following their fast evolution and long-term needs.

Engaging entrepreneurs in governmental entities will require a lot of work from both sides to try and create a middle ground with a unified vision and language that will offer the needed dynamic support to the entrepreneurial ecosystem.

- **Creation of e-Hubs:** The creation of entrepreneurial hubs (e-Hubs) in the ecosystem is one of the most powerful means for positive disruption and providing the hands-on support that uplifts startups and takes them to the next level, regardless of their current phase.
- An e-Hub follows a holistic approach where a network of partners (from both the private and public sectors) that are categorized under different criteria, and share similar visions as well as various kinds of support to the ecosystem depending on what is actually needed on ground, each pillaring on their strongest points of offered support.

E-Hubs offer flexibility and agility that is not common to more specific forms of support by creating the right environment for development of any startup, starting from ideation till advanced growth stages. Certain programs can be created to offer support on specific stages for startup growth. Also, startups can always come back to an e-Hub after finalizing different rounds of incubation, investment cycles... etc. only to find the right program to help them to take the next step forward.

- **Funding as motivation:** Funding should always be seen as a means to success, not a destination. It should not be looked at as an ultimate evaluation on the potential of the team and the product/service offered, but rather as a tool that secures the startup for some time to invest effort in adding real value to the market.

When securing investment rounds, investors can follow a staged scheme of pumping funds into the organization with agreed upon milestones.

Milestones should be practical, with each one of them delivering a new feature/ product/ service to the customers following the agile method of software development. Once the startup reaches the milestone, more funds are delivered to work towards the actualization of the next step.

This way funding becomes a motivational tool for progress; Startups will be focused on delivering and adding value in order to get new funding. They will not waste their limited resources on showing off through unneeded marketing campaigns, thus staying loyal to real on ground development and growth.

- **Funding through banking:** Banking is a challenging destination when it comes to getting funds for startups due to the high-risk factors always associated with the creation of new businesses, however it is pivotal in providing financial support in the upcoming era.

Creating banking facilities that are customized to startups is something that can be done through e-Hubs. The e-Hub can work on bridging of the gap between entrepreneurship and banking to unify the language and build a common ground of understanding, capitalizing on the growing interest from the banking sector to play an active role in the development of the ecosystem, and the readiness to mold the whole sector to be able to offer new financial models that would suit different stages of growth not just established SMEs.

On the other hand, startups can participate through their offered services to provide the ecosystem with diversified solutions that would help with improving bank readiness and eligibility to apply for funding through the banking sector.

- **Business matchmaking:** Supporting organizations should dedicate more time and effort towards creating opportunities for business matchmaking, as this is the most secure avenue to increase traction and create an inflow of operational transactions.

Creating channels for exposing startups fully-fledged to offering their services, and highlighting their potential is something that should be tackled creatively, and not just through investment activities and pitching events.

Programs, activities, and platforms (again using technology) should be customized to open channels between different business sectors and the ecosystem so they can share their needs, in order to facilitate matchmaking following received commissions according to available capacities in the ecosystem. It is worth noting that matchmaking also adds a global dimension to startups. Business matchmaking has no physical boundaries as shared opportunities and corporate commissions can come from anywhere in the globe and be delivered by startups from anywhere as well.

The Superheroes

Now we come to our catalysts of change! Our superheroes should realize their true significance, and that it is part of their role to add value to the economy not just by offering new unique products/services, but by participating in building successful, sustainable business models.

So, in addition to giving their undivided effort and attention to grow transactional operations and traction while shying away from extreme branding and marketing illusions, here are some strategies to follow that will help startups in their growth journey:

- **Building Teams:** Entrepreneurs prefer to run solo because they know that not many people around them understand their passion, or will be able to give their new uprising endeavors the attention they deserve. This leaves them standing alone in the face of challenges and causes them to burn out over the duration of their career.

Dedicating some time to build proper teams and create leaders is something that should be part of the daily life of each and every

entrepreneur to ensure continuity. This can be done following very simple methods of coaching and guidance; however, the most important ingredient for its success is selecting the right, trustworthy group and believing in the power of teamwork

-**Formulizing processes:** Work processes are something else that need some formulization when it comes to startups. Staying dynamic is one of the core characteristics for startups and it should always be maintained, however doing the right things right needs standardization of main work activities without falling into the bureaucracy of the corporate world.

Working on creating a work model that merges the best of both worlds is the ultimate solution in order to become a sustainable organization with the inspirational spirit of a superhero that can always endure and grow over time.

A healthy work environment with enough space of creativity and innovation for team members is a must for uprising startups; however, documenting stages of work, setting ground rules ground rules must be set, in addition to offering peer to peer knowledge and transferring trainings on different operations of each startup, which will ensure the sustainability of the established work system and the delivery of high-quality products/services complementing the available team within the startup.

- Stepping into the untapped: Business matchmaking opens the door to realms of opportunity, yet to be able to seize the moment, startups need to be able to step into untapped areas outside their comfort zones of doing business. They have to accept criticism for their offered solutions and agree to tweaking their ideas to match real business and market needs in the newly untapped areas. By stepping in the blue waters of untapped business and connecting with experts through modern support models, startups can take their businesses to new levels they never thought attainable!

To conclude; entrepreneurship has been the answer to questions in the past ... so it will remain the answer today and in the future.

However, the paradigm shift is not only expected from the entrepreneurship supporting entities ... It requires great change the same vision and towards the same goal...

and flexibility from the entrepreneurs themselves! The change is about challenging ALL of our existing beliefs and creating new norms.

Yet, success is the only way to go if we work hand in hand with the same vision and towards the same goal...

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Nile City Towers - North Tower
8th floor - Corniche El-Nil
Cairo 11221, Egypt
Phone: (202) 246 190 37-44
Fax: (202) 246 190 45
Email: ecses@ecses.org.eg
Website: ecses.org.eg
[f](#) [in](#) [t](#) [v](#) [ecses.org.eg](#)