

Egypt's Business Enabling Environment: An Analysis of the State's Relevant Policies from 2018 to 2021

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Abstract

This article aims to provide an analysis of the government of Egypt policies with respect to business enabling environment, before the commencement of illustrating the state relevant policies; the two adopted methodological approaches which are the regulatory business environment, and the investment climate will be underscored. Several elements of regulatory business environment in Egypt are analyzed such as deregulation of business commencement, operation, and closing. And in case of business climate political stability, education policy, adequate infrastructure, and adequate health system are analyzed.

METHODOLOGICAL APPROACHES

Before the spotting the light on the adopted methodologies the business enabling environment (BEE) should be clarified to articulate its ambit regarding both adopted approaches of the regulatory business environment and investment climate in this article, thus BEE is institutional, regulatory, infrastructure and cultural conditions that govern formal and informal business activities. It includes the administration and enforcement of government policy, and national and local institutional arrangements that affect the behavior of relevant actors: regulatory authorities, entrepreneurs, business and trade union organizations, banks and non-bank financial institutions, and civil society organizations.

However, Regulatory business environment (as it is diagramed in figure no. 1) which is the first adopted approach in this article highlights those regulations that immediately affect businesses through the costs of compliance. So, it covers regulations that immediately affect businesses through the costs of compliance. These are composed of direct costs, such as license fees, and indirect costs resulting from unnecessary transactions.¹ The advocates of the regulatory business environment contend that such reforms are not only suitable to enhance private sector development and growth but that they directly advantage the poor more than proportionally because "heavy regulation and fragile property rights disregard the poor from doing business."²

¹ Hernando De Soto et al., *The Other Path: The Invisible Revolution in the Third World* (New York Etc.: Harper and Row, 1989).

² Michael U. Klein and Bitá Hadjimichael, "The Private Sector in Development: Entrepreneurship, Regulation, and Competitive Disciplines" (Washington, DC: World Bank Publications, 2003).

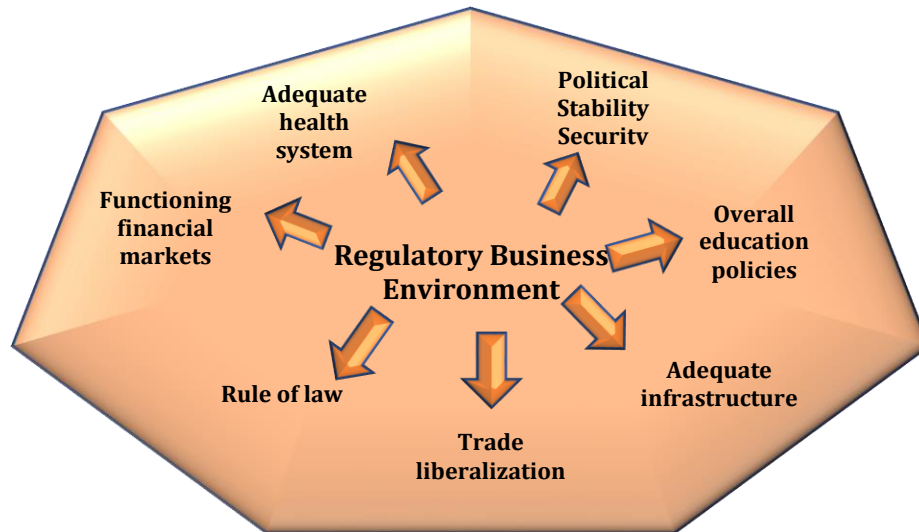


Figure 1: Regulatory Business Environment

Source: Author's own

Regarding the investment climate (as it is diagrammed in figure no. 2) which encompasses wider framework conditions such as infrastructure, health, and education. The term “investment climate,” as used in the World Development Reports and Investment Climate Surveys, which indicates to a group of enabling factors greater than the “regulatory business environment.”. it provides property rights, reduce bureaucratic entry cost, and provide incentives for legalization.

Consequently, the investment climate comprises all the elements of the regulatory business environment, but in addition it includes the quality of infrastructure, the health system, the overall level of education, rule of law, political stability, and security, functioning financial markets, trade liberalization and international rules and standards as factors which shape the opportunities and incentives for firms to invest productively.³

³ World Bank and International Finance Corporation, *Doing Business in 2005: Removing Obstacles to Growth* (Washington (D.C.): World Bank, 2005).

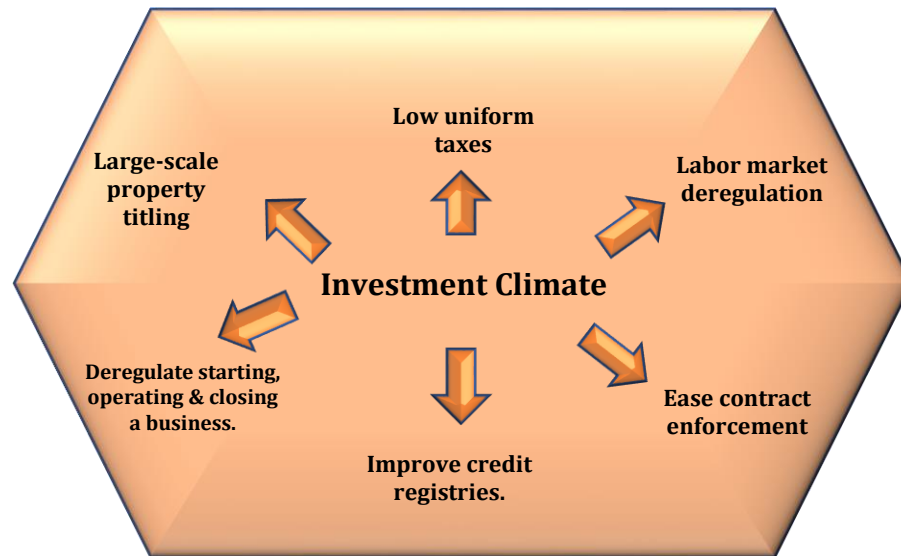


Figure 2: Investment Climate

Source: Author's own

The World Bank's "regulatory business environment" and "investment climate" reports are extremely sceptical about deliberate government action aimed at improving the performance of enterprises and developing competitive advantages. The Doing Business Reports similarly argue that creating a level playing field through deregulation and secured property rights is the most important condition for enhancing economic growth and making it more equitable. The Reports emphasize that broad government regulations hinder the formation, registration and growth of private enterprises and create several chances for rent-seeking bureaucrats to grab bribes, thereby growing corruption significantly⁴

Hence, in this research the Egypt BEE relevant policies will be analyzed in the light of the two above selected approaches, i.e., regulatory business environment will be explored in Egypt through scrutinizing regulations related the starting, operating & closing a business and the kye question will be about the investors autonomy and protection provided to them.

REGULATORY BUSINESS ENVIRONMENT

Deregulate Starting, Operating & Closing a Business

Sole Authority for Accreditation and Operation:

General Authority For Investments (Hereinafter referred to as GAFI) is the only sole authority for accreditation services related starting, operating & closing a business, feedback regard the applications one business day.⁵ Hence, companies undertaking strategic or national- interest projects, either as public-private partnerships or related to public utilities, infrastructure, new and renewable energy, roads and ports, are eligible to receive a single approval to cover the establishment, operation, and management of their project. This includes the building licenses and allocation of real estate for the project. Moreover, Investors can obtain all licenses from GAFI, thus, interact with any other authority is not needed. GAFI provide incorporation and

⁴ World Bank, "Doing Business 2007: How to Reform" (World Bank, 2006).

⁵ "Egypt Investment Law No. 72 of 2017", Article 21, III § (n.d.).

post-incorporation services, collects all fees from applicants, and decides on completed incorporation applications within one business day of their submission. GAFI establishes electronic means by which incorporation activities may be conducted. Private sector Approval Offices that are licensed and accredited by GAFI assist and represent investors before government authorities.⁶

The Prime Minister may designate geographic areas for specific developments, including logistics, agriculture, and industry. In areas designated for communications and information technology, equipment for these enterprises will not be subject to taxes or customs duties. GAFI shall prepare a map to identify special investment zones, needed investment projects and government- owned land available to investors.⁷

Investors' Autonomy and Protection

Foreign investors receive the same treatment under law as Egyptian nationals. Foreign investors can be granted preferential treatment, with approval from the Council of Ministers.⁸ Investments will not be governed by arbitrary procedures or discriminatory decisions.⁹ Investment projects will not be nationalized.¹⁰ No administrative authority can revoke or suspend investment project licenses without proper warning, due process, and time to correct any issues. Foreign investors are guaranteed residence in Egypt during the term of a project.¹¹

Investors have the right to transfer their profits abroad.¹² Investors' projects may include up to 10% foreign employees, and up to 20% for investment companies. Foreign employees of investment companies have the right to transfer their compensation abroad.¹³

Regarding the dispute settlement, there is an independent arbitration and mediation center which have the authority to pursue the settlement of investment disputes that arise among investors and state authorities.¹⁴ A ministerial committee was established to review complaints and disputes between investors and state authorities. Committees within GAFI examine complaints against resolutions issued in accordance with the investment law.¹⁵

Labor Market Deregulation

Egypt labor law No. 12 of the Year 2003 maintains the balance in duties and responsibilities between workers and employers; due consideration to the social dimensions of the economy; its provisions reflect global and local economic changes; reflection of fundamental principles contained in international labor standards; safeguarding formerly acquired rights; and recognition of workers' right to a periodic annual wage increase of at least 7 per cent.¹⁶

⁶ Ibid., Article 26 & 36, III § (n.d.).

⁷ Ibid., Article 28, III § (n.d.).

⁸ Ibid., Article 3, I § (n.d.).

⁹ Ibid., Article 3, I § (n.d.).

¹⁰ Ibid., Article 4, I § (n.d.).

¹¹ Ibid., Article 3, I § (n.d.).

¹² Ibid., Article 6, I § (n.d.).

¹³ Ibid., Article 8, I § (n.d.).

¹⁴ Ibid., Article 88, V § (n.d.).

¹⁵ Ibid., Article 85, V § (n.d.).

¹⁶ "Egypt Labor Law No. 12 of the Year 2003", Articles 3 and 4 (n.d.).

While writing this article new bill of labor law is being discussed in the house of representatives of Egypt, the bill will include the creation of new labor courts to speed-up litigation processes. It provides the opportunity for better training and education, while ensuring the rights of working women and people with special needs. It will retain the balance between the business owner and the workers.

This new law targets also to build balanced work relationships between the two sides of the production process, ensuring steadiness of work and a secure work environment, the relevant committee of the house of the representatives of Egyptian said, it will lead to increased production and encourage youth to work in the private sector.¹⁷

Ease Contract Enforcement

Based on Law No. 72 of 2017, An independent arbitration and mediation center enjoys the authority to pursue the settlement of investment disputes that arise among investors and state authorities. The Egyptian courts usually endorse international arbitration clauses in commercial contracts.¹⁸ E.g., Egypt Court of Cassation has, on several cases, approved the validity of arbitration clauses included in contracts between Egyptian and foreign investors.

Table 1: Contract Enforcement in Each Governorate in Egypt

Location	Enforcing Contracts rank	Time (days)	Cost (% of claim value)
Alexandria	11	923	26.2
Assuit	14	965	26.2
Aswan	7	745	26.1
Cairo	15	1010	26.2
Damietta	1	810	18.2
Fayoum	3	830	18.2
Giza	4	810	25.7
Ismailia	2	706	20.7
Kharga	10	946	23.2
Mansoura	11	1050	25.7
Port Said	7	964	19.5
Sohag	6	915	22.5
Suez	9	845	25.7
Tanta	5	830	24.6
Zagazig	13	1105	25.7

Source: World Bank

The Egyptian Investment Law No. 72 of 2017 mechanism for settling investment disputes targets to avoid the court system altogether. In particular, the Ministerial Committee on Investment Contract Disputes is responsible for settling disputes arising from investment contracts to which a public or private body associated it, is a party. Egypt's dispute resolution

¹⁷ "Egypt's Senate Approves New Amendments to Labor Law," EgyptToday, January 2, 2022, <https://www.egypttoday.com/Article/1/111476/Egypt-s-Senate-approves-new-amendments-to-labor-law>.

¹⁸ "Egypt | International Investment Agreements Navigator | UNCTAD Investment Policy Hub," investmentpolicy.unctad.org, accessed December 24, 2021, <https://investmentpolicy.unctad.org/international-investment-agreements/countries/62/egypt?type=bis>.

mechanisms are somewhat time-consuming as it indicated in table No. 1 the shortest duration is 810 in Damietta and 1010 days in Cairo nonetheless Egypt's dispute resolution mechanisms considered to be overall effective.¹⁹

INVESTMENT CLIMATE

Political Stability Security

Even though Egypt politically has suffered from the Arab uprising hit the Arab world from 2010, The Gallup Global Law and Order from 2018 to 2021 reports ranked Egypt in the world as one of the safest countries in the Word, in 2018 ranked with 88% safety rate, in 2019 with 92%, 2020 with 89%, and in 2021 with 85%.²⁰

The president, Abdel Fattah El-Sisi, won a second four-year term in March 2018; El-Sisi administration's domestic policy remain fundamentally concentrated on economic and social reform. The cabinet is generally technocratic, the president has taken advanced steps to enhance the representation of Copts and women in the cabinet, among the key ministers are the finance minister, the foreign minister, and the planning and economic development minister. The health and population minister has taken a central role in directing the government's response to the coronavirus pandemic and in rolling out the universal health insurance scheme.

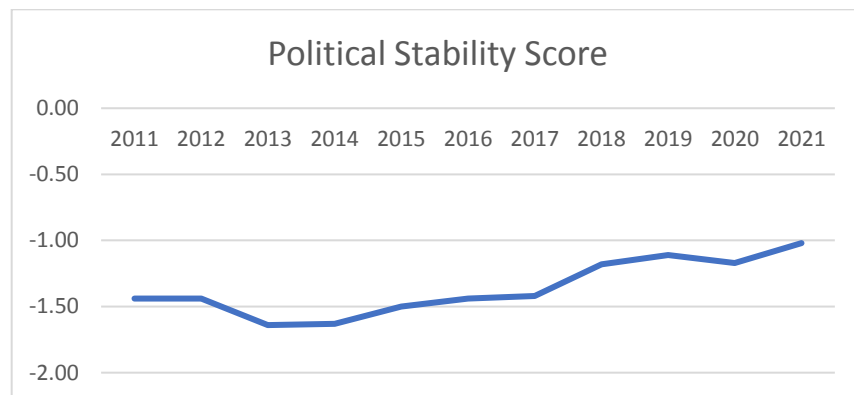


Figure 3: Political Stability of Egypt
Source: World Bank

As shown in the above Figure No. 3 the World Bank political stability relevant data shows improvement from 2011. It should be indicated that Egypt political stability negatively influenced by the Arab uprisings stated from 2010.

¹⁹ This assessment looks at the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time and cost involved from the moment the plaintiff files the lawsuit until actual payment. It also assesses the existence of international good practices in the court system through the quality of judicial processes index. The information appearing on this table was collected by world bank as part of the Doing Business subnational project in Egypt, Arab Rep., which measures and compares regulations relevant to the life cycle of a small to medium-sized domestic business in cities and regions.

²⁰ Gallup Inc, "Global Law and Order Report - Gallup," Gallup.com, n.d.
, <https://www.gallup.com/analytics/356963/gallup-global-law-and-order-report.aspx>.

Overall Education Policies

The quality of education remains a major challenge in developing countries generally and specifically in Egypt. Most of developing countries including Egypt, teaching styles can sometimes be rigid; student contribution is not encouraged sufficiently, and physical punishment is sometimes used. Hence, the El-Sisi administration from 2018 has given greater priority to improving the education system.²¹

The plan for developing the education system, which is based on developing the already existing system, alongside a radical transition of a new educational system, under the title "Building the Egyptian Human." World Bank provides loan of \$500 million to develop the education sector.²²

The public education system in Egypt consists of three levels, the basic education stage for 4 to 14 years old, kindergarten for two years followed by primary school for six years and preparatory school for three years. Then, the secondary school stage is for three years, for ages 15 to 17, followed by the tertiary level. Education is made compulsory for 9 academic years between the ages of 4 and 14. Moreover, all levels of education are free within any public schools.

The performance of the pre-university education sector in Egypt has improved over the past 10 years according to accessibility indicators, as net and gross enrolment rates at all educational levels have increased. These successes have been concentrated in the primary education stage.²³

Data on enrolment rates for both boys and girls show a decline in the gender gap during the period between the academic years of 2011 and 2020, with the net enrolment rates for girls exceeding those of boys at all levels of pre-university education.²⁴

Adequate Infrastructure

Regarding the logistics performance,²⁵ from 2010 to 2018 Egypt has moved up 25 places to rank 67 in the World Bank's report of Logistics Performance Index as indicated in figure No. 4. And the government increases FY annually 50% of financial allocations to Infrastructure Projects.

²¹ Farah Ramzy, "Egypt's Education 2.0: A Promising Project Facing Political Challenges - Legal Agenda," Legal Agenda, November 17, 2021, <https://english.legal-agenda.com/egypts-education-2-0-a-promising-project-facing-political-challenges/>.

²² "World Bank Project: Supporting Egypt Education Reform Project - P157809," World Bank, n.d., <https://projects.worldbank.org/en/projects-operations/project-detail/P157809>.

²³ Fayza Megahed, "Future Vision for Developing Education in Egypt," International Journal of Research in Educational Sciences 02, no. 04 (September 15, 2019): 119–40, <https://doi.org/10.29009/ijres.2.4.3>.

²⁴ UNICEF, "Gender and Education - UNICEF DATA," UNICEF DATA, 2020, <https://data.unicef.org/topic/gender/gender-disparities-in-education/>.

²⁵ The Domestic LPI looks in detail at the logistics environments in 100 countries. For this measure, surveyed logistics professionals assess the logistics environments in their own countries. This domestic evaluation contains more detailed information on countries' logistics environments, core logistics processes and institutions, and time and distance data. This approach looks at the logistics constraints within countries, not just at the gateways, such as ports or borders. It uses four major determinants of overall logistics performance to measure performance: Infrastructure, Services, Border procedures and time, and Supply chain reliability.

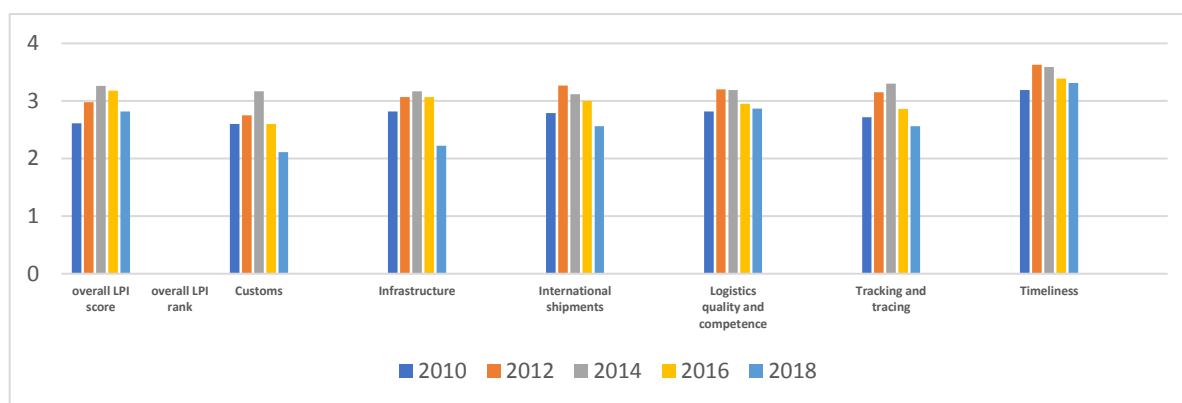


Figure 4: Egypt Logistics Performance

Source: World Bank

As shown in table No. 2 the value for Logistics performance index: Overall (1=low to 5=high) in Egypt was 2.82 as of 2018. As the table below shows, from 2010 to 2018, this indicator reached a maximum value of 3.18 in 2016 and a minimum value of 2.61 in 2010.

Table 2: Egypt's Logistics Performance by sector

	overall LPI score	overall LPI rank	Customs		Infrastructure		International shipments		Logistics quality and competence		Tracking and tracing		Timeliness	
	score	rank	score	rank	score	rank	score	rank	score	rank	score	rank	score	rank
2010	2.61	92	2.11	122	2.22	106	2.56	110	2.87	54	2.56	101	3.31	81
2012	2.98	57	2.60	69	3.07	45	3.00	51	2.95	50	2.86	66	3.39	64
2014	3.26	42	3.17	39	3.17	41	3.12	53	3.19	44	3.30	40	3.59	44
2016	3.18	49	2.75	65	3.07	50	3.27	45	3.20	43	3.15	54	3.63	48
2018	2.82	67	2.60	77	2.82	58	2.79	73	2.82	63	2.72	89	3.19	74

Source: World Bank

As an example of the improvement of the infrastructure in Egypt generally and specifically in logistics, Egypt's road quality ranking has jumped 90 spots over five years, putting us at 28th worldwide. The number of road accidents per year dropped 41.1% between 2014 and 2018, while the death and injury rates from these accidents have been halved over the same period of time.²⁶

As shown in figure No. 5 the overall investments in infrastructure in Egypt has increased steadily from 2016 up to 2021, and the energy sector occupied the highest level, which is indicating to the real improvement in Energy supply for production that transformed Egypt from country suffering for the electricity deficient country to electricity exporting country.

²⁶ "Egypt's Road Quality Now 2nd Place in Africa: Prime Minister," Egypt Independent, August 16, 2020, <https://egyptindependent.com/egypts-road-quality-now-2nd-place-globally-prime-minister/>.

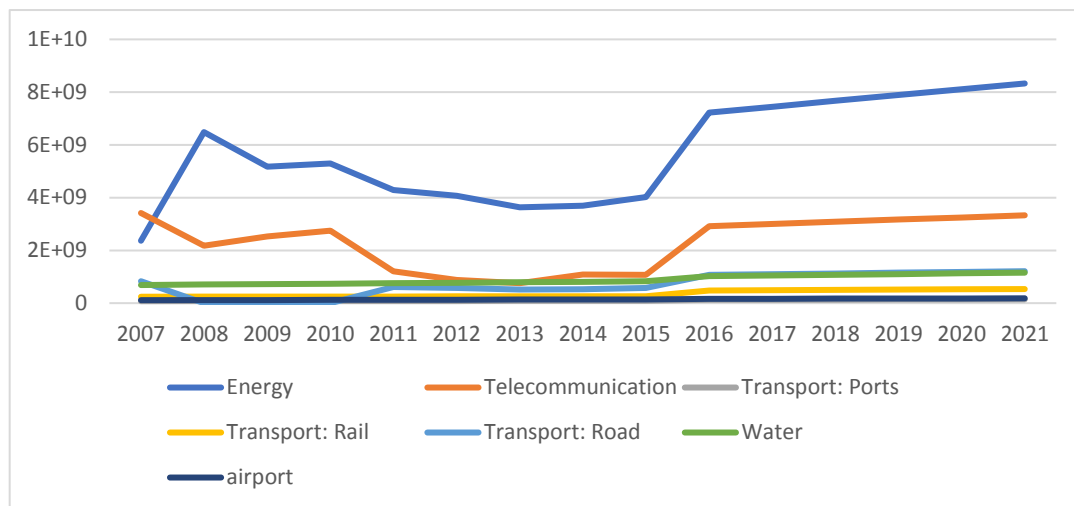


Figure 5: Infrastructure Investments in Egypt by Sector

Source Global Infrastructure Hub

Adequate Health System

Between 2014 and 2020, Egypt adopted a group of policies and commenced several health programmes and initiatives. They targeted to achieve the strategic objectives of the health sector, which are related to improving the public health of citizens within a framework of justice and equity, achieving universal health coverage, and improving health sector governance.

Egypt has developed a National Population Strategy and its five-year plan of action (2015-2020), which is based on a group of themes related to family planning and reproductive health, providing family planning services with health insurance and all government hospitals and treatment institutions, and providing an adequate balance of family planning methods, as well as working on integrating population issues into the education and awareness process.²⁷ In that regard Egypt offered all its citizens health insurance for the first time in the North African country's history. The new health care program would cost \$8 billion and is being implemented gradually across the country between 2018 and 2032. The new system would eliminate the soaring prices of medical services in the private medical sector, as the policy would attempt to adjust market prices.²⁸

CONCLUSION

As discussed in this article that businesses and specifically foreign investors' investments can more readily flourish in a Business Enabling Environment that creates a level playing field for businesses while providing strong property and investor protections. Developing countries' governments often have a narrow window of opportunity for Business Enabling Environment. However, business regulation reform as indicated in Egypt can have positive impact when reform is undertaken in a coordinated manner, i.e., encouraging new firm formation depends on business entry regulations and related factors, including land regulation, taxation, and labor

²⁷ "45 million Egyptians to Benefit from Improvements to the Public Health System," World Bank, n.d., <https://www.worldbank.org/en/news/press-release/2018/06/27/45-million-egyptians-to-benefit-from-improvements-to-the-public-health-system>.

²⁸ "Egypt Healthcare Overview" (Colliers, August 24, 2021).

regulations, which was afforded in Egypt Investment Law No. 72 of 2017,²⁹ it may play a decisive role in creating a predictable, safe enabling framework for firms while efficiently protecting consumers, public health, and safety. As indicated also in this article that there is a good understanding that broad-based private investment, which is key for inclusive growth and job creation, will only occur when the business climate is favorable. A good business climate affects firm productivity, which is the foundation for sustained improvements in living standards. As shown in Egypt in that regard there were noticeable improvements political stability despite the Arab Spring movements, Education has witnessed in certain aspects improvement; it is still a tangible challenge to the government due to financial shortcomings, several infrastructural sectors have been improved last years; specifically road quality which its ranking has jumped 90 spots over five years, and the health system also adopted a set of policies and state commenced several health programmes and initiatives which tackled several national health challenges.

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²⁹ Egypt investment law No. 72 of 2017 stipulates that "In coordination with the concerned ministries, the Competent Minister may create a list of the best Investment Projects that conduct social development activities, whether by the geographic area or sector or other criteria and announce this list to the public." "Egypt Investment Law No. 72 of 2017", Article 15, III § (n.d.).

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