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Investing In... 2022

Egypt: Trends & Developments
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Trends and Developments

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Egypt Takes Off: Structural Reform in One of Africa's Largest Economies

Egypt has one of the largest and most diversified economies in the Middle East and the third largest economy in Africa. Despite the devastating impact of the COVID-19 global pandemic – the IMF (International Monetary Fund) estimates that the global economy shrunk by 4.4% in 2020 – Egypt remained one of the few emerging-market countries that experienced positive growth: 3.6% in 2020. As a result of the government's swift and prudent policy response, coupled with IMF support, the Egyptian economy showed resilience. The government is targeting GDP growth of 5.4% in the financial year (FY) 2021–22, up from the 2.8% expected for FY 2020–21.

Despite this, social conditions remain difficult. Around 30% of the population lived below the national poverty line even before the crisis. Egypt has been strengthening social protection by expanding existing programmes and introducing temporary mitigation measures at the outset of the COVID-19 crisis, notably targeting irregular workers.

The government embarked on the "Egypt Takes Off" programme for FY 2018–19 to FY 2021–22, followed by the newly launched National Structural Reform Programme for FY 2021–22 to FY 2023–24, in order to undertake more structural "second wave" reforms, building on pre-pandemic stabilisation reforms. Government programmes aim to build on the earlier "State Stabilisation Phase" moving toward a "Reaping the Fruits Phase", anchored in a framework that focuses on improving the standard of living of and service delivery to all Egyptians. It seeks to implement a package of structural policies to address existing imbalances, strengthen and better target social safety nets, and develop human capital.

A tax exemption was provided on real estate for the industrial and tourism sectors, subsidy payments to exporters were increased, and discounts on fuel prices were introduced for the aviation sector. Support has also been provided to special economic zones, with their exports exempt from value-added tax.

Reducing the role of the state in the economy, improving the business environment, and increasing Egypt's integration into the global trade network by reducing trade barriers and ensuring predictability of customs procedures will also be critical to unleash Egypt's enormous growth potential, reduce poverty and improve inclusivity.

Developing infrastructure

Over the last few decades, public infrastructure investment in Egypt has been decaying, and the decline has not been compensated by an increase in private investment. However, things are changing. According to the Minister of Planning and Economic Development, infrastructure investment has soared by USD143 million over the past seven years, marking an increase of 340% since FY 2015–16. The coming fiscal year marks the last year of the government's medium-term development plan. Priority will be given to funding existing projects which are expected to be completed during FY 2021–22. The major spending areas will be agriculture, industry, energy, and construction, which together account for 38% of total investment. Transport alone remains the single-largest recipient of infrastructure investment, followed by construction and energy. Please see below a summary for each major sector.

Construction

Egypt completed infrastructure projects worth USD106.25 billion in less than two years, and this sector is projected to grow 9% on average between 2020-2024. Growth will be driven mainly by public-private partnerships and green building expansion.

The Egyptian government is a massive investor in the construction sector. A high-profile example is the massive New Administrative Capital (NAC), 30 miles east of Cairo. The first phase of the project, which includes all government cabinet ministries and authorities, is almost complete and the government is expected to relocate by the end of 2021. Egypt has a plan to build up to 14 new smart cities throughout the country. The government is also upgrading airports, ports, and transportation networks, with a priority on connecting cities with decent means of transportation and developing roads and ports for industrial expansion.

The Egyptian government is seeking to support manufacturing infrastructure by developing industrial complexes and cities; in the past six years, 17 industrial complexes have been established. The Egyptian government aims to spend more than USD11billion over the next three years in regional villages on various infrastructure projects, with a special focus on education, health, and sanitation.

The New Urban Communities Authority (NUCA) has plans to build additional new cities that incorporate schools, hospitals, shopping centres, and entertainment facilities. This authority is responsible for developing these new cities and connecting them to already existing infrastructure. NUCA is encouraging private investors to participate in the development of these new cities by providing the basic infrastructure.

Healthcare

Healthcare investment will increase by 205%, at USD3.02 billion for FY 2021–22. The investment strategy will prioritise building an additional 23 hospitals, which are 70% complete at this point, increasing the number of intensive care unit intensive care unit (ICU) beds nationwide by 55% to 8,100 and the number of incubators by 10% to 5,300. With an eye to making Egypt self-sufficient in plasma derivatives, the government is planning to build 20 plasma collection centres, 14 of which will be completed in FY 2021–22. USD63million will be dedicated to enhancing the capacity of hospitals, including 23 chest hospitals and 42 fever hospitals — both of which are critical in treating hospitalised COVID-19 patients.

There are also ongoing investments in infrastructure for the universal healthcare scheme, including developing 38 hospitals and 30 primary care units in eight governorates.

Transportation

Investments in roads and bridges has increased by more than 90% over the past three years to reach USD1.79 billion in 2020, from USD0.89 billion in 2018. The budget for the transport sector for 2022 is USD15.59 billion, which covers roads, bridges, and river ports, as well as projects under the National Authority for Tunnels. Some of the major projects include developing 106 km of the Cairo Ring Road, as well as the (USD700 million) development of 350 km of highways (Fayoum-Wahat, Assiut-Sohag-Red Sea, and Suez-Geneifa-Ismailia), and building three new axis roads (King Salman, Autostrad Fardous, and Matrouh-Siwa) spanning a combined 324 km, at an expected cost of USD1.8 billion. Also, another USD15.6 billion is earmarked for 15 bridges to replace ferries.

The transport budget also covers the electric rail, monorail, and metro projects under the National Authority for Tunnels' purview, which is getting USD7.192 billion. These include a high-speed electric railway (USD23 billion), as well as the monorail which will connect 6th of October City to Giza and Nasr City to the NAC (USD3.5 billion). These projects are particularly important as the NAC is expected to be opened in June 2022 as ministries move their offices to the city, meaning the government needs to provide workers with transport options. In addition, the Cairo Metro Line 3 upgrade/extension, and the first phase of Line 4, are both slated for completion in FY2021–22.

The National Railway Authority is getting USD1.714 billion for railway projects, including developing 1,100 level crossings and signal systems, and completing the 490 metre Qanater Khairiya bridge. This is part of a ten-year (USD14.2992 billion) plan to upgrade the country's rail network, due to finish in 2024.

Education

USD3.5 billion is earmarked for 93 new schools in under-served areas and 3,100 mobile classrooms. In response to the pandemic pushing major examinations online, a USD63 million investment will provide 600,000 tablets for school students and will digitise 154 examination centres in universities. The government is also planning to complete the construction of three public universities and build two new universities across governorates, in addition to setting up 12 new non-profit private universities and operating nine digital universities.

Irrigation

As negotiations over the Grand Ethiopian Renaissance Dam continue to be stuck at an impasse, and the country faces the threat of a decreased water supply, water projects are getting a 67% year-on-year investment increase to reach USD1.3 billion. These projects – including extending the existing water network and expanding its capacity – should cover the potable water needs of about 99% of the population. Meanwhile, on the agriculture side, the water resources and irrigation budget has been set at USD1.3 billion with the aim of increasing Egypt's output and efficiency by developing irrigation systems, introducing water-saving techniques, and developing canals.

Digitalisation of the Egyptian economy

The information and communications technology (ICT) sector in Egypt is very robust, with a growth rate higher than Egypt's overall level of GDP growth, equivalent to 15.2% in FY 2019–20. Its contribution to GDP increased to 4.4% in fiscal year 2019–20 compared to 3.5% in 2018–19. Total investment increased by 35% in 2019–20 to reach (USD3.5 billion). Under its ICT 2030 strategy, the Egyptian government is undertaking capacity-building and training programmes, digital government services reforms, and infrastructure upgrades. The new initiatives seek to maximise the contribution of the ICT sector to Egypt's economic growth by focusing on capacity-building, electronics design and manufacturing, and technology parks. The strategy also includes a plan for the digital transformation of core government services, in education and healthcare, for example.

The Ministry of Communication and Information Technology (MCIT) has an initiative called "Our Future is Digital" which aims to train 100,000 young Egyptians and develop their ICT skills in areas of high market demand, including website design, data analysis, and digital marketing. In 2020 the MCIT also launched the "Our Digital Opportunity" initiative to engage small and medium-sized enterprises (SMEs) in the digital transformation process. The MCIT's Digital Egypt Project aims to supply all government entities with fibre-optic cable connections. This process has been completed in 5,300 government buildings across Egypt, and when completed, will connect some 32,000 buildings at a total cost of USD375 million.

The NAC is expected to eventually house most central government offices. The NAC is to be a "Smart City" and the government is investing heavily in the new city's telecommunications and ICT infrastructure. The first phase of "Knowledge City", located inside the NAC and estimated to have cost USD750 million, is now complete. It will include applied research centres for technology to facilitate technical training, software and application development, and data design. The MCIT is also working on developing six technology parks in the cities of Minya, Menoufiya, Mansoura, Sohag, Qena and Aswan. These parks are aimed at supporting entrepreneurship and innovation and will consist of hardware design labs, start-up incubators and training institutions, and integrated systems for AI training, data science, and cybersecurity.

In June 2020, the Egyptian government announced a plan to improve the infrastructure for internet services by increasing average internet speed. By April 2021, internet speed had reached an average of 39.6 Mbps, an increase from 6.5 Mbps in January 2019. A further investment of USD63 million was announced to update mobile networks on arterial roads and other areas in Egypt. Furthermore, new frequencies were allocated to mobile network operators and the National Centre for ICT Services Quality Control and Monitoring was established to govern mobile telephone services and protect users.

Decent Life (*Haya Karima*) is a presidential initiative to raise the efficiency of the telecommunication infrastructure in villages. This initiative has three main pillars: connecting villages with fibre optic cables for better internet speed and stability to cover over one million homes; developing 906 post offices that will include ATM machines; and improving telecommunication services by creating mobile telephone stations in villages. In June 2020, the National Telecommunication Regulatory Authority launched its Mobile Number Portability (MNP) service, which enables mobile telephone subscribers to retain their phone numbers when switching network service providers.

In terms of regulatory framework, a data privacy protection law was approved by parliament in July 2020, which follows the GDPR. There are also other regulations under discussion such as data classification and data localisation. There is a free trade agreement with Europe which makes telecommunications products from European suppliers' duty free. A draft law that would regulate the fintech space received preliminary approval in late October 2021. The new law would, if passed, regulate the use of fintech to deliver non-banking financial services (NBFS) in a bid to promote financial inclusion and expand the number of beneficiaries. Under the bill, the Financial Regulatory Authority (FRA) would be the sole entity in charge of licensing and regulating fintech companies. It would also set transparency and governance standards and be charged with protecting consumer rights. The new regulation covers crowdfunding, robo-advisory, nano-finance and insurtech, and introduces penalties for regulatory breaches including imprisonment or fines of USD12,000–63,000. The FRA completed the first draft of the bill in July before approving and sending to lawmakers.

In 2019, Egyptian start-ups sealed 142 deals worth USD95 million, meaning that the country ranked first by number of deals in the MENA region, surpassing the United Arab Emirates for the first time. With nearly two thirds of these deals closed by foreign investors, the country is becoming a more attractive destination for businesses. Boosted by one of the biggest youthful populations in the world, Egypt could become a hub of innovation and entrepreneurship, with household start-up names such as Swvl, Harmonica, Rise up, Bekia, Elves and Hitchhiker.

Six Egyptian start-ups – Trella, Bosta, Mozare3, Brimore, Teegara, and Koinz – are looking to raise a combined USD250 million in 2022. Trella closed one of Egypt's biggest series A rounds this year in June, and currently operates in Egypt, the UAE, Saudi Arabia, and Pakistan. Courier start-up Bosta is looking to finalise its planned launch in the UAE and Saudi Arabia in late 2021 or the first quarter of 2022. Food-delivery turned loyalty and engagement app Koinz plans to expand its footprint in its current markets, Egypt and Saudi Arabia, and to double its app users to reach 2 million. The platform recently reported raising a USD4.8 million seed round led by Tinder founder and former CMO Justin Mateen. Agri-fintech start-up Mozare3 plans to establish food preparation and packaging stations and expand its footprint to 15 Egyptian governorates in 2022, from seven currently. The company recently landed a seven-figure pre-seed investment. Meanwhile, e-commerce start-up Teegara wants to grow the number of local factories it works with and nearly triple the products on its platform. The B2B marketplace recently closed a five-figure pre-seed round led by Alexandria Angels Network, and angel investors from Saudi Arabia, Egypt and the Netherlands. Fintech newcomer Klickit has closed its first investment round led by EFG Hermes. It will use proceeds to enhance the platform's tech stack, which will be integrated with EFG's value consumer finance arm.

Green finance

The green movement has been slow to catch on in Egypt, but the January 2021 announcement by the Egyptian government that it is finalising plans to launch the country's first green bonds could provide the financial incentives to further promote sustainable development. "Sustainability" is one of the fastest growing sectors globally, estimated to reach as much as USD12 trillion annually by 2030. With major infrastructure development planned, a sophisticated financial sector, and significant vulnerabilities to climate change, Egypt should move full steam ahead in embracing green finance.

Egypt could have an early mover advantage by expediting plans to develop a sustainability strategy, of which green bonds would be one aspect. The global bond market was worth over USD115 trillion in 2019, according to mid-year figures, and green bonds are one of the fastest growing segments. Although they still only account for less than 3% of traditional bonds, green bonds issuances increased by 31.5% in 2019. There is a tremendous potential for expanding the green bonds market in Egypt as more investors are seeking these opportunities.

Few emerging markets besides China have embraced green bonds as a means of raising capital, and many governments will struggle to provide even 20% of the financing needed to meet their sustainability goals. One of the often-cited barriers to growth for this new market segment is finding qualified projects, and this provides an opportunity for Egypt as significant new planned infrastructure development could be a competitive advantage.

The construction sector accounts for the largest share of carbon emissions at approximately 40% of global greenhouse gas emissions. If the new cities discussed above are not built in a sustainable manner, their construction would be a drag on economic growth through heavy energy use – typically over 35% for buildings but estimated to be higher in Egypt – and further contributing to the rise in air pollution. This negative could be turned into a positive, however, if the planned creation of new cities can be used to attract foreign investors seeking green projects. The Sisi administration has planned the development of several new cities, including the NAC, which alone is estimated to cost USD45 billion. It would require, however, that the government develop – and enforce – global sustainability guidelines. By insisting that the developers use methods to ensure buildings are green, such as installing smart metering to better control air conditioning, promoting solar panelling for energy, and using green roofs to reflect sunlight – to name just a few examples – the government can achieve a twofold objective. It could both improve the environment and establish the NAC as a model showcase for Egypt's commitment to the sustainability agenda. There is also the added benefit of providing quality projects for investors seeking qualified projects for green financing.

There is an easy place to start. China State Construction Engineering Corporation (CSCEC), one of the biggest builders of green infrastructure in the world, has been granted the concessions to build significant parts of Egypt's new capital. As an important hub on China's Belt and Road Initiative (BRI), the Sisi administration should use this showcase project to signal Egypt's strong intention to promote sustainable policies in infrastructure and more broadly, and encourage CSCEC and other firms to build to the highest of green standards.

In addition, there is plenty of private sector financing available for sustainable infrastructure projects, with demand coming from Western investors chasing limited opportunities. Egypt could take advantage of this demand to expedite its own issuance of green bonds.

Egyptian Exchange deregulation

The September 2021 announcement that the government would introduce a 10% tax on capital gains made by resident investors did not go down well with retail investors or the securities industry. Furthermore, a new plan was floated to place caps on margin trading, prohibiting investors from either purchasing more than 3% of a company's market cap or 5% of its free float shares (whichever was higher). Companies would be restricted from having more than 15% of their outstanding shares held on margin or 30% of their publicly traded shares (whichever is higher). Retail investors account for most of the activity in the market on most days, and pundits worried the proposed cap on margin trading could depress trading activity if it came into place at the same time as the 10% capital gains tax (CGT).

As a result, Egyptian Exchange (EGX) fees are to be cut and planned caps on margin trading could be delayed as the government looks to cushion the impact of the planned capital gains tax on EGX trading. Policymakers recently agreed to cut trading, clearance, and regulatory fees by 20% and to delay by six months the introduction of new restrictions on how much investors can borrow to trade shares. In addition, all fees will be classified as expenses, meaning investors paying taxes in Egypt will be able to use them to offset their tax bill.

Conclusion

Although Egypt has witnessed unprecedented political and economic challenges since the revolution in 2011, which continues to frustrate many, it has amplified hope in others, encouraging them to build new ventures to push Egyptian economy and society toward a better future.

Despite the pandemic and the unstable geopolitical circumstance in the Middle East, Egyptians and their government hope that new trends and efforts in the market will have the potential to create a more inclusive, sustainable economy, resulting in better living conditions for all Egyptians.

Matouk Bassiouny is a leading, full-service Middle East and North Africa region law firm with offices in Egypt (Matouk Bassiouny & Hennawy), United Arab Emirates (Matouk Bassiouny), Sudan (Matouk Bassiouny in association with AIH Law Firm), and Algeria (Matouk Bassiouny in association with SH-Avocats), as well as a country desk covering the firm's Libya practice. Its attorneys specialise in advising multinationals, corporations, financial institutions and government entities on all legal aspects of investing and doing business in the MENA region. The Corporate and M&A practice group's primary goal is to provide top-level general corporate and M&A advice to clients. Headed by Omar S. Bassiouny, founding partner, and Tamer El Hennawy, group co-head, the Corporate group consists of 13 partners and over 70 fee-earners. The team, consisting of Arabic, English and French-speaking lawyers, advises clients throughout the MENA region on a wide range of transactions.

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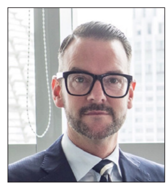

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