

Session 3: Regional Perspectives on FFD – Middle East

Financing for Development in Egypt: Challenges and Opportunities

Nihal El-Megharbel
6th of September 2014

Content

- I. The current economic situation in Egypt
- II. The challenges of investments
- III. The reform agenda
- IV. The way forward

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9/9/2014

3

Egypt's major economic and social challenges

- Declining growth rate (2.2%).
- Large fiscal deficit (9.3 % of GDP) and public debt (94 % of GDP).
- High unemployment rate (13.4%).
- Double-digit inflation rate (10.1%).
- Trade balance deficit (1.5% of GDP).
- Low FDI inflows (US \$ 5.1 bn).
- Poverty rate: 26% (majority in upper Egypt).

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4

Content

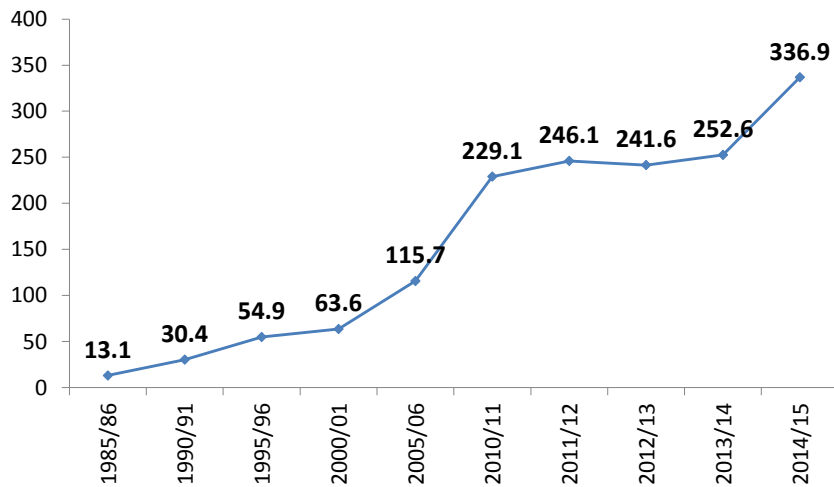
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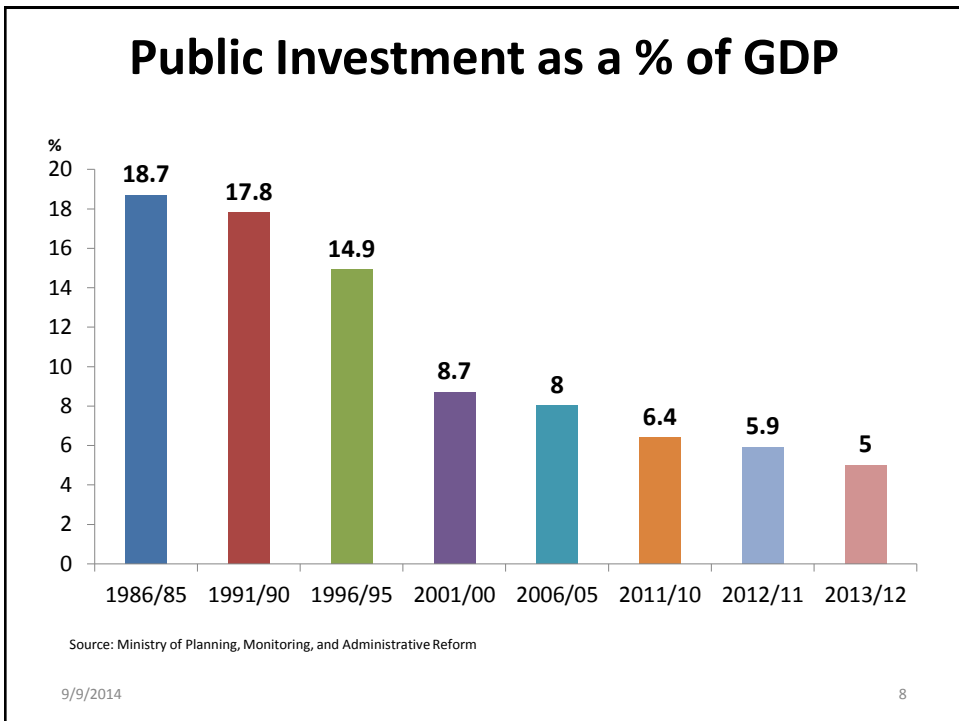
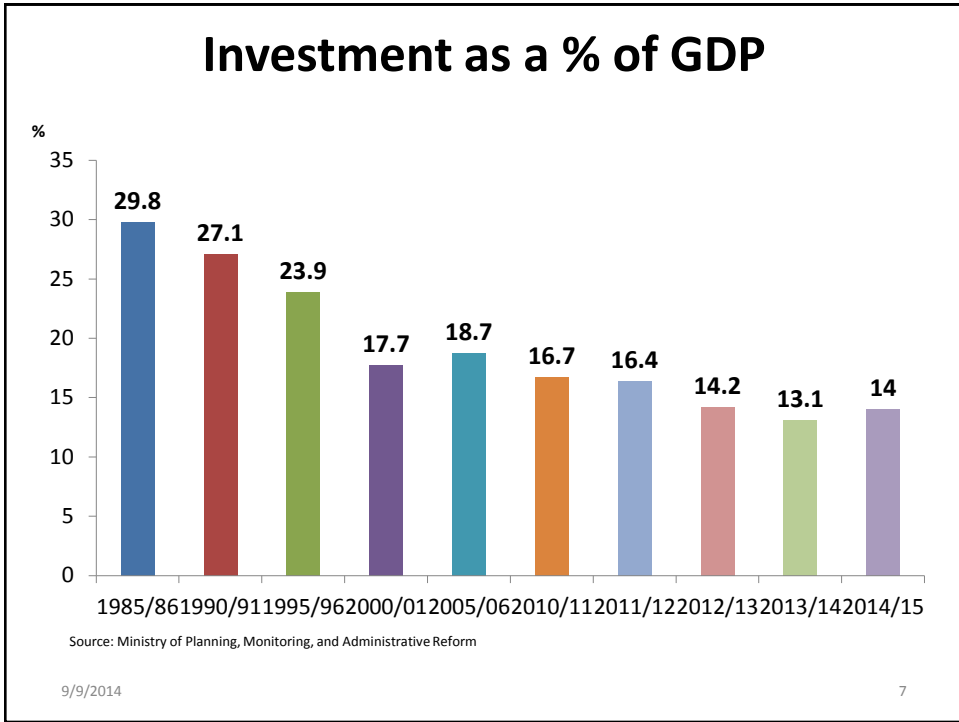
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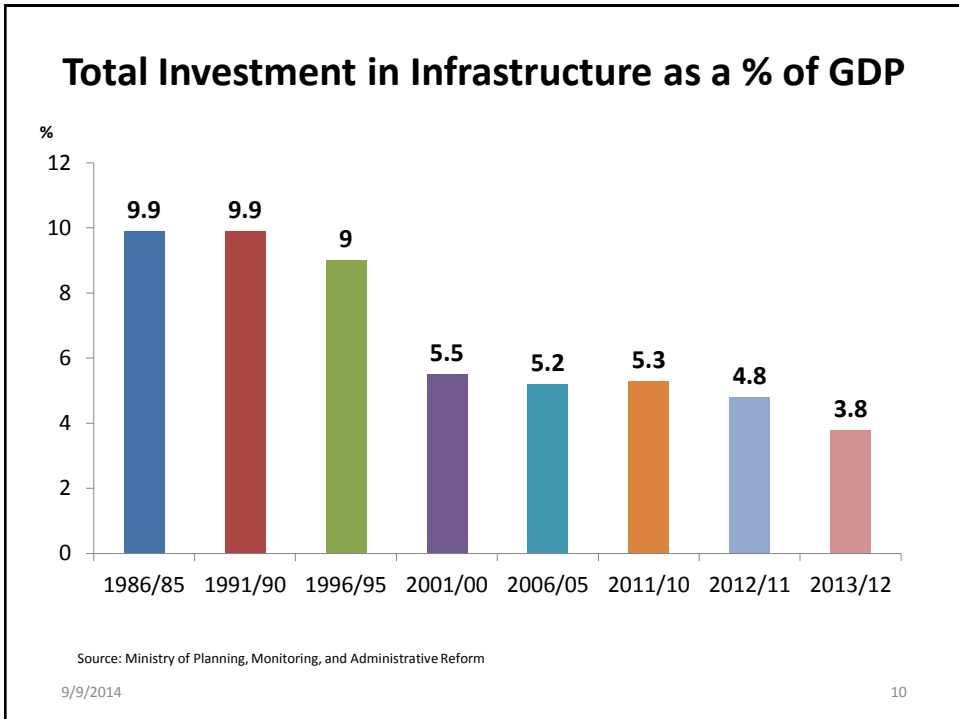
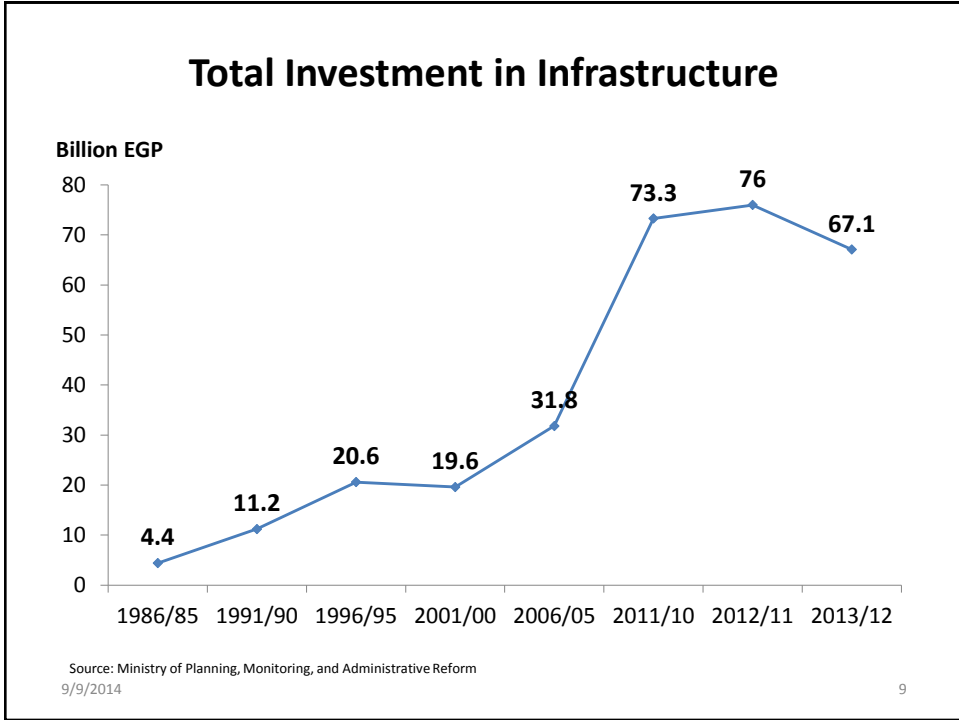
Total Investment in Egypt

Billion EGP

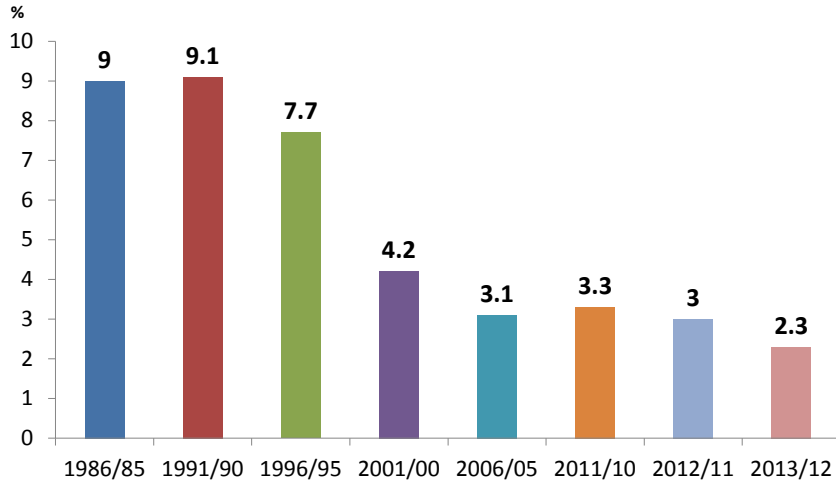
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Source: Ministry of Planning, Monitoring, and Administrative Reform

6





Public Investment in Infrastructure as a % of GDP

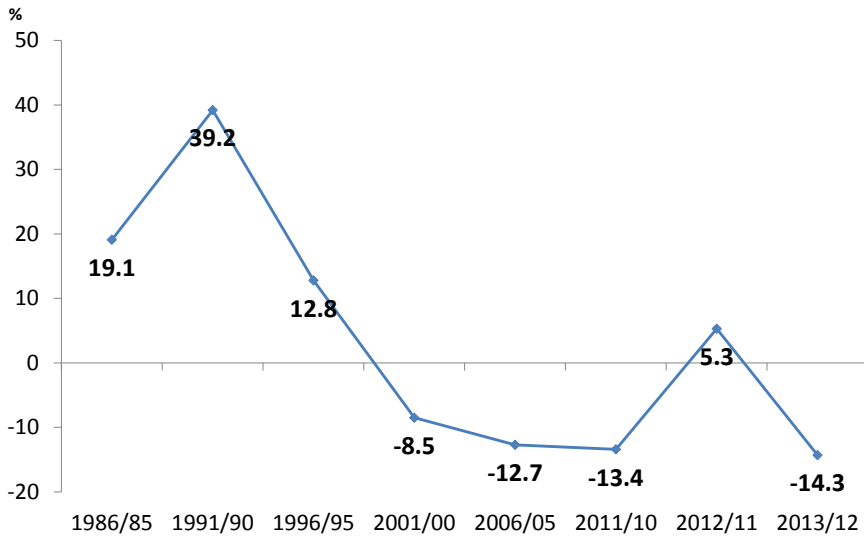


Source: Ministry of Planning, Monitoring, and Administrative Reform

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11

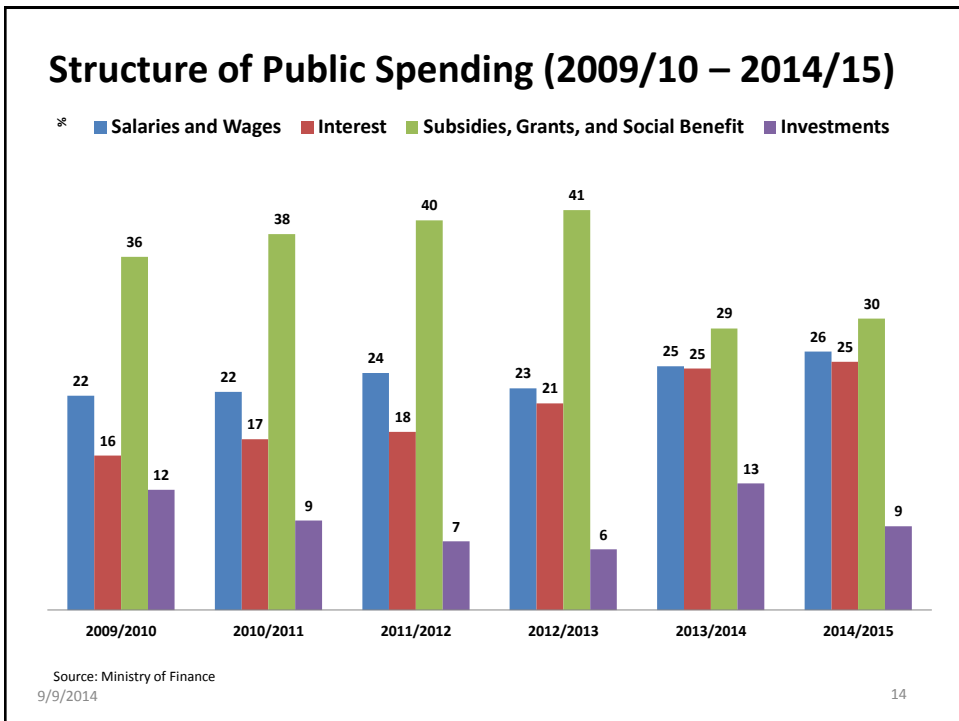
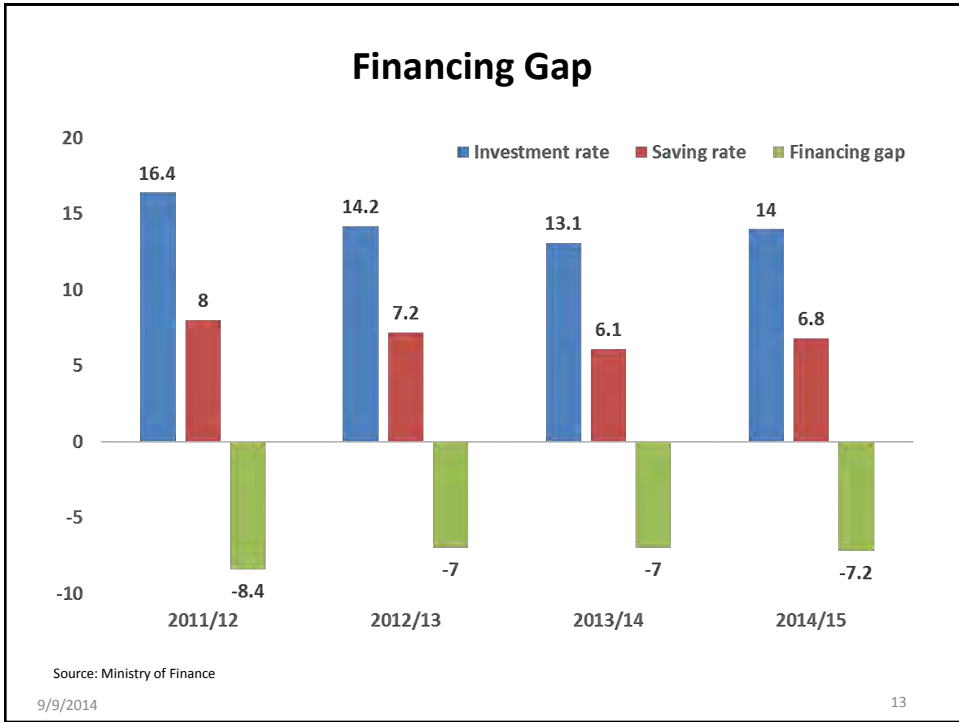
Growth Rate of Public Investment in Infrastructure



Source: Ministry of Planning, Monitoring, and Administrative Reform

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12



Local Finance

- 80% of local finance depends on national transfers, 11% local resources (fees), and 9% borrowing.
- Share of local taxes in government taxes = 0.2% in 2013/14.
- Funding formula based on HDI, population, poverty, area, and other factors.
- Funding formula applied only to local development programs.
- Very limited role for local development fund.

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15

The Global Competitiveness Subindexes – Egypt (2009-2010 – 2014-2015)

Year	Overall Index	Basic Requirements				Efficiency Enhancers					Innovation and Sophistication Factors		
		Institutions	Infrastructure	Macroeconomic Environment	Health and Primary Education	Higher Education and Training	Goods Market Efficiency	Labor Market Efficiency	Financial Market Development	Technological Readiness	Market Size	Business Sophistication	Innovation
2009-2010	70	56	55	120	84	88	87	126	84	82	26	72	74
2010-2011	81	57	64	129	91	97	90	133	82	87	26	63	83
2011-2012	94	74	75	132	96	107	118	141	92	95	27	72	103
2012-2013	107	96	83	138	94	109	125	142	102	91	29	83	109
2013-2014	118	117	98	140	100	118	119	146	119	100	29	84	120
2014-2015	119	100	100	141	97	111	118	140	125	95	29	95	124

9/9/2014

16

The Global Competitiveness Subindexes – Egypt compared to other countries for the year 2013-2014

Country	Basic Requirements				Efficiency Enhancers						Innovation and Sophistication Factors	
	Institutions	Infrastructure	Macroeconomic Environment	Health and Primary Education	Higher Education and Training	Goods Market Efficiency	Labor Market Efficiency	Financial Market Sophistication	Technological Readiness	Market Size	Business Sophistication	Innovation
	Egypt	117	98	140	100	118	119	146	119	100	29	84
Tunisia	73	77	96	47	73	88	132	110	83	64	76	88
Jordan	38	54	138	65	56	39	101	79	70	87	47	53
Morocco	53	57	90	82	102	69	122	69	80	56	92	106
Philippines	79	96	40	96	67	82	100	48	77	33	49	69
Brazil	80	71	75	89	72	123	92	50	55	9	39	55
Indonesia	67	61	26	72	64	50	103	60	75	15	37	33
United Arab Emirates	11	5	7	49	35	4	9	24	28	44	16	28
Czech Republic	86	39	55	60	39	48	81	58	34	41	38	37
Mexico	96	64	49	73	85	83	113	59	74	11	55	61
Chile	28	46	17	74	38	36	45	20	42	42	54	43
Poland	62	74	65	42	37	57	80	38	43	20	65	64

The Most Problematic Factors for Doing business in Egypt

Factors	Percent of response					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Policy Instability	0.7	4.5	13.6	17	22.9	21
Government Instability/coups	1	0.6	6.4	17.4	14.7	12.5
Access to financing	7.6	8.2	10.6	5.6	7.8	10.2
Foreign Currency Regulations	1.4	0.9	4.0	3.8	5.7	8.4
Corruption	9.5	19	7.3	6.3	7.5	7.7
Inadequate supply of infrastructure	4.8	3.8	5.5	2.5	4.5	5.5
Inadequately educated workforce	10.4	10.1	13.4	5.3	6.4	5.4
Poor work ethic in national labor force	7.8	5.6	7.1	4.3	5.4	5.4
Crime and Theft	4.5	3.5	3.6	9.7	9.3	4.3
Restrictive labor regulations	7	5.9	8.2	6.5	2.1	4.1
Tax rates	7.3	4.5	2.3	4.6	4.2	3.9
Inflation	9.9	14.8	4.6	3.0	3.7	3.2
Tax regulations	12	9.2	3.0	5.4	2.5	3.1
Inefficient government bureaucracy	12.3	6.1	9.1	5.3	1.9	2.7
Insufficient capacity to innovate	-	-	-	2.4	1.2	1.7
Poor public health	3.9	3.2	1.3	0.9	0.3	0.9

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18

Stimulus Packages

The Egyptian government allocated 60 billion EGP into two investment packages to stimulate the economy and pave the way for social justice:

- The first stimulus package of 29.7 billion EGP was invested to:
 - Deliver natural gas to 800,000 housing units
 - Launch 115 sewage projects
 - Implement 175 water projects
 - Develop 27 railway crossings and bridges
 - Finish the second stage of the subway metro
 - Connect facilities to 35 industrial regions
 - Reclaim 32,000 acres
 - Fix electricity stations
 - Develop health services
 - Develop 59 hospitals
- The second stimulus package of 30 billion EGP was invested to:
 - Develop infrastructure
 - Apply minimum wage rates
 - Achieve sustainable development

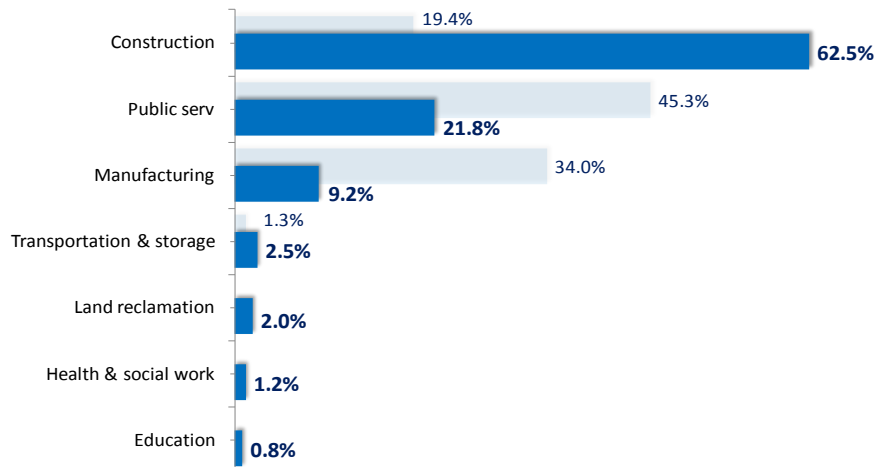
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19

Egypt's stimulus packages according to expenditure allocation

main economic sectors

2008/2009 2013/2014

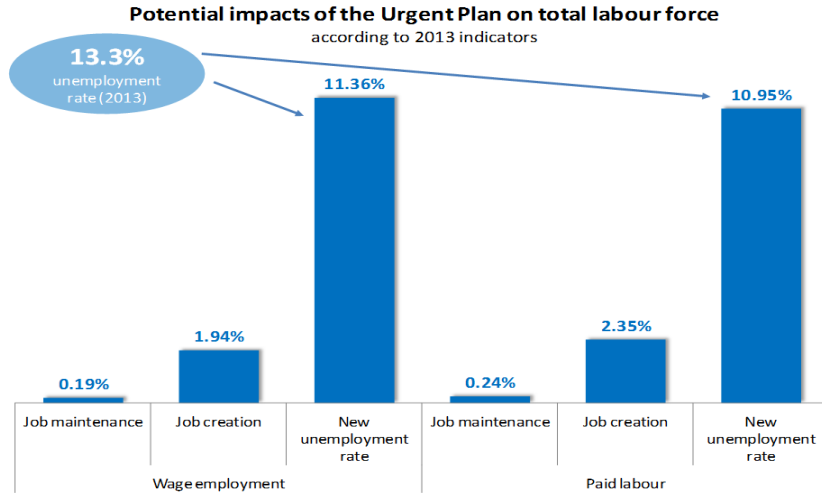


Source: ILO (unpublished)

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20

ILO: Potential Impact of the Stimulus Package on Employment (1)

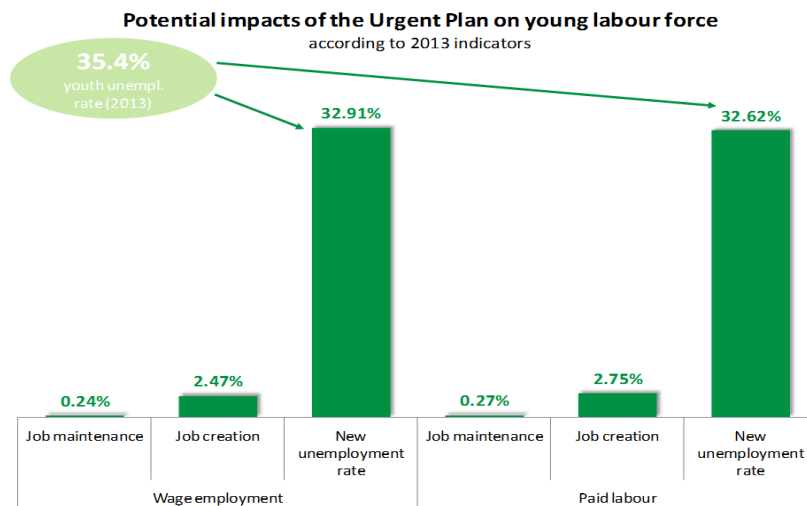


Source: ILO (unpublished)

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21

ILO: Potential Impact of the Stimulus Package on Employment (2)

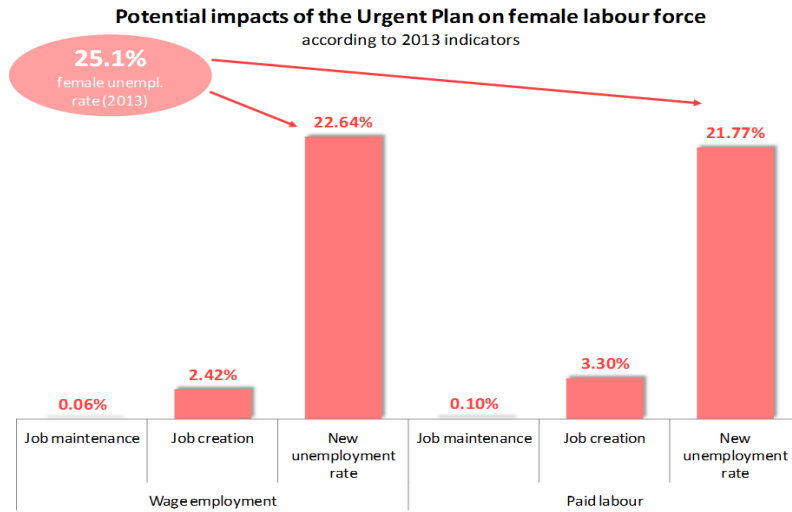


Source: ILO (unpublished)

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22

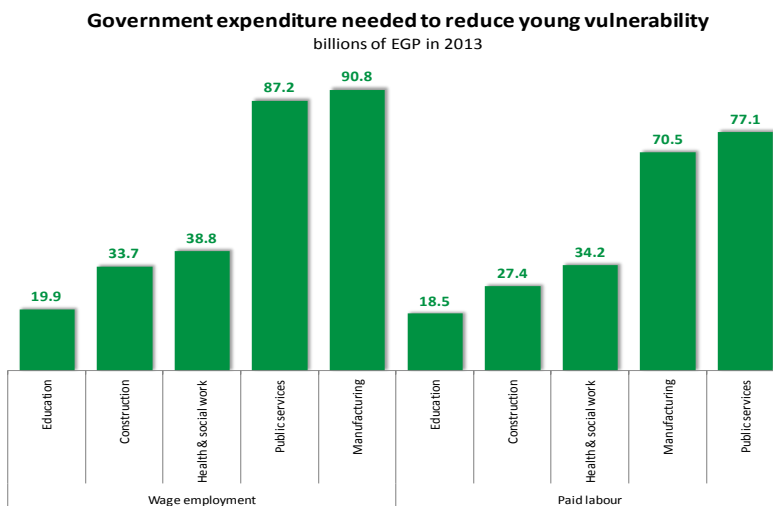
ILO: Potential Impact of the Stimulus Package on Employment (3)



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23

ILO: Potential Impact of the Stimulus Package on Employment (4)



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24

Content

- I. The current economic situation in Egypt
- II. The challenges of investments
- III. The reform measures**
- IV. The way forward

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25

Sustainable Development Strategy: Egypt 2030

- Based on previous strategies, visions, development plans.
- CSOs and the private sector playing a leading role.
- This strategy aims to develop and formulate a vision for Egypt by 2030 to serve as a roadmap to maximize the benefits from the potential and competitive advantages.
- It works to revitalize its historic leadership role in the region and to provide a decent life for its citizens.

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26

10 Pillars of SDS

1. Economic development
2. Education (+ health ----- Human development)
3. Innovation, knowledge and scientific research
4. Social justice
5. Domestic policy
6. National security and foreign policy
7. Environment
8. Urban development
9. Transparency and efficiency of government institutions
10. Energy

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27

New planning process (1)

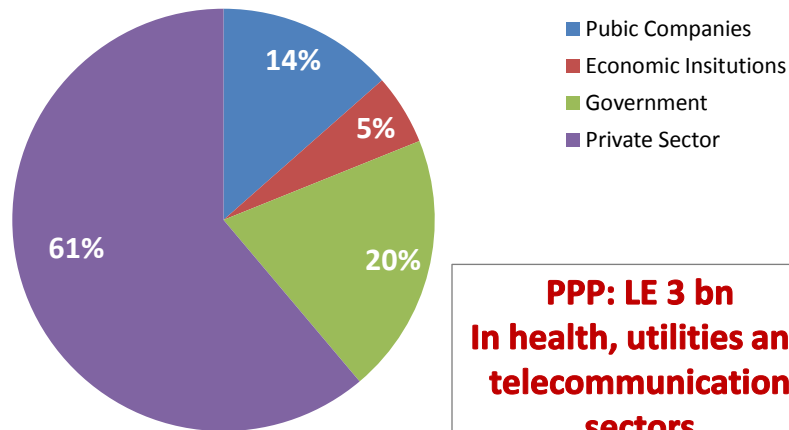
1. New unified and web-based forms.
2. Capacity building for MoP and technical assistance for line ministries and governorates.
3. Planning and development indicators.
4. Spatial dimension of investments.
5. Complete feasibility studies for new and existing projects.

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28

New planning process (2)

Active participation of the CSOs and private sector.



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29

Better Governance System (1)

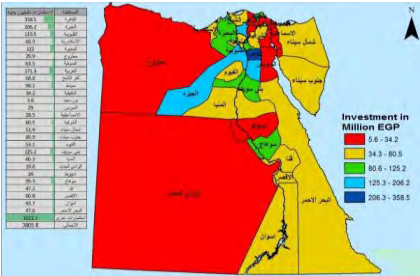
1. Spatial dimension of investments.
2. Citizen plans (social development services).
3. Regional plans (economic development).
4. Geographic Information System (GIS).
5. Linking with GFMS.
6. MoP member of ANSA.
7. Upgrading SNA and building macroeconomic framework.

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30

Maps of Public Investment 2014/15 (1)

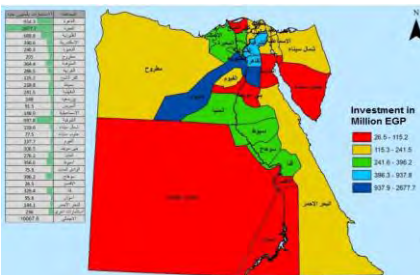
Health Sector



Pre-collage Education Sector



Public Utilities



Higher Education Sector



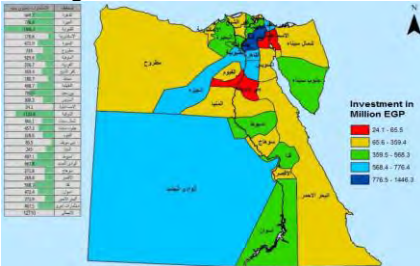
Source: Ministry of Planning, Monitoring, and Administrative Reform

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31

Maps of Public Investment 2014/15 (2)

Housing Sector



Agriculture Sector



Agriculture Sector



Source: Ministry of Planning, Monitoring, and Administrative Reform

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32

Content

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33

The Way Forward (1)

- Continue reform measures to increase the efficiency of public spending.
- Establish projects bank.
- Increase resources allocated to maintenance.
- Consider the establishment of a sovereign investment fund.
- Develop capacity at the national and local levels for planning and budgeting.

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34

The Way Forward (2)

- Develop a unified planning law.
- Upgrade regional planning system.
- Move towards administrative and financial decentralization.
- Participate in developing a new local administration law.
- Develop MoP macroeconomic framework.
- Apply the new system developed for monitoring and impact evaluation.

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35

Thank you

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36