



EGYPT

Covid-19 Recovery Roadmap

In collaboration with



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Pre-Covid-19 Macroeconomic Overview

Egypt has carried out a series of structural reforms over the past two decades, culminating in the most recent fiscal, monetary and sector reform programme backed by a \$12bn loan from the IMF, the last tranche of which was released in July 2019.

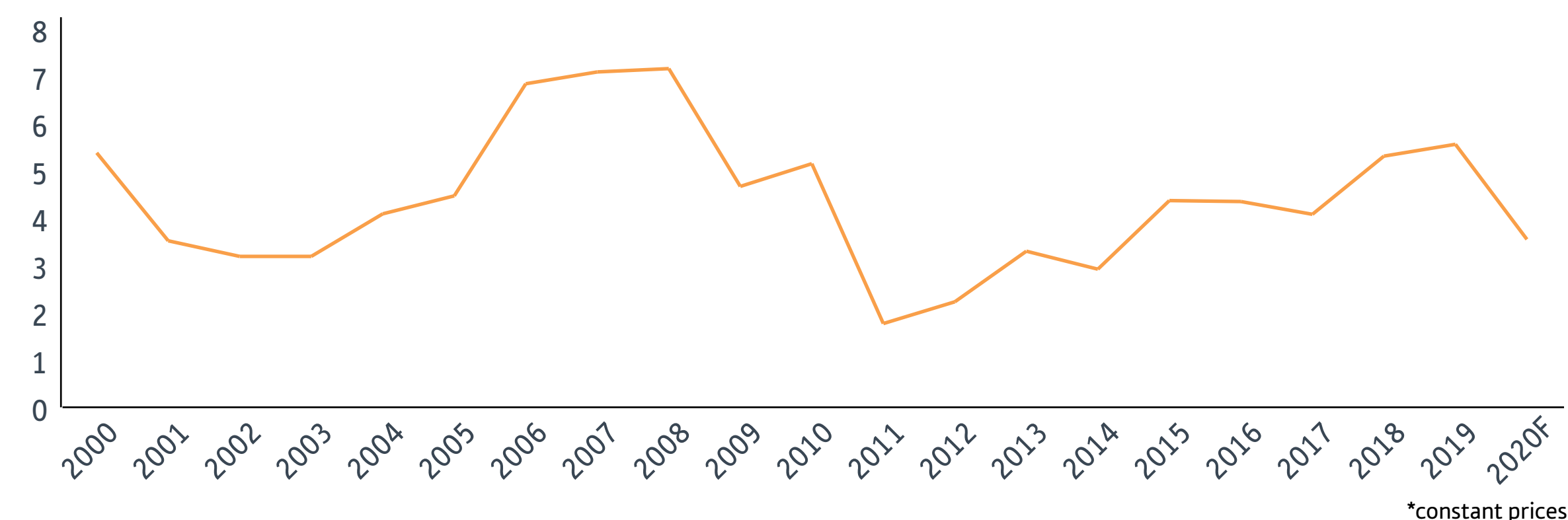
The programme began with the flotation of the Egyptian pound in November 2016, aimed at improving macroeconomic stability and reducing the debt burden by eliminating the challenge of maintaining a peg to the US dollar. This move has helped to promote the export competitiveness of locally manufactured products, and attracted domestic and foreign investment. At the same time, government mega-projects in recent years have improved the availability of power, strengthened the road network and developed the country's logistics infrastructure to keep pace with the needs of a rapidly growing population.

In addition to fiscal and monetary measures, a new investment law was rolled out, which has

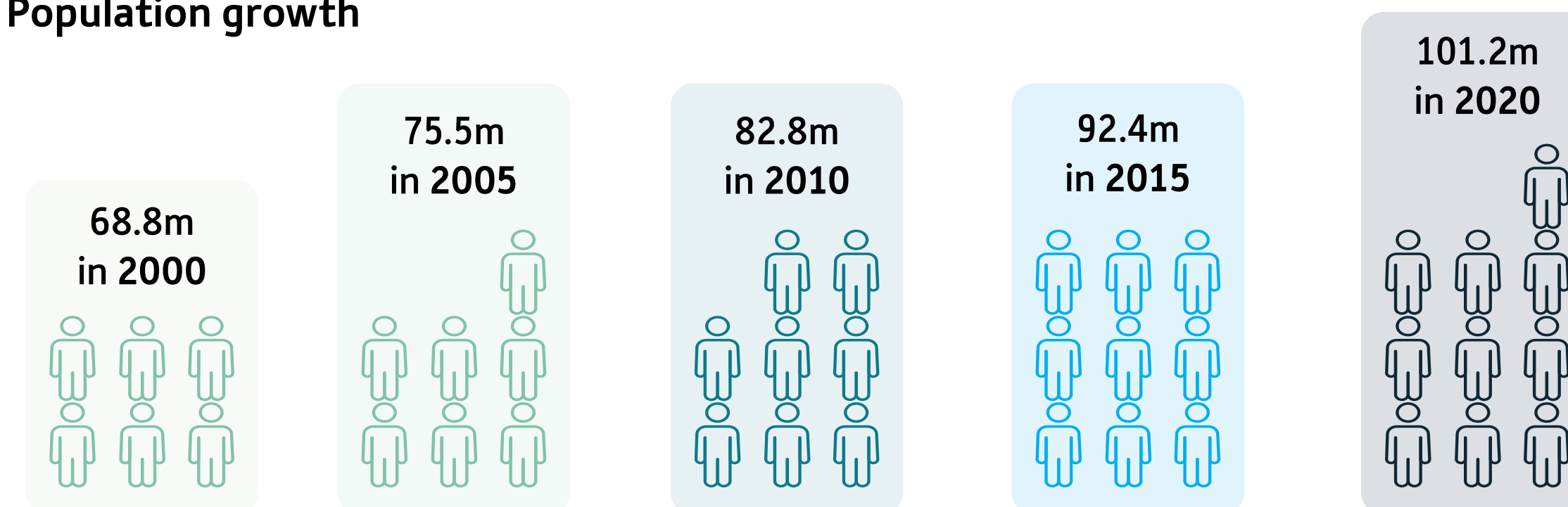
strengthened the regulatory environment and contributed to Egypt's rise in the World Bank's ease of doing business rankings, from 131st out of 189 in 2016 to 114th out of 190 in 2020. Central to these reforms was the recognition of the important role played by the private sector in achieving the growth and job creation required to continue to improve Egyptians' standard of living.

"The future of Egypt will depend on sustaining economic growth and creating the right types of jobs to support a growing population. With close to 1m new graduates entering the job market each year, the government cannot supply these jobs; the only option is to create permanent jobs in the private sector," Mohamed Maait, minister of finance, told OBG in 2020. "This is why we need to encourage private sector participation through reforms that make the business environment more attractive in every sector of the economy – whether it is oil and gas, tourism, manufacturing, ICT, construction or logistics," he added.

GDP growth*, 2000-20F (%)



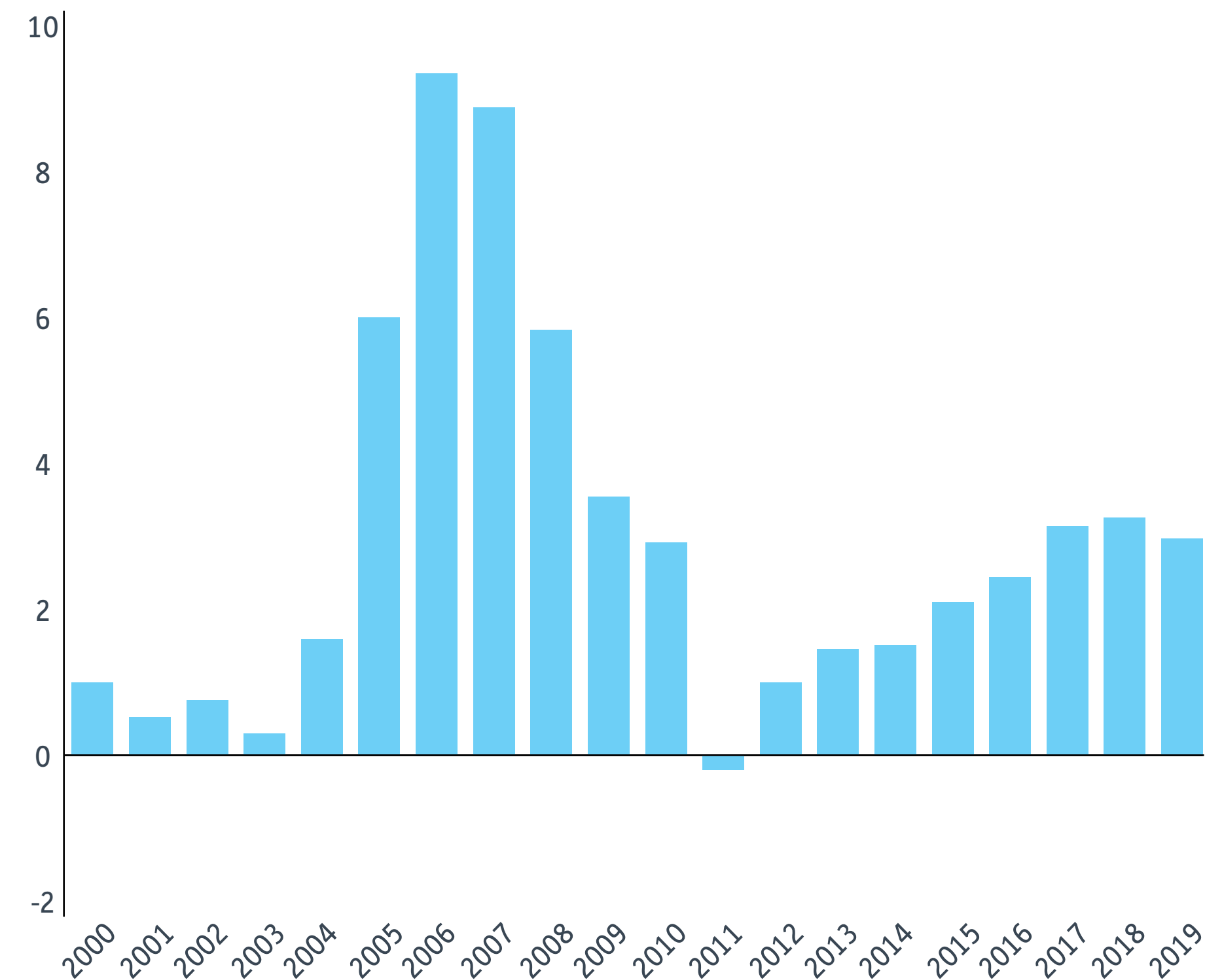
Population growth



Part 1: Economic Foundations

Legacy of Reforms

Foreign direct investment inflows, 2000-19 (% of GDP)



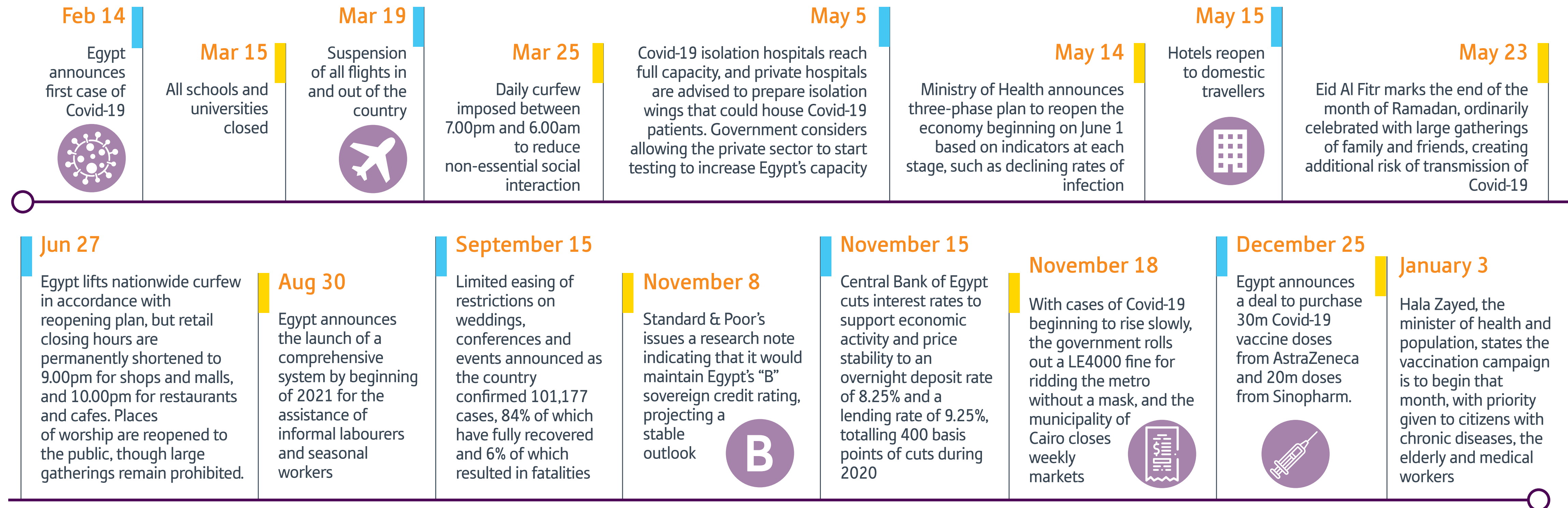
While these measures helped make Egypt the number-one destination for foreign direct investment in Africa and second in MENA in 2019, they have increased pressure on spending power. Following flotation, the Egyptian pound lost 45% of its value against the US dollar and inflation rose to 33%; it took until November 2019 for corporate earnings to catch up to pre-flotation levels, according to Bloomberg. Between 2015 and 2018 household incomes rose by 33% in local currency terms, while falling by 20% in real terms.

In 2015 with \$400m in support from the World Bank, the Ministry of Social Solidarity rolled out the Takaful and Karama (Solidarity and Dignity) programme as a social safety net for those in need, designed to increase food consumption and reduce poverty, while improving the chances children stay in school. As of February 2020, 2.5m families – equivalent to over 10% of the population – were benefitting from the cash transfer programme. Importantly, the underlying infrastructure of these programmes enabled the government to effectively target vulnerable segments with stimulus measures when the pandemic hit.



Part 1: Economic Foundations

Timeline of Measures



Part 1: Economic Foundations

Fiscal and Monetary Response

Key economic stimulus and financial measures



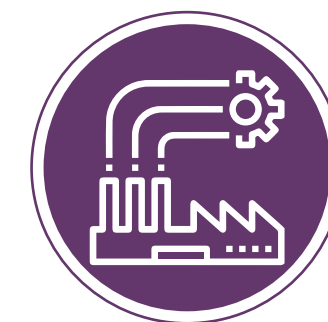
\$6.4bn economic stimulus package introduced

LE8bn designated for the purchase of medical supplies and medical staff bonuses



LE500 monthly cash disbursement programme for affected workers

Price of natural gas and electricity for industrial businesses **reduced from \$5.50 to \$4.50** per 1m British thermal units



The Covid-19 pandemic hit just as the reforms of the previous years were set to begin paying off, with consumer demand rising as salaries caught up to their pre-flotation levels.

However, thanks to the improved fiscal position of the country and the steps taken to increase regulatory efficiency, financial inclusion and digitalisation, Egypt was well placed to take the measures necessary to respond effectively. This required a coordinated response by the government and the private sector.

The Egyptian government sought to strike a balance between mitigating the spread of the virus and allowing the economy sufficient operating room to sustain the livelihoods of workers and employees.

Following the initial closure of schools and universities in mid-March 2020, along with the suspension of international flights, the government imposed a curfew designed to reduce non-essential social interaction.

Steps taken by the Central Bank of Egypt

1



Interest rates reduced by **three percentage points** to stimulate economic growth

2

All credit entitlements for institutional and individual clients **postponed for six months**



3



Procedures to reduce cash transactions and facilitate the use of electronic payment methods and tools, including through the **elimination of fees**

4

Financing for strategic goods imports for sectors and companies most affected by the pandemic



5



LE20bn allocated to support the Egyptian Exchange

Public Health Response

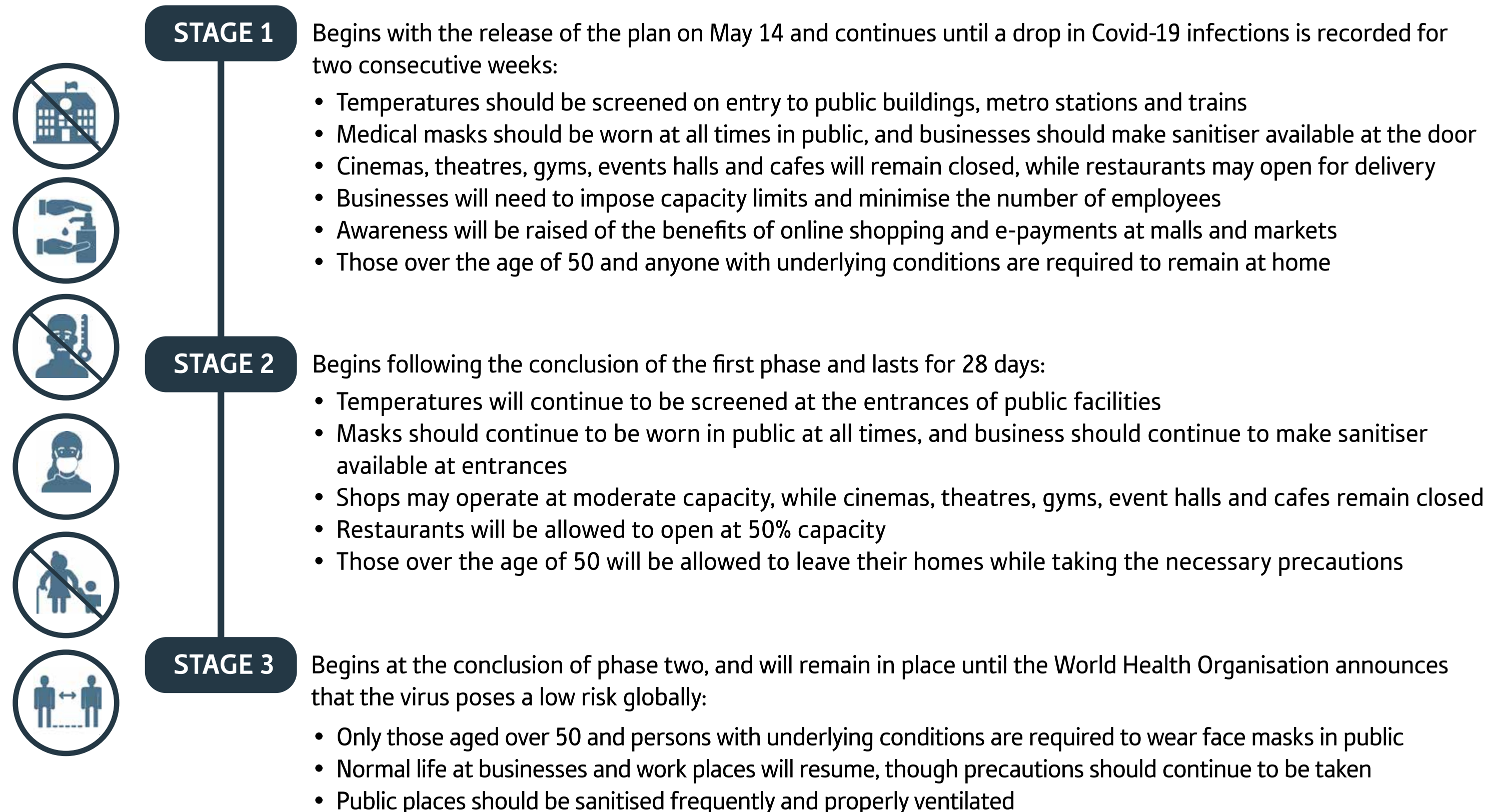
General Regulations for Entities

- The following entities were closed for in-person operations during the Covid-19 pandemic: cinemas, theatres, cafes, restaurants, universities, schools, nurseries, gyms, sporting clubs, and wedding and funeral halls
- Businesses were required to raise awareness among employees on combatting infection
- Anyone infected at a business should be isolated in a room allocated for that purpose
- Sanitisers, napkins and good ventilation should be provided, and signs placed to show adequate safe distance between workers

General Regulations for Individuals

- Medical masks should be worn when leaving the house and using public transport
- Persons above 50 years of age should leave home only in cases of necessity
- Those who feel symptoms should self-isolate at home and contact the hotline 105
- Maintain safe distance from others (not less than 2 metres)
- Clean and sanitise surfaces regularly
- Use tissues when coughing and sneezing
- Family members without virus symptoms should deal with delivery personnel

Ministry of Health Reopening Plan



Rania Al Mashat

Minister of International Cooperation

In what ways have recent reforms helped Egypt effectively respond to the pandemic?

During the period of reforms there was also a number of important development projects taking place with international partners across education, social solidarity, renewable energy, transportation and water treatment. This programme was successfully concluded in July 2019, which meant that coming into 2020, economic forecasts were very positive and the government was in a strong fiscal position. When the pandemic began, due to the reforms and development projects that had been carried out, Egypt was very well situated to take the measures necessary to mitigate the health and socio-economic impact of the virus. Egypt has been through similar stress tests before – in 2008 with the global financial crisis, and in 2011 and 2013 – and through those times infrastructure improved, reforms were implemented and social housing built. While there is no similar experience to draw from in terms of handling the pandemic, Egypt has a strong track record of resilience. This is demonstrated by the country's GDP growth performance, which was one of a few globally that remained positive in 2020.

How has the government balanced its priorities regarding the UN Sustainable Development Goals (SDGs) with the required response to Covid-19?

From the beginning of the pandemic we have heard that the world is moving away from multilateralism and that each country is on its own, but in fact the opposite is true. Now is the time for cooperation, and Egypt has tried to bring everyone around the table: first by creating a multi-stakeholder platform for health, transportation, agriculture, private sector engagement and more, and second by taking our current portfolio of development assistance, which is close to \$25bn, and mapping it onto the UN SDGs.

These goals provide a common denominator for global engagement and make global priorities very individual for the citizens of each country. Everyone wants to have access to clean water, quality education and gender equality, so instead of talking about projects it is important to understand these within the framework of the SDGs. In the years ahead development finance will play an important role in achieving the SDGs across the health care sector, and climate change and energy.

To what extent did the government work with other stakeholders to support the economy during 2020?

In collaboration with other ministries and international partners, we have been able to secure \$7.3bn for Egyptian health, education, gender equality, transportation, housing and small businesses since the beginning of 2020. Of this, \$2.7bn was for the private sector through direct financing for firms, or via credit lines to banks to lend to small businesses and other private entities. This is a big bet on Egypt's future not only by the government, but by the boards of development agencies whose votes show that they see reforms and the potential to push these successes further. Employment is a key consideration; many of the infrastructure projects being undertaken are labour intensive and involve private companies across various sectors. This is one of the reasons that it was so important for work on these projects to continue despite the pandemic. It is through these mega-projects that the government is building infrastructure such as the Benban Solar Park, which involved the private sector, and the 6th of October dry port, which will allow private companies to help meet market demand.



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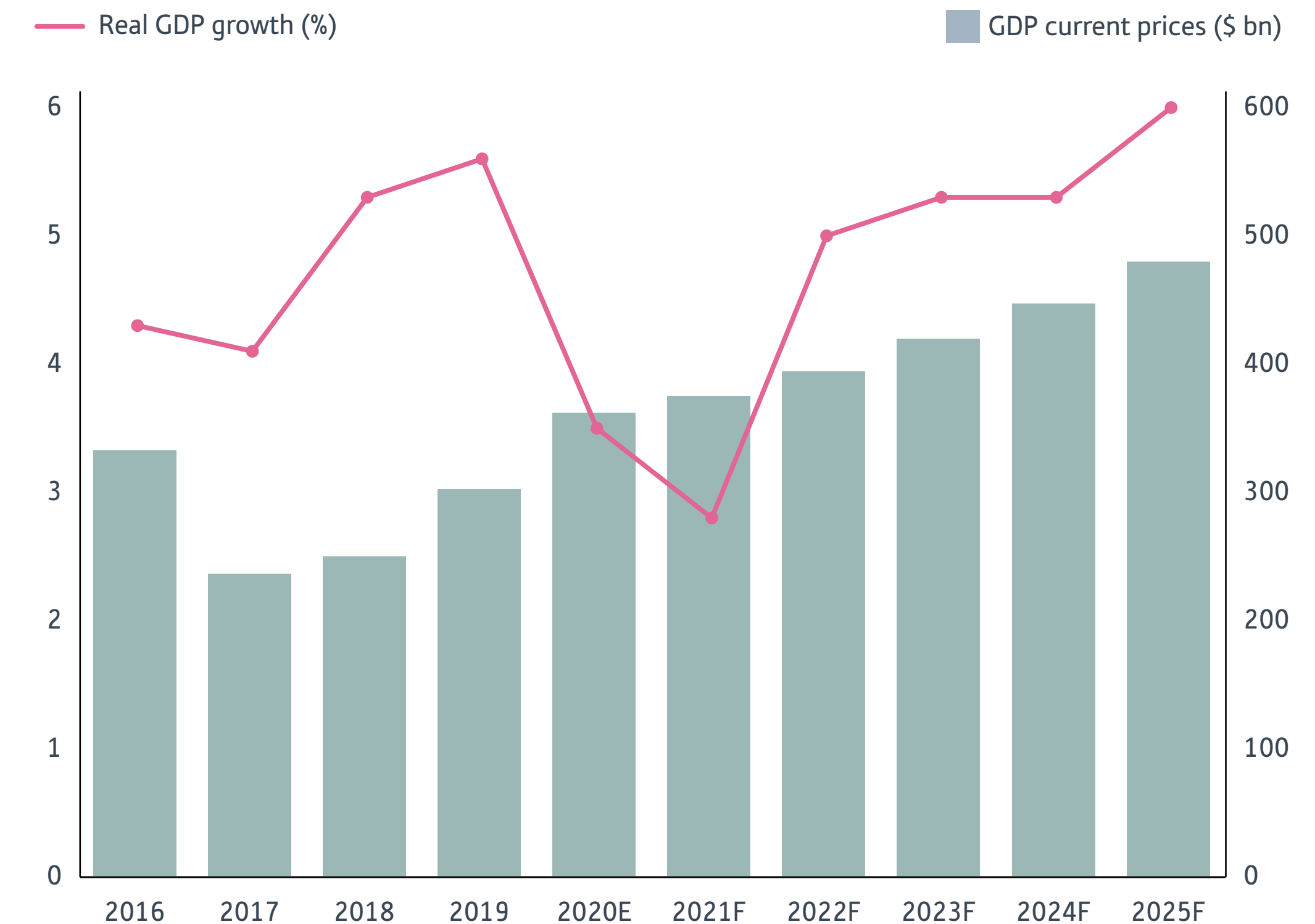
Part 2: Sector Mobilisation

Nationwide Mobilisation



Prior to the spread of Covid-19 throughout Egypt in early 2020, the country's economy was among the fastest growing in Africa and the Middle East, averaging growth of 4.4% in the 2000-19 period, according to the IMF. However, the pandemic saw growth projections revised downwards from 5.9% in 2020 and 6% in 2021 to 3.5% and 2.8% in 2020 and 2021, respectively. Despite the clear impact Covid-19 has had on growth, the fact that figures remained positive highlights the resilience of the economy emerging from an IMF-backed reform programme. Now, Egypt is likely to benefit from the enhanced progress in many sectors that has resulted from the pandemic. In particular, digitalisation and automation have been catalysed by the need to preserve continuity of many businesses' operations. The increased competitiveness that will likely result from the widespread adoption of these practices is expected to lead to long-term economic benefits. ICT and retail services have soared as health and social behaviours have shifted, ranging from remote working to the greater uptake of e-commerce. With its geographic location, large local market, diversified manufacturing base and quality infrastructure, Egypt has a lot to offer companies looking to diversify production outside of China.

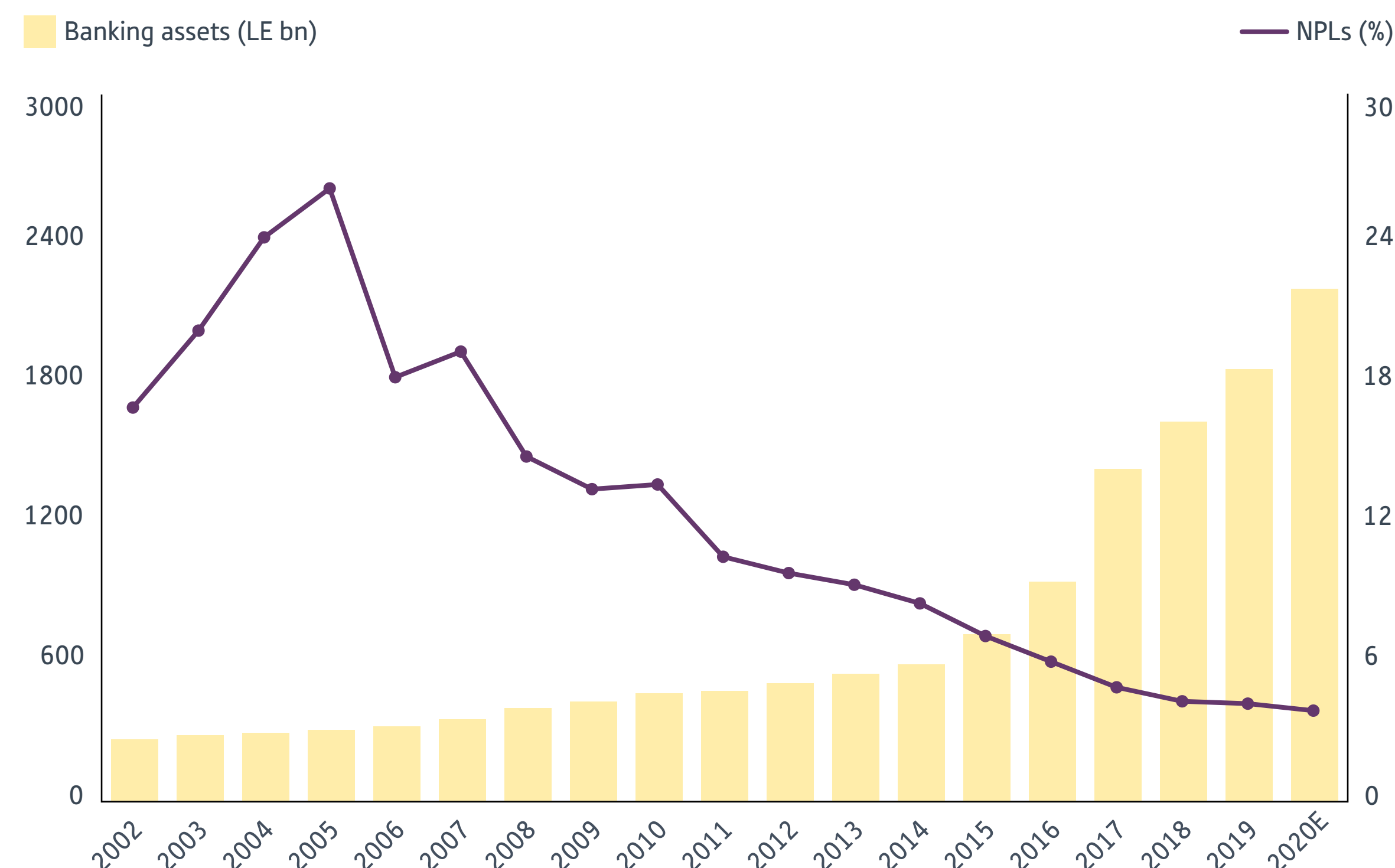
Egypt economic indicators, 2016-25F



Part 2: Sector Mobilisation

Financial Services

Banking assets & non-performing loans (NPLs), 2002-20E



Egypt's financial services sector has been central to the country's ability to weather a number of periods of volatility over the past two decades. Its skilled and knowledgeable workforce, along with the sector's liquidity and regulatory framework, bode well for the industry's continued advancement.

The banking sector undertook a number of reforms, which began in 2004, resulting in a consolidated market. As of 2020 the sector is composed of 38 banks licensed by the Central Bank of Egypt (CBE). The conservative approach of the CBE, which introduced the International Financial Reporting Standards 9 in 2018, has improved the sector's liquidity, and banks have seen improved profits following the devaluation of the Egyptian pound in 2016.

Nevertheless, while accounts have grown, borrowing has increased and non-performing loans have fallen, significant opportunities for growth still exist within the banking sector. According to the World Bank, the number of Egyptians with a bank account has risen steadily

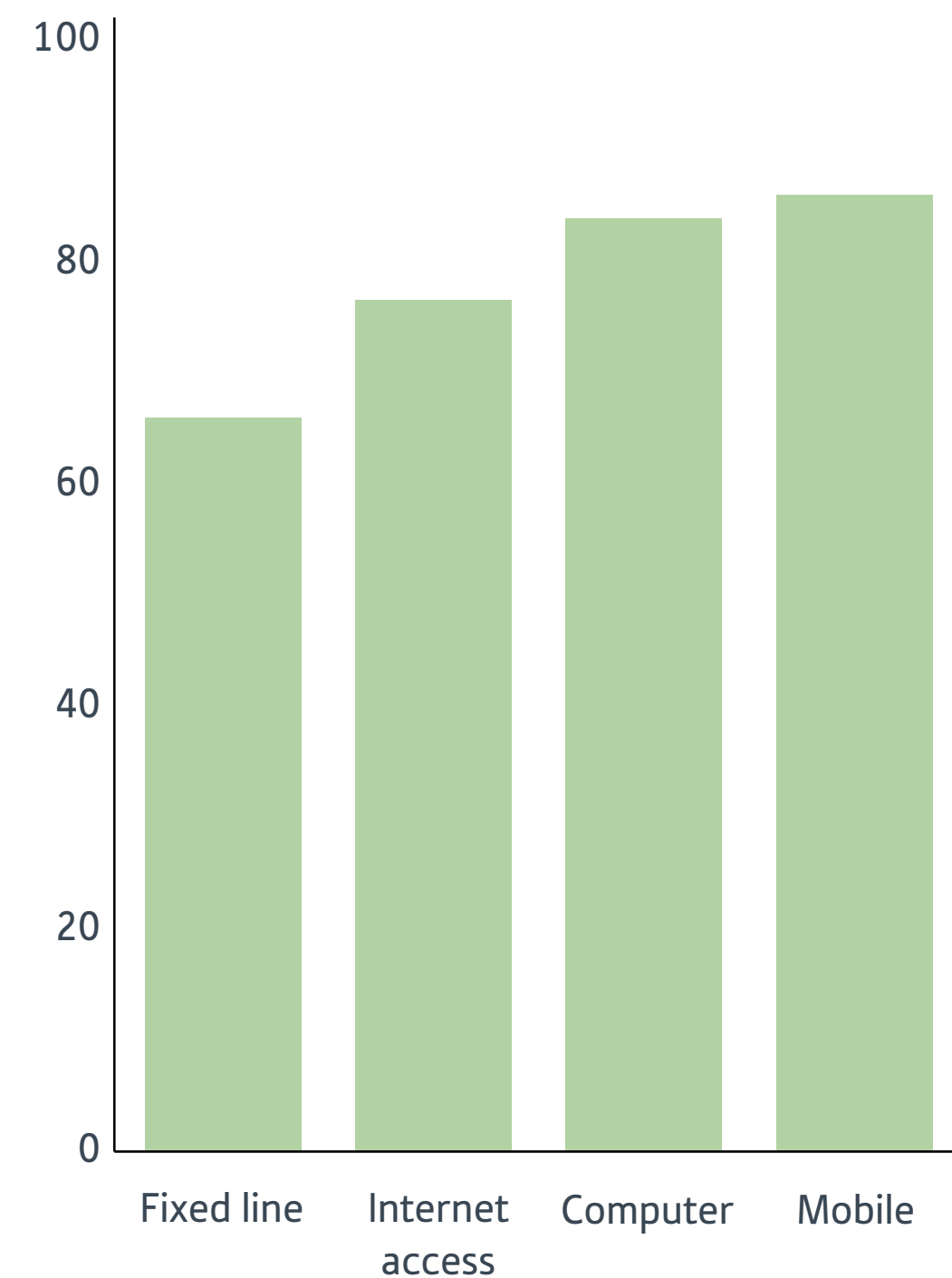
from 9.7% of the population aged 15 and over in 2011 to 14.1% in 2014 and 32.8% in 2017. While the trend is encouraging, Egypt's banking penetration remains significantly below that of the 43.5% average of the MENA region and the global average of 68.5%. A key priority for the government and the central bank has been to improve financial inclusion, which will not only allow for more effective taxation, but will assist with boosting economic growth as efficiency and the ease of doing business improve. The country's informal economy is made up primarily of small businesses, accounting for approximately 30-40% of economic output.



Part 2: Sector Mobilisation

ICT

ICT infrastructure in private sector enterprises, FY 2019/20 (%)



Egypt's ICT sector is a key contributor to GDP growth and has been a priority for the government as it seeks to position the country as a centre for business process outsourcing; improve government efficiency and reduce bureaucracy by digitalising processes; and prepare Egypt's economy for a future that increasingly leverages technology adoption across all industries.

The ICT sector has also played an important role in the response to the Covid-19 pandemic as companies have implemented ICT-based solutions to maintain continuity of operations in the face of health and safety measures, in addition to reaching customers in their homes.



72% of consumers in Egypt say that they are shopping more online since the onset of the Covid-19 pandemic



54% of consumers in Egypt are spending more money on virtual experiences

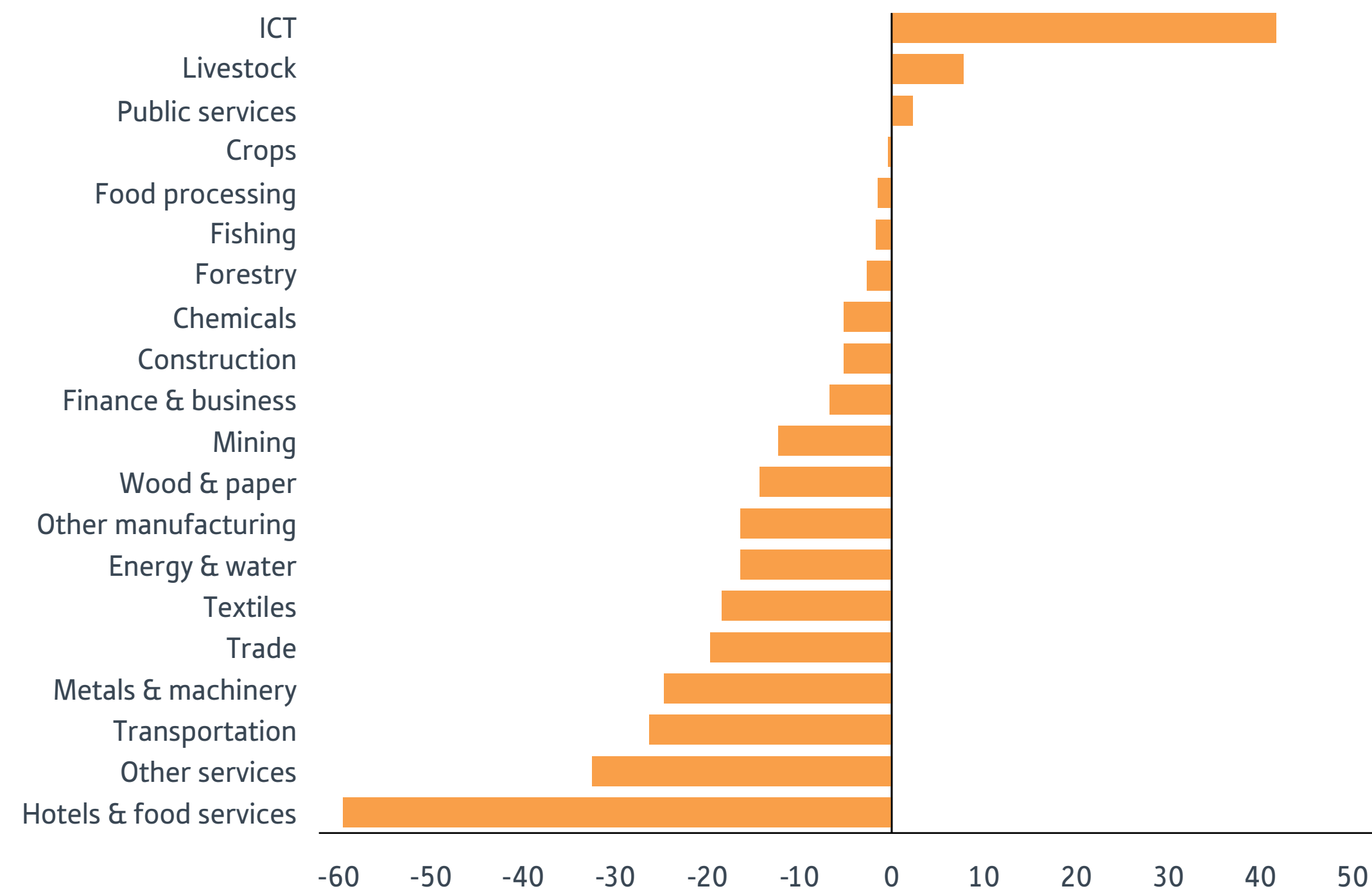


57% of consumers in Egypt are starting to bank online

Part 2: Sector Mobilisation

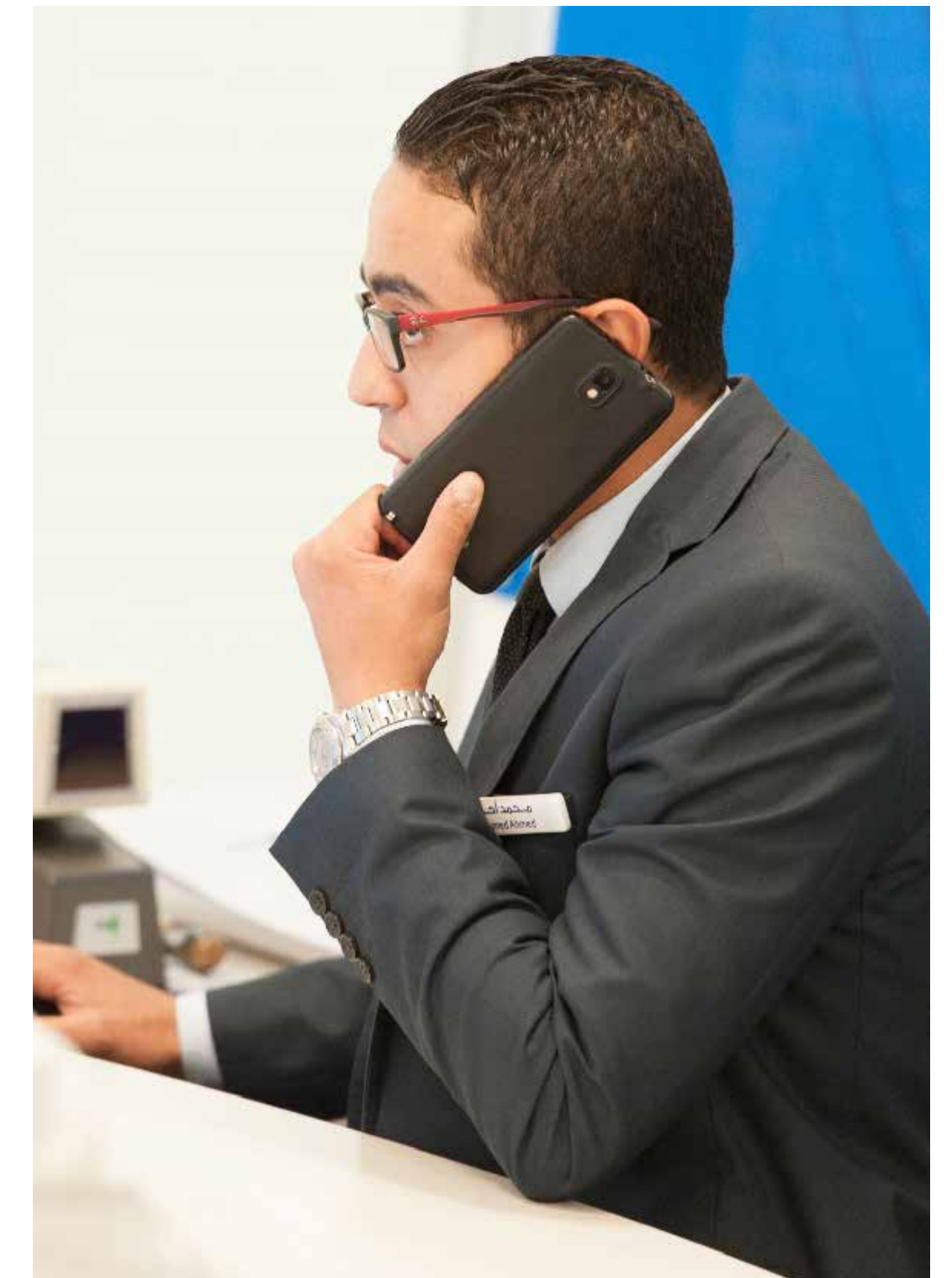
ICT

Covid-19 impact on sector GDP, Q4 FY 2019/20 (y-o-y % change)



Prior to the Covid-19 pandemic an estimated 8% of Egyptian internet users made online purchases. In a study by MasterCard, released in November 2020, 72% of Egyptian consumers indicated that they had increased their online shopping since measures to curb the spread of the virus were implemented. The same study also showed that 57% of Egyptian consumers said that they were starting to bank online. Furthermore, a study released in June 2020 by the Institute of National Planning projects that e-commerce in Egypt will grow by at least 50% as a result of the pandemic, though it highlighted that there continues to be room for improvement in the regulatory and tax frameworks for e-commerce, e-payments and e-signatures.

The growth of Egypt's ICT industry is reliant on infrastructure. Just as Egypt is at the crossroads of trade infrastructure between Europe, Asia, Africa and the Middle East, it is also at a key transit point for the global transmission of data: 17% of the world's internet submarine cables cross through Egypt, contributing approximately LE2.9bn in revenue to the country from fees in 2019.



Part 2: Sector Mobilisation

Construction



Since the country embarked on an ambitious IMF-backed economic reform programme in 2016, the government has placed a strong emphasis on infrastructure and construction as a key engine of urban growth and financial stability. Egypt's road network, power production capacity and port infrastructure have expanded rapidly, driven by population growth and a desire to increase exports.

Much of the construction sector's underlying demand is due to the growing population in conjunction with a wider drive to decentralise Cairo's population density. This in turn has resulted in the need to develop additional infrastructure to meet the requirements of the New Administrative Capital (NAC) and the fourth stage of new cities, which are set to be completed during in the 2020s.

The construction of the NAC continued during the pandemic, as did progress on the new archaeological Grand Egyptian Museum in Giza.

Case Study



Hill International is a global construction consulting firm headquartered in Philadelphia, US. The company has a long-established presence in Egypt, and has delivered transport and infrastructure projects in Egypt and the broader MENA region, including participating in the new Grand Egyptian Museum mega-project – set to open in 2021.

In addition to its impact on the tourism sector, the Covid-19 pandemic briefly delayed progress on construction projects across Egypt. As a company, Hill International coordinated its response globally and was able to draw from experiences in other markets that had been affected by the pandemic. Office positions transitioned to remote work, while work on construction sites continued with temperature checks and other measures in place.

Although the global construction industry has been somewhat slow to adopt new technologies,

on the engineering side, tools are available to enable remote work and coordinate resources across different markets. This has helped to preserve business continuity in the sector.

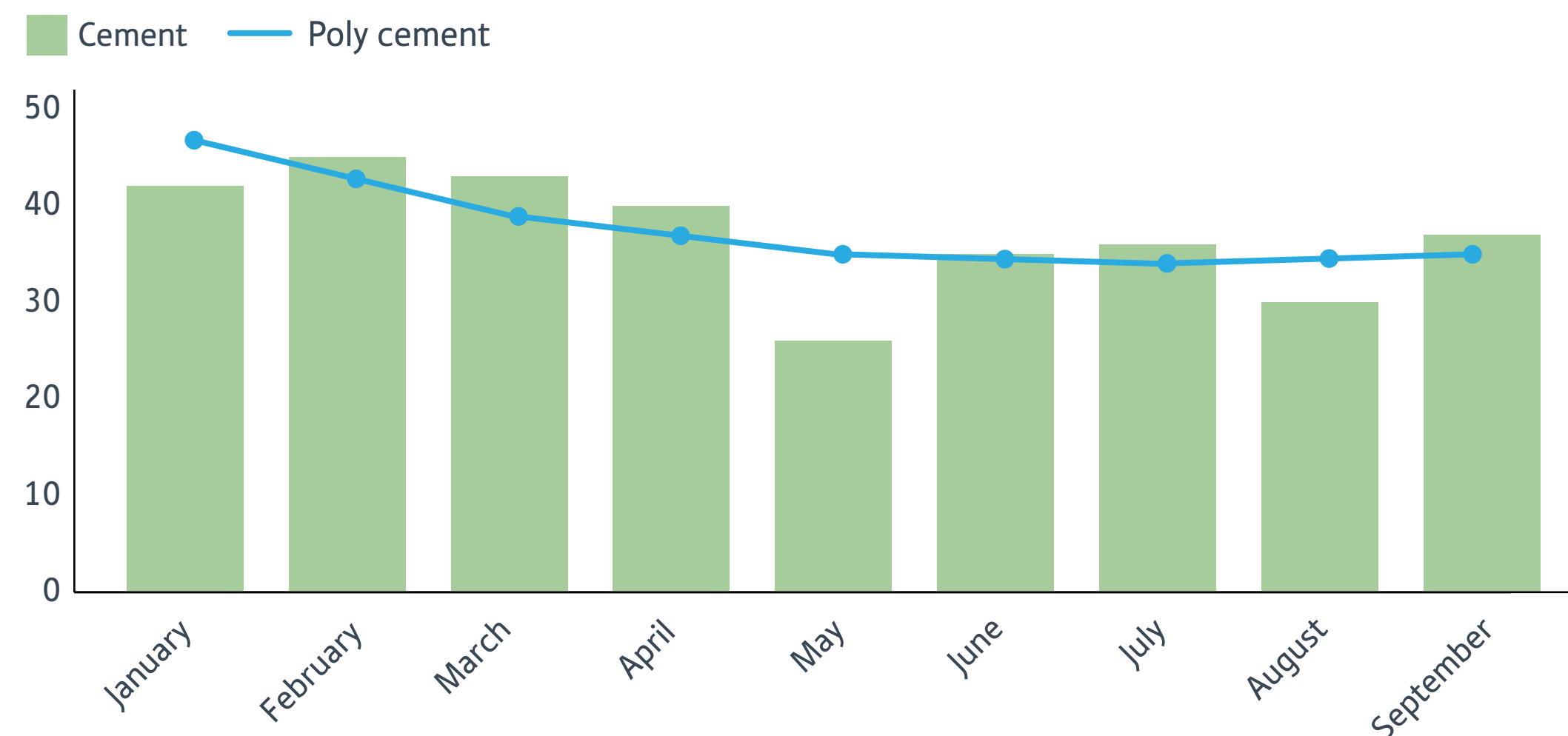
Despite the initial slowdown on projects, construction in Egypt has continued apace, with government tenders offered on key projects related to the NAC. For example, Hill International was awarded a contract to provide project management services for the renovation of the Qasr Al Ainy Hospital for Cairo University.

In addition, the company is providing project management, design review and supervision of the NAC City and 6th of October City monorail project. The estimated \$4bn transport project represents the first monorail project in the North Africa region and will be the longest monorail system in the world at a combined length of 98.5km.

Part 2: Sector Mobilisation

Construction

Cement production, Jan-Sep 2020 (m tonnes)



The move to the new capital and the opening of the museum, however, were both postponed to 2021 in light of the disruptions.

Despite the construction delays caused by the pandemic, the Ministry of Planning and Economic

Development projected that 229 projects were on track for completion in 2020.

Certain delays caused by global supply chain disruptions have created opportunities for local building materials manufacturing to fill the gap.

Case Study



Rowad Modern Engineering (RME), a subsidiary of Elsewedy Electric, is a contractor based in Cairo that was established in 1998. It undertakes construction projects in the industrial, commercial and infrastructure sectors in Egypt and other African markets such as Algeria, Chad and Mozambique.

The structural need for more infrastructure to support Egypt's growing population remains despite the setbacks caused by the pandemic. As such, construction activity continued without much delay, although stringent health measures to protect workers on site were adopted universally across the industry. As such, with a backlog of \$1.2bn, RME continued with its existing projects in 2020, including contracts for Al Futtaim Commercial and Administrative Centres. Additional projects were finalised in 2020, including Capital Med Medical City in Badr City, in collaboration

with hydropower contractor Power China. A partnership agreement was also signed in 2020 with Ora Developers for the ZED West residential development; and the company was awarded the Cairo-Alexandria railway line maintenance project and expansion for Egyptian National Railways.

Looking beyond the borders of Egypt, the combination of construction companies and ample business opportunities on the rest of the African continent bodes well for the country's firms in the medium to long term. "Egyptian contractors have a strong knowledge base, which will be an asset as local contractors begin looking to take on projects across Africa," Mohamed Mahlab, president and CEO of RME, told OBG. "Africa is the next big opportunity for the global economy, and Egyptian contractors are already competing for multiple projects in a number of African countries," he added.

Part 2: Sector Mobilisation

Case Study



UAE-based Al-Futtaim was founded in the 1930s and operates more than 110 companies across several sectors, including real estate, where the group focus on creating, developing and constructing mega-projects such as Dubai Festival City, Cairo Festival City and Doha Festival City. Cairo Festival City is a mixed-use development located at the entrance to New Cairo covering over 3m sq metres, and includes residential areas with villas and apartments; shopping, dining and entertainment spots; and schools and office spaces.

Prior to the pandemic Cairo was experiencing growing demand across all segments, particularly in areas like New Cairo, which is located between central Cairo and the NAC, a city designed for over 6m people that is set to become the centre of government. Despite the arrival of Covid-19, the underlying dynamics of

the market have remained stable, meaning that demand, along with rents and sales prices, has not seen dramatic fluctuations, though flexible payment plans were available in the short term.

For Cairo Festival City and Al-Futtaim, the largest impact was seen in the retail and restaurant segments due to the closure of malls. During this time, they had to accommodate tenants who shifted to online platforms. When these venues reopened, it was important to consider how the retail, dining and entertainment experience could be made safe to consumers.

The crisis has caused a significant shift in the way people interact in society, whether as an employee, consumer or resident. This has raised questions about future real estate trends, especially if these new dynamics and modes of doing business persist post-pandemic.



Viewpoint

Ashraf Ezz El Din, Managing Director, Al-Futtaim Real Estate Egypt

The Covid-19 pandemic has had a significant effect on various aspects of the economy. As businesses transitioned to remote work or reduced the number of employees at the office at the onset of the pandemic, many corporate office spaces were underused. During this time employees required high-quality internet at home, and sought to accommodate school and work activities under the same roof. Though Egypt's lockdown measures were less stringent than those of many other countries, the closure of restaurants and malls to prevent the spread of the virus resulted in more people shopping and socialising online.

While some have argued that changes like remote work will be permanent fixtures going forwards, the most likely scenario is that of a more flexible, hybrid approach, which represents a potential for significant growth in the real

estate market. Many employees look forward to returning to the office, but might only do so on a part-time basis. Companies will need to rework the layout of their offices to increase social distancing. While fewer employees may be present at once, a similar or possibly larger office size may be required. Furthermore, while proximity to the office may become less important for those who are able to continue working remotely, high-quality infrastructure and the availability of safe parks and recreational spaces may become more of a priority.

In terms of retail, we can expect utilitarian consumption to continue to accelerate online, while malls and brick-and-mortar shops will increasingly become a form of entertainment. These trends are likely to continue to drive interest in mixed-use developments, which can accommodate these shifts in demand.

Part 2: Sector Mobilisation

Industry and Manufacturing

Egypt has a diverse industrial and manufacturing sector with several key segments, including food, fast-moving consumer goods, ready-made garments, petrochemicals and building materials, and the country has taken steps to improve infrastructure and ease access to export markets. Local consumption patterns and

the size of the domestic market with its 100m citizens continue to be drivers for investment in Egypt's manufacturing activities.

Traditionally, the low cost of labour has made Egypt a competitive market for manufacturing investment in the broader MENA region.



Case Study



FIVE STAR FLOUR MILLS
شركة مطاحن الخمس نجوم

Five Star Flour Mills was established in 1995 as a joint venture by a group of Egyptian and foreign investors. The company grew rapidly until the flotation of the Egyptian pound in 2016 and solid growth was projected in the lead up to the Covid-19 pandemic.

At the outset of the pandemic, the first priority for companies was to keep employees safe, followed closely by the need to adjust to sustain their businesses. Five Star Flour Mills has been fully automated since the installation of the first computerised mill in 1996, with capacity ranging from 480 tonnes per day in 1996 up to the current 1750 tonnes per day. This makes the implementation of safety and distancing measures a relatively smooth process. In an automated environment, one person can operate a manufacturing line from a control room, and as such, investment in automation

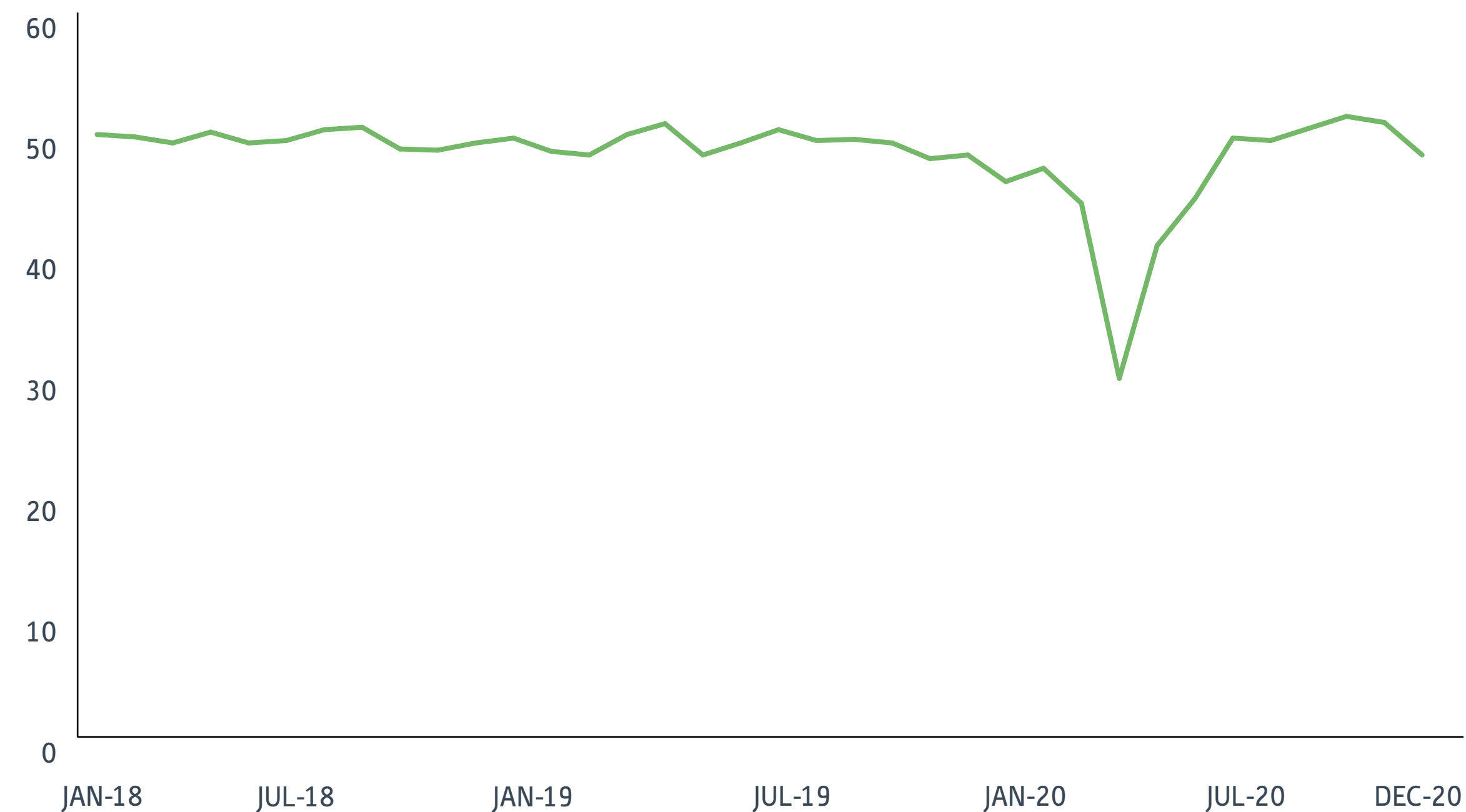
is likely to be essential to business planning industry-wide during the recovery phase.

As the Covid-19 virus spread, the impact was uneven, with a clear division emerging between the domestic and export segments of the food industry: exports to Africa, for example, were relatively unaffected by the stricter lockdowns imposed elsewhere. Five Star Flour Mills – which owns a dedicated berth at Adabiya port with a 600-tonne-per-hour grain unloader and grain silos with a storage capacity of 125,000 tonnes – was able to maintain business continuity and stable export volumes. In contrast, the local market saw significant negative impacts due to the knock-on effects of the halt of international tourism and the closures of hotels, restaurants and cafes. The recovery of the economy, however, is likely to be V-shaped as demand recovers and these businesses reopen.

Part 2: Sector Mobilisation

Industry and Manufacturing

Egypt non-oil private sector PMI*, 2018-20



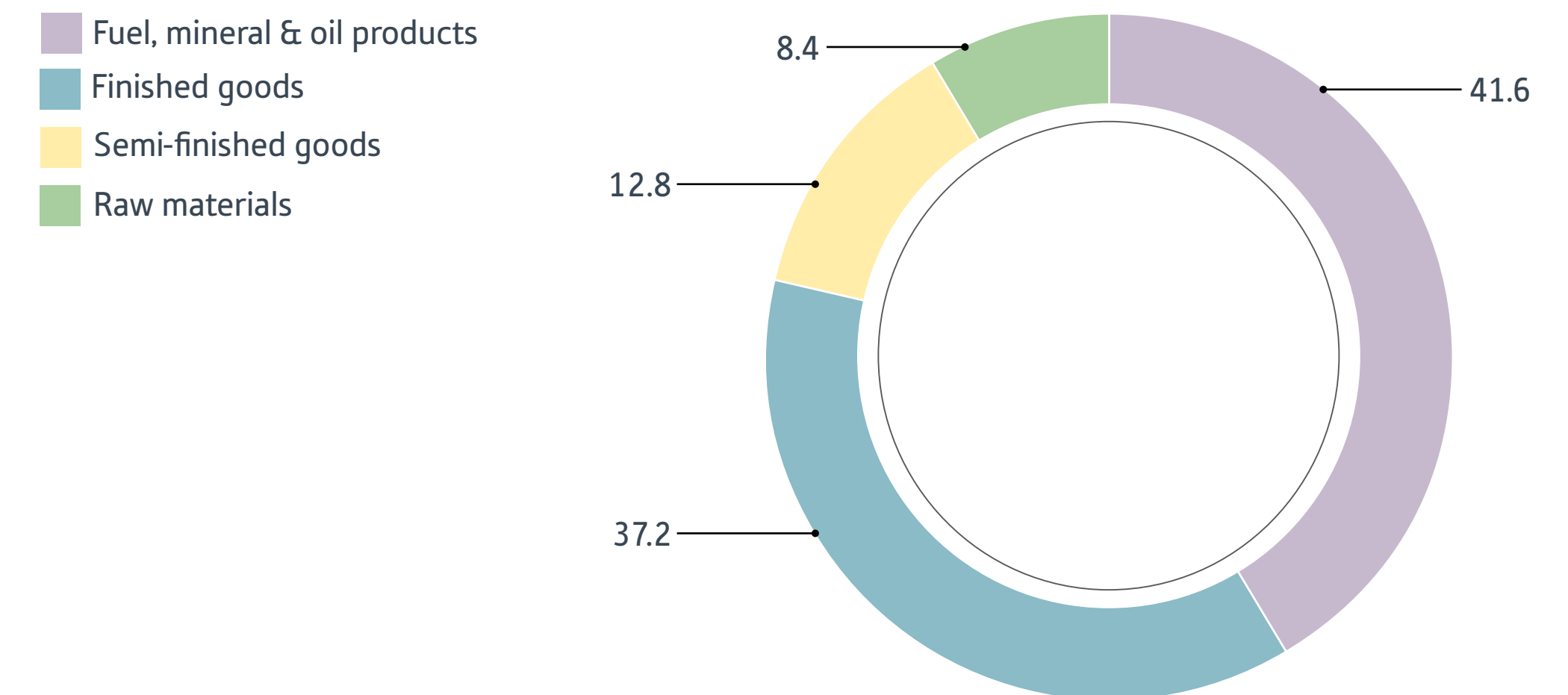
*The headline seasonally adjusted IHS Markit Egypt Purchasing Managers' Index (PMI) – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy. >50 = improvement since previous month

As automation has increased globally, however, Egypt's proximity to Europe and its favourable maritime connections have been an advantage, as have its free trade agreements with the EU, the US and other African markets.

While most factories did not close during the pandemic, additional precautions were taken

to mitigate the spread of the virus in addition to preserving jobs. The government has also slowed plans to remove subsidies on electricity, which will now be phased out by FY 2024/25. For high-voltage users, the cost was reduced by 10 piasters to encourage production amid the pandemic, which will help lessen the financial impact on players with power-intensive activities.

Merchandise exports by value, FY 2018/19 (%)



Part 2: Sector Mobilisation

Retail



The retail sector was one of the industries hardest hit by the pandemic, yet despite the decline in consumption spurred in part by reduced incomes or job losses, Egypt continues to be the largest market in the Arab world with 100m people. The wholesale and retail sector recorded growth of 3.8% and 3.9% in FY 2018/19 and FY 2019/20, respectively. This provides a strong foundation for the post-pandemic economic recovery.

While certain segments of the retail sector – including corporate purchases, and malls and entertainment – saw significant declines due to the implementation of remote working, as well as the closures and curfews that limited Egyptian consumers’ access to in-person shopping, the e-commerce segment saw significant growth. Indeed, with the unfolding Covid-19 pandemic and social-distancing measures from governments worldwide, more consumers are turning to online shopping for their purchases, presenting a significant opportunity for the e-commerce space. The country’s e-commerce penetration of total retail sales is 2.5% and the segment is expected to grow at a rate of 33% annually, to \$3bn by 2022.

Case Study



Spinneys is a retail hypermarket and supermarket chain with operations in several cities across Egypt. As was the case for many retail establishments, the company experienced a significant increase in demand for food and sanitation products in the early days of the Covid-19 pandemic. This put pressure on capacity, which eased as stores adapted to changing patterns of demand.

The trajectory of Covid-19 in Egypt was about six weeks behind Europe, and as such, local retailers had time to study its effects and implement mitigation measures. In light of the challenges in global supply chains, Spinneys turned to local suppliers to reduce dependence on imports – in particular for sanitation products and other essential fast-moving consumer goods. Additionally, while demand for food rose, sales of more expensive items such as small appliances and white goods fell as consumers cut back on spending. In

subsequent months, however, stores saw a gradual return to normal buying patterns.

While the shift to e-commerce in Egypt was well under way before the pandemic, the health crisis resulted in a substantial acceleration of this trend. Spinneys had a call centre delivery service in place before the pandemic, but quickly moved to establish online ordering systems to keep up with demand. In July 2020 the company launched an app to facilitate online orders, which has overtaken the call centre in terms of delivery transactions.

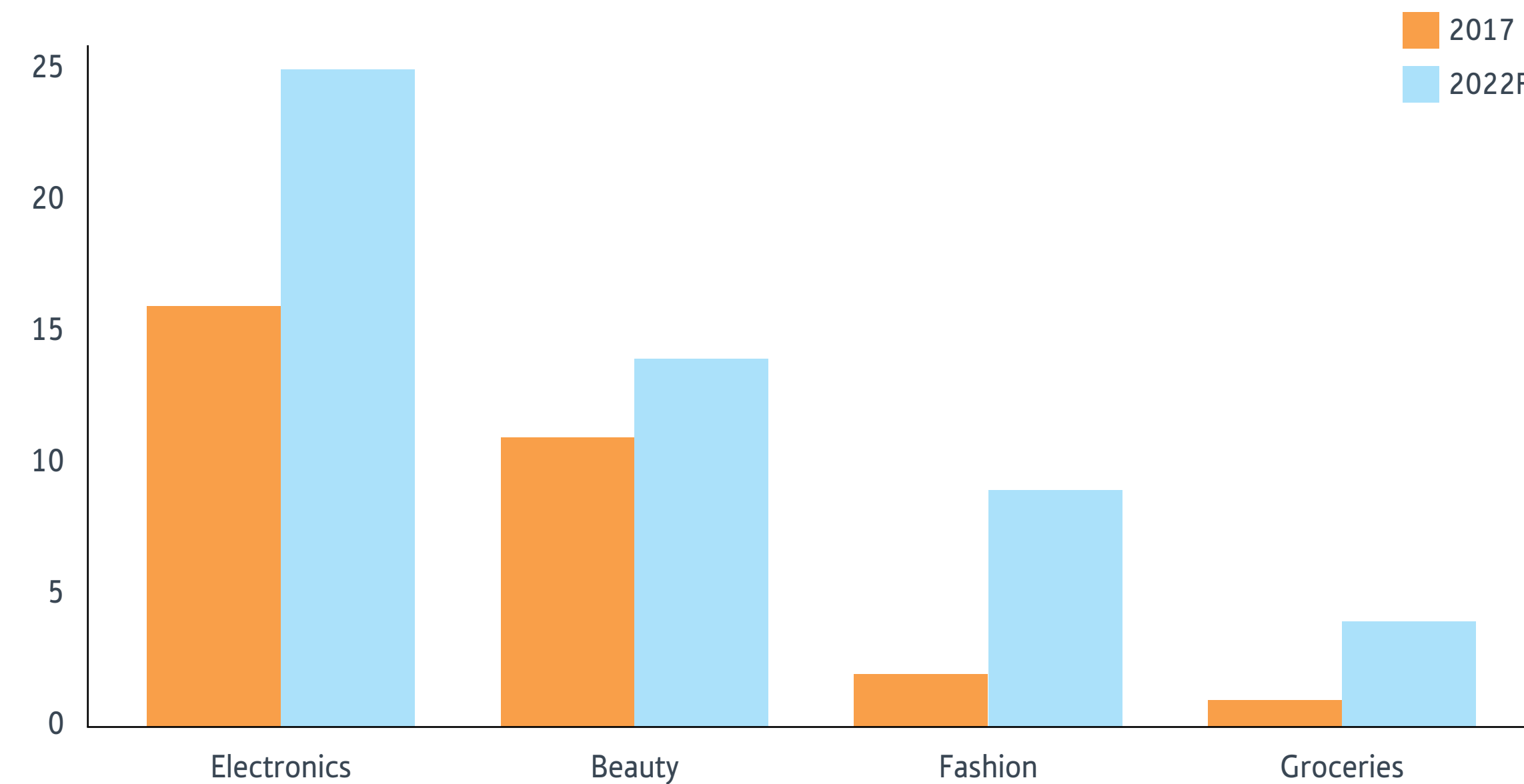
“Retail players will have to adapt to rapidly changing market dynamics that are here to stay,” Mohanad Adly, CEO of Spinneys Egypt, told OBG. “Online shopping will complement the traditional experience rather than replace it. However, its growing prominence highlights the essential role it will play in the future for all major retailers.”

Part 2: Sector Mobilisation

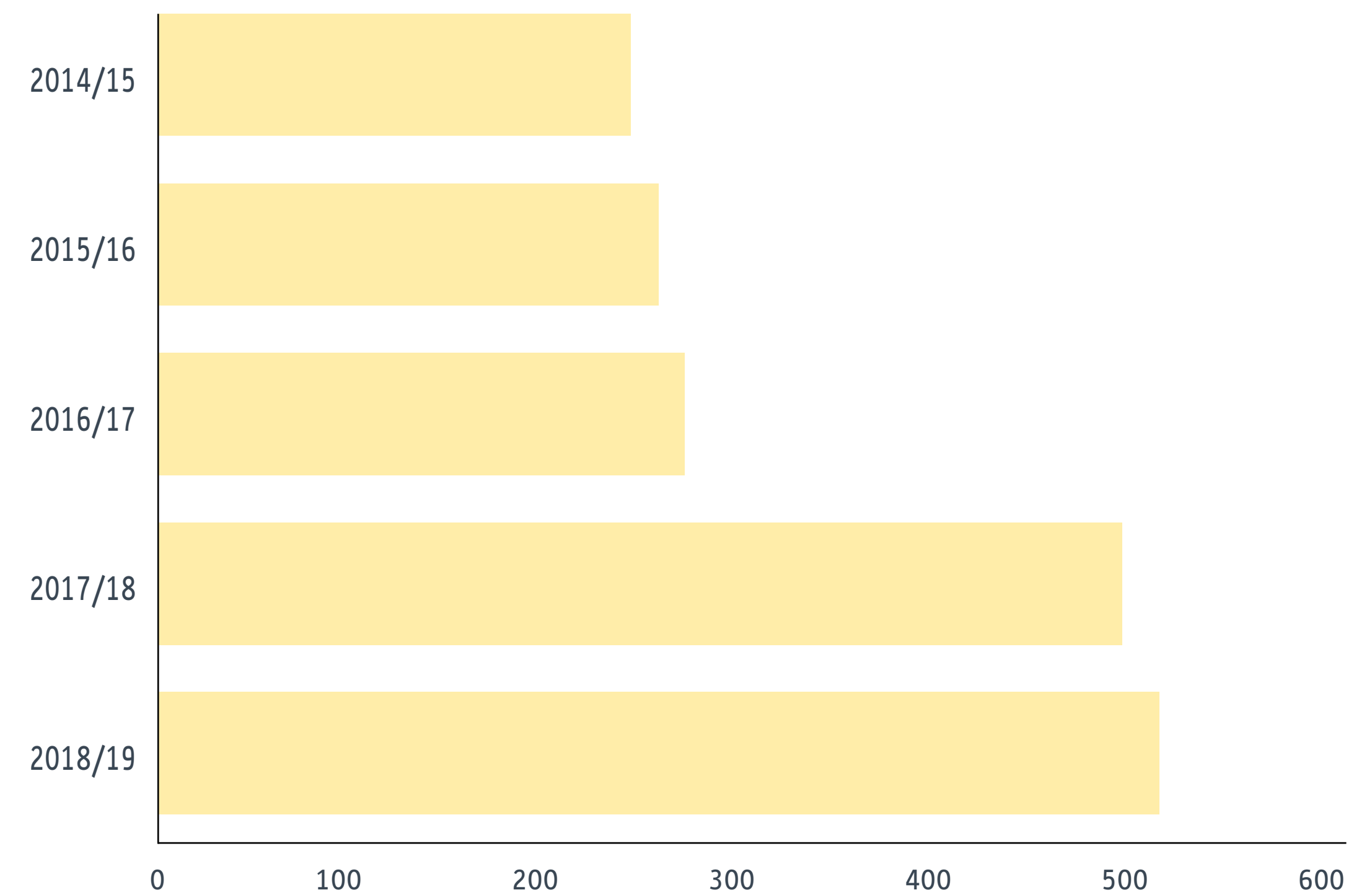
Retail

The largest retail categories are electronics and beauty, and groceries are growing at the fastest pace. Many established retail firms developed their e-commerce infrastructure in the early months of the pandemic to facilitate online sales. In the physical retail space, this shift to online shopping has resulted in mall operators looking to accompany their retail offering with entertainment options to attract clients to shopping centres.

E-commerce penetration in Egypt and the GCC, 2017 vs 2022F (%)

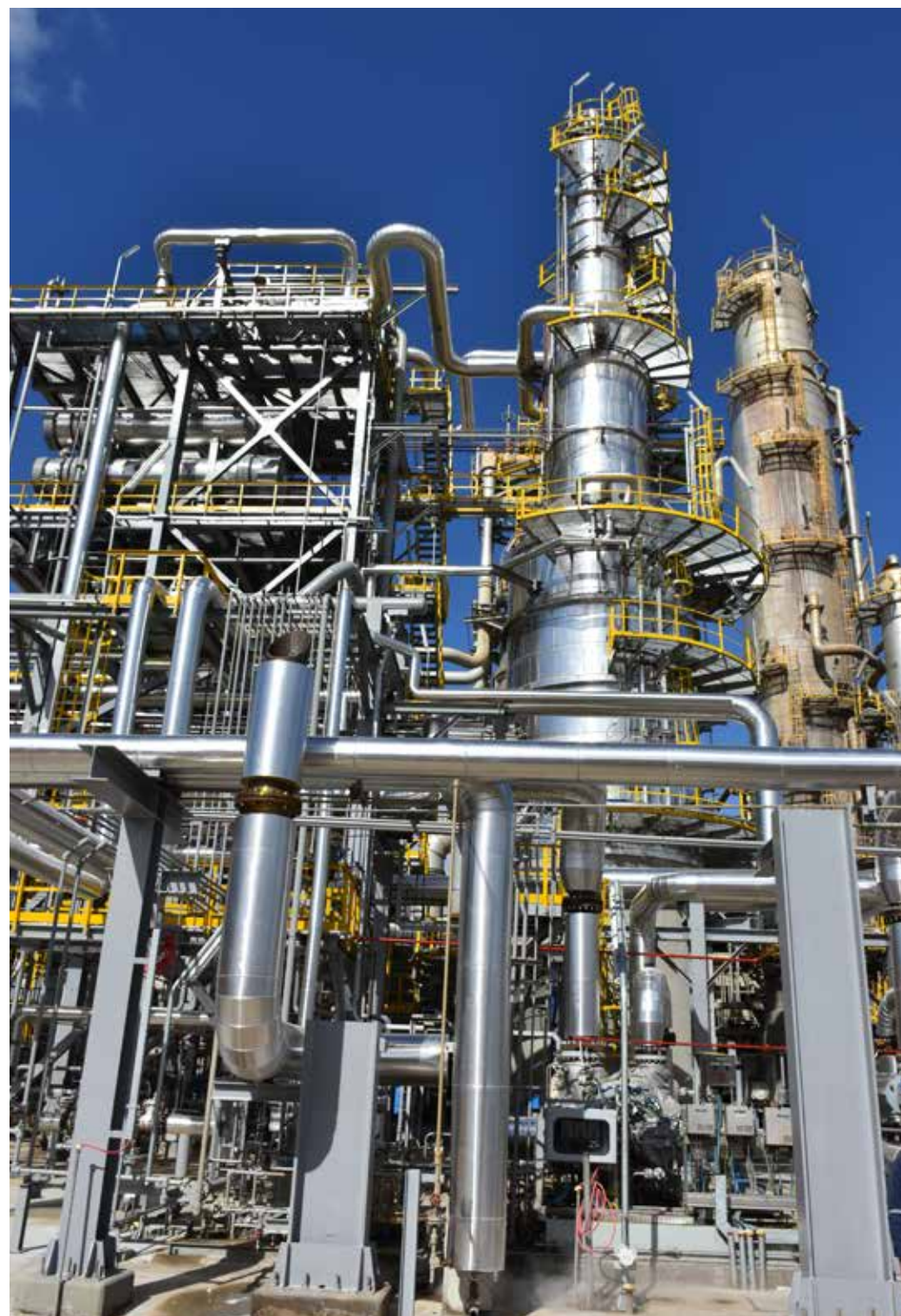


Wholesale & retail trade GDP, 2014-18 (LE bn)



Part 2: Sector Mobilisation

Energy



Energy is the second pillar of Egypt's 2030 Vision economic development strategy. Following the discovery of the El Zohr gas field in the Eastern Mediterranean in 2015 and the fast-tracking of production that began in 2017, Egypt was able to shift from being a net importer of natural gas to a net exporter, with a daily export capacity of 1bn cu feet in 2020, according to the Minister of Petroleum, Tarek El Molla.

The discovery and successful exploitation of the El Zohr gas field was a catalyst for the Ministry of Petroleum's energy modernisation programme, which aims to make Egypt a central energy player in the region, and helped to highlight the country's attractiveness for investment in oil and gas.

While non-petroleum foreign direct investment (FDI) to Egypt has trended lower over the past several consecutive years, increasing international investment in the oil and gas industry has placed Egypt among the highest recipients of FDI in the Middle East and Africa.

Case Study



TransGlobe Energy is an international oil and gas company with activities concentrated in Egypt's West Gharib, North-west Gharib, West Bakr and South Ghazalat concession areas, as well as in Alberta, Canada, where the company has interests in the Cardium and Ellerslie formations.

Egypt, has undertaken a modernisation programme aimed at improving the country's oil and gas infrastructure, and strengthening its knowledge base. Egypt is carrying out new exploration as well as improving the efficiency of extraction from brownfields in order to become a regional energy centre.

New discoveries in Egypt in recent years have attracted significant attention and driven foreign direct investment, making Egypt the top destination in Africa and the second in the MENA region for the sector. Nevertheless, recovery from mature fields remains an

important focus for the country, which has seen an annual decline of 30% from mature wells.

In 2020 the oil and gas sector faced not only the Covid-19 pandemic, but also a decline in prices over output among the Organisation of the Petroleum Exporting Countries that coincided with a fall in global demand. In this environment, the efficiency of operations and the maintenance of health and safety measures have been key priorities.

TransGlobe Energy's focus has been on sustainable production growth through development drilling and reservoir-optimisation projects. The implementation of new technologies and extraction methods has the potential to significantly impact the medium- to long-term growth of Egypt's oil and gas sector, just as technology has played and an important role in business continuity during the pandemic.

Part 2: Sector Mobilisation

Energy

Between October 2013 and October 2019



72 new agreements were signed with several major international companies

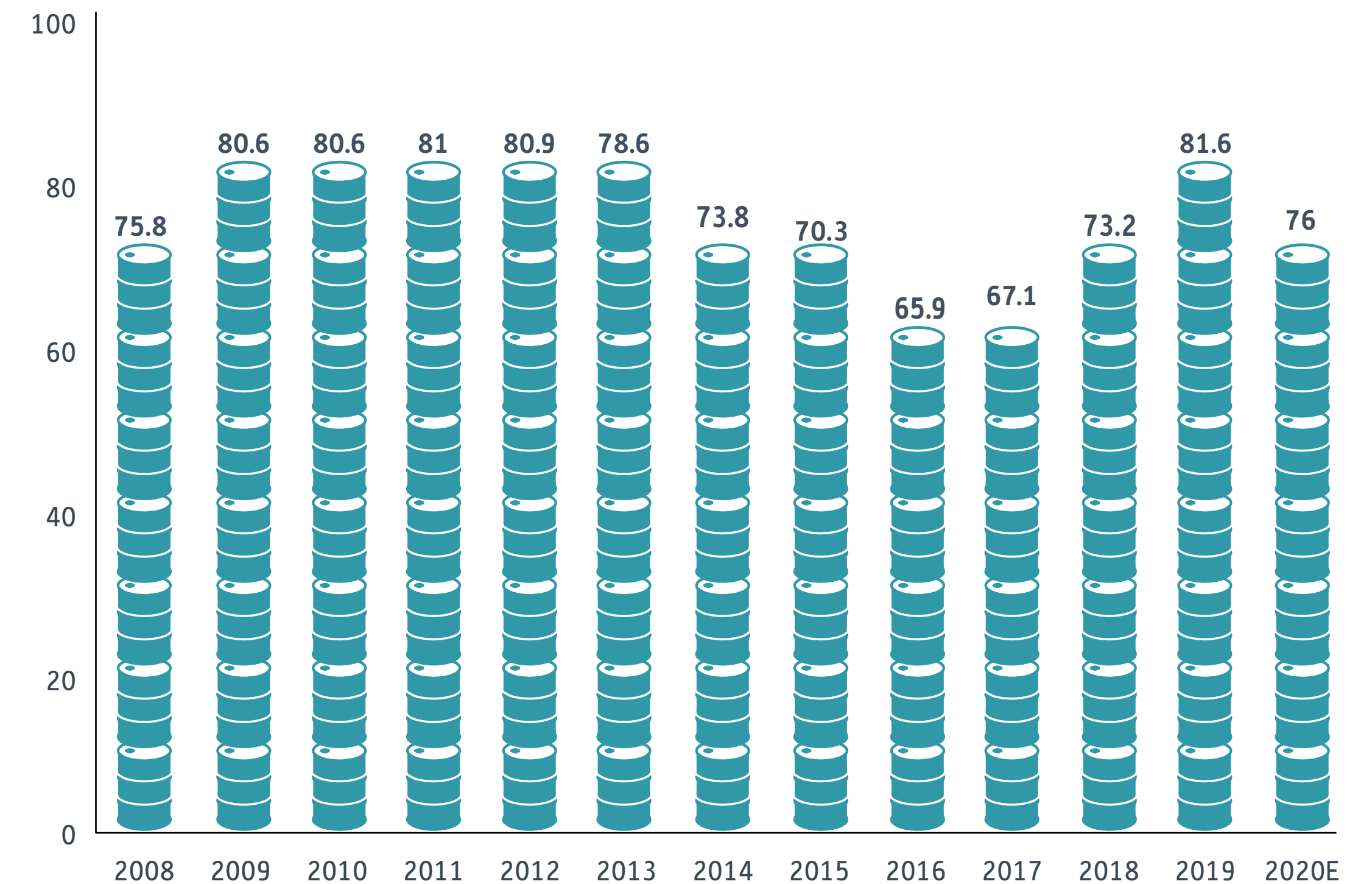
Total sector investment amounted to **\$15.7bn**



During the early days of the pandemic there was frequent communication between the government and private sector actors in tandem with an increase in the sharing of best practices between companies. In spite of this increasingly collaborative operating environment domestically, the short-term outlook for growth in the petroleum sector remains challenging due to depressed global oil prices. However, the vision from policymakers for the country's petroleum

sector is comprehensive and notably long term. The energy sector's modernisation programme is focused on increasing oil exploration, production and refining capacity, while strengthening the country's availability of qualified human talent. At the same time, Egypt is taking increasingly significant steps towards diversifying its energy mix – for example, with the development of the \$2.1bn, 1.8-GW capacity Benban Solar Park acting as a catalyst for the renewables segment.

Annual crude oil and natural gas production, 2008-20E (m tonnes of oil equivalent)



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Part 3: Economic and Social Priorities

Recovery Priorities

According to the IMF's most recent World Economic Outlook update from January 2021, Egypt's economy was expected to expand by roughly 3.5% in 2020 – down from the 5.9% growth forecast prior to the Covid-19 pandemic – with economic expansion slated to grow by 2.8% in 2021 and 5% in 2022

The slowdown in the country's economic activity saw the unemployment rate increase from 7.7% to 9.6% between the first and second quarters of the year, underscoring the importance of the government's wider goal of attracting investment to encourage job creation and improve the living standards of the country's large and growing population.

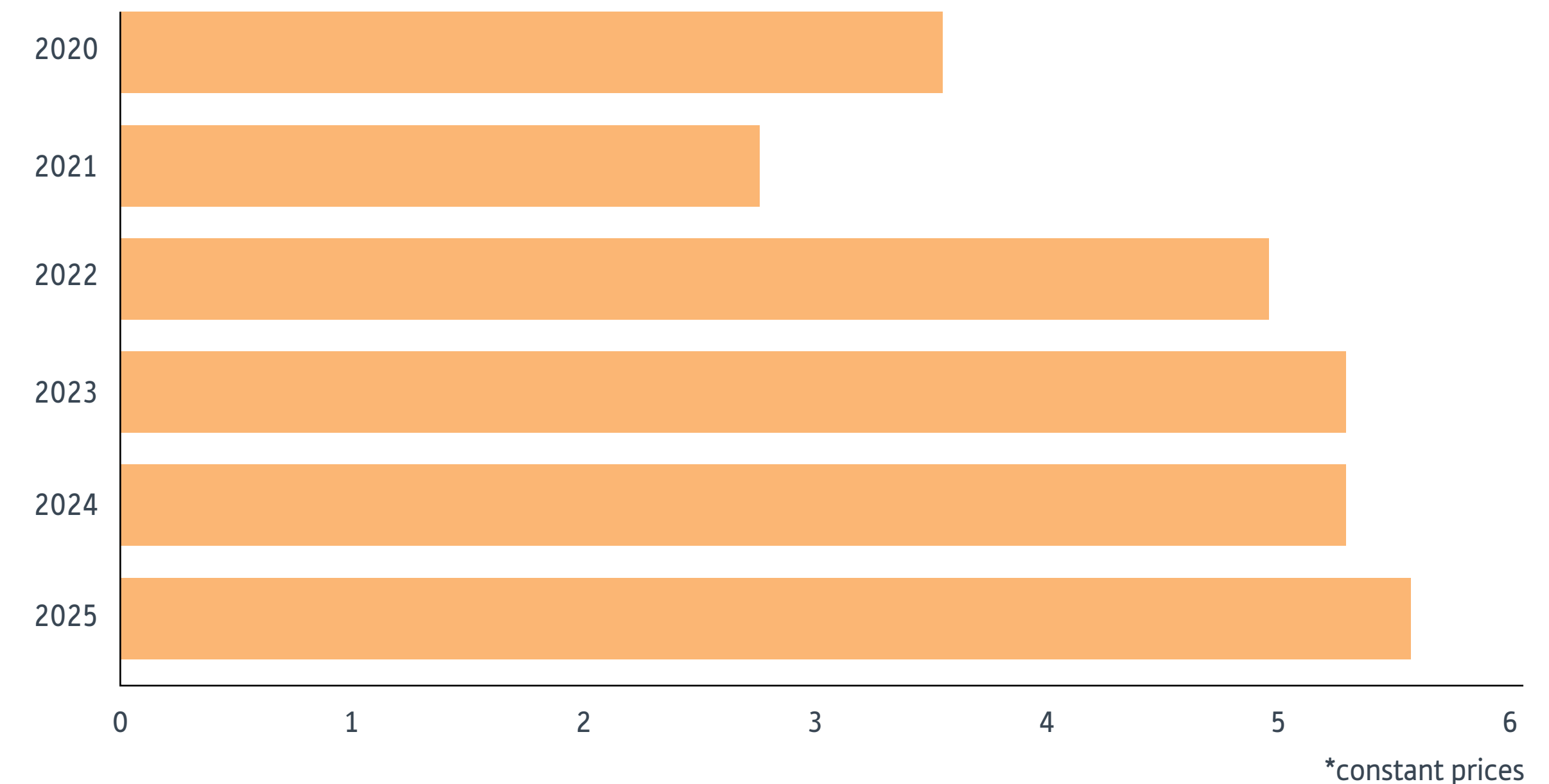
With more than 1m new permanent jobs estimated to be needed per year to keep pace

with the number of fresh graduates entering the job market, the government is focused on private sector-fuelled growth.

To that end, policymakers are working to cut red tape, reduce debt, and invest in infrastructure, human capital development and social protections.

As Egypt turns towards the recovery phase of the Covid-19 pandemic, industries that benefit from recovering consumer demand – such as consumer goods, real estate, energy and water – and those sectors that can leverage improvements in hard and soft infrastructure to export locally manufactured products and services – like engineering and business process outsourcing (BPO) – could potentially see some of the swiftest recoveries.

GDP growth forecast*, 2020-25F (%)



Formalisation and Financial Inclusion

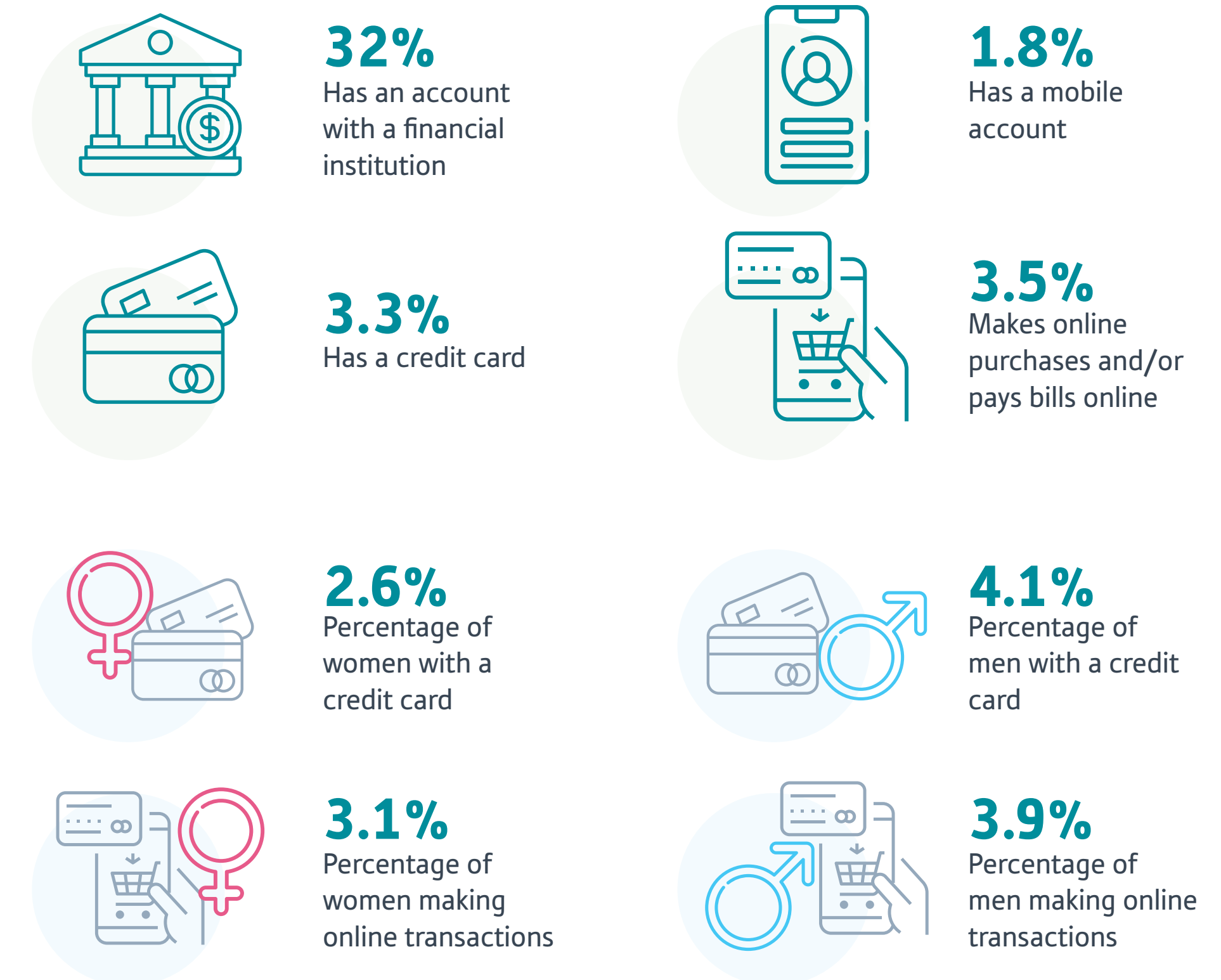


Egypt's informal and semi-formal economy, which accounts for approximately 30-40% of the country's total economic output, has been central to its ability to weather economic volatility over the past decade.

Incorporating the informal sector into the formal economy is therefore a priority not only for tax-collection reasons, but because reducing competition from unregulated and untaxed businesses will level the playing field and increase Egypt's attractiveness as an investment destination in the region.

There are also a number of advantages to formalisation for businesses, including greater access to government services and finance. While taxes are often highlighted as an obstacle to formalisation, and particularly the possibility of back taxes, bureaucratic hurdles and other obstacles are other contributing factors.

Percentage of population aged 15+ that reports owning or using each financial product or service:



Formalisation and Financial Inclusion

The recent streamlining of the process for starting and registering a business through a one-stop shop, as well as the rollout of an e-government platform to access services, has lowered the barrier to entry in the formal economy. Additional flexibility in the regulatory framework could also help to further reduce the size of the informal economy moving forwards.

In tandem with formalisation, the government is focused on improving financial inclusion. The share of Egyptians with bank accounts has risen from just under 10% to more than 30% over the last decade, spurred by regulations encouraging the use of e-wallets and the increasing adoption of cashless payment solutions by businesses.

The digitally native youth population has driven consumer demand for digital banking, which has seen Egyptian banks roll out online banking and mobile applications. Through partnership between the public and private sectors, Meeza pre-paid debit cards were introduced, which



30-40% of GDP is generated by the informal sector

85% of SMEs are informal



SMEs account for **44.6%** of private sector entities

5.8m Egyptians are employed by 1.7m formal SMEs



should facilitate higher banking penetration as Egyptians become more comfortable with the ease and security of cashless transactions. As in many markets, the pandemic was an important catalyst in this regard. Monthly electronic transactions increased by approximately 156% between March and October 2020, reaching roughly 9.9m. These digital payment trends are likely to remain beyond the Covid-19 pandemic, bolstered by the implementation of policies requiring government fees, taxes and utilities such as power to be paid electronically.

Although there are significant opportunities to expand cooperation between financial technology (fintech) firms and banks to improve customer experience and increase banking and financial services uptake, micro- and nano-financing initiatives will likely pay greater dividends in Egypt's case. Providing small loans to farmers, street vendors and the self-employed, for example, will help to support small business growth as well as generate a meaningful multiplier effect for the broader economy, in turn encouraging greater participation in the country's formal economy.

Part 3: Economic and Social Priorities

Start-ups and SMEs

Supporting start-ups and small and medium-sized enterprises (SMEs) has been a policy priority of the Egyptian government since 1991, when the Social Development Fund was formed.

The segment remains a significant engine of economic growth some 30 years on, with an estimated 5.8m Egyptians employed by SMEs



in the formal economy alone. In recent years a dynamic start-up scene has emerged in the country, encouraged by government and Central Bank of Egypt (CBE) policies.

In 2017 the CBE rolled out a new, unified definition of SMEs and updated a 2015 policy on SME lending, requiring 20% of banks' loan portfolios to be made up of loans to SMEs at an interest rate of 5%. This was a boon to SMEs, which under normal conditions faced interest rates of more than 16% following the flotation of the Egyptian pound in 2016. This has helped to encourage borrowing not only for operating costs, but also capital expenditure. More recently, in 2019 Egypt signed a \$200m agreement with the World Bank in order to support the country's entrepreneurs and SMEs through better access to credit.

While banks and microlending institutions can face obstacles in assessing the risk of lending to SMEs and micro-businesses, digitalisation and the adoption of cashless payment solutions are improving the availability of data for analysis.

Case Study



CHROME is a Cairo-based project and facilities management company that aims to provide tailored solutions to clients on projects spanning the residential, hospitality, industrial, corporate and education sectors. In 2020 Egypt was in the midst of a construction boom that saw a number of large-scale projects reverse the country's energy and road infrastructure deficit.

The growth of Greater Cairo, and the development of new cities and the flagship New Administrative Capital (NAC), created significant opportunities for companies like CHROME, which has secured projects for the construction and management of headquarters for Microsoft, Uber and Thomson Reuters, as well as residential development projects in Ain Sokhna and Ras El Hekma.

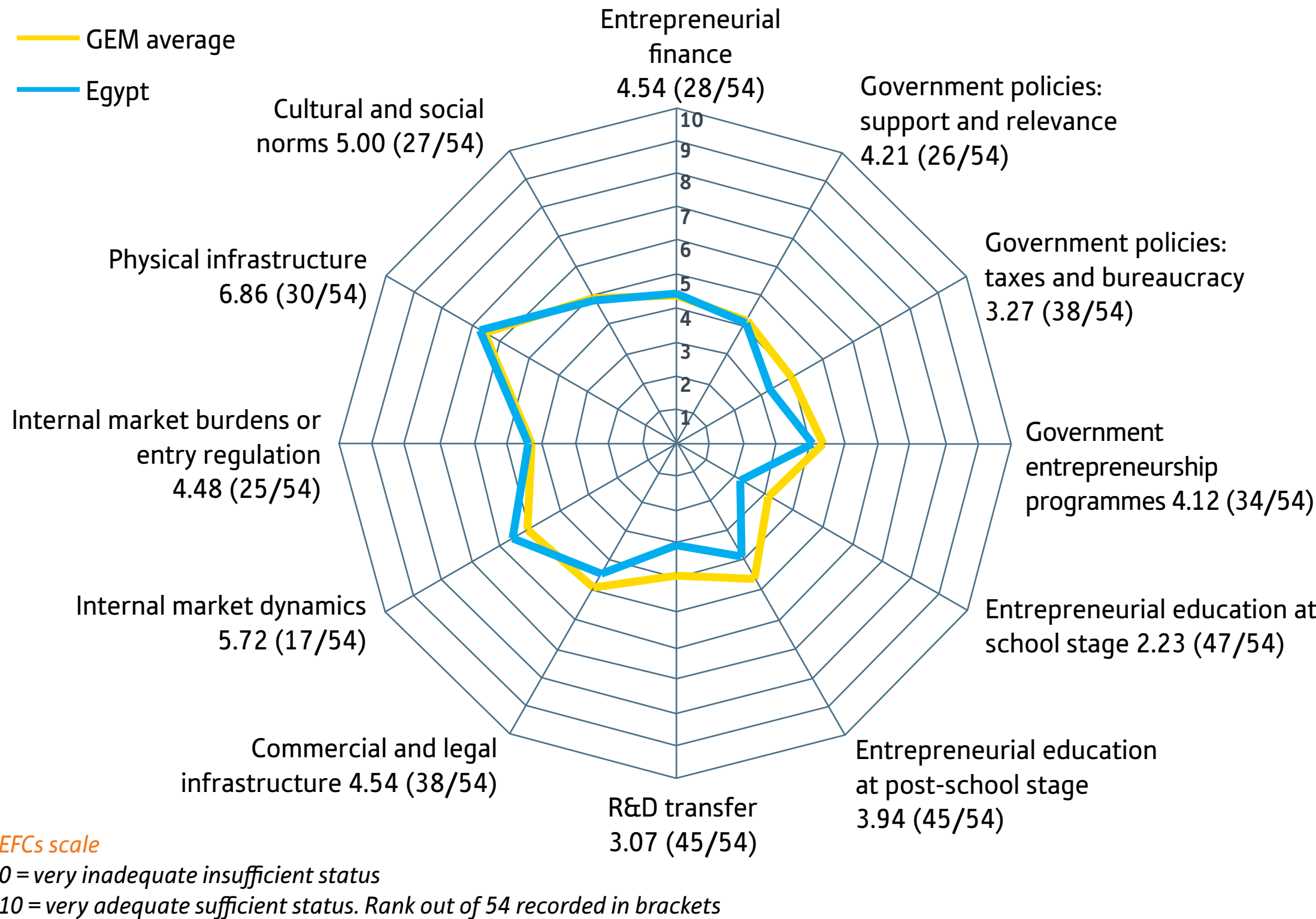
When the pandemic hit in early 2020, there was an initial pause in construction activity to reduce the

risk of infection and allow for the necessary safety measures to be implemented. CHROME introduced temperature checks along with mandatory mask-wearing and social-distancing measure that taken by the sector as a whole. Subsequently, projects continued across all segments without a noticeable slowdown, despite the fact that construction is one of the slowest industries to incorporate automation and digital tools into its operations. Thus, while administrative and engineering positions can often be done remotely, there continues to be a need to have employees on-site.

"The fundamentals of Egypt's construction boom indicate that growth will continue apace," Ahmed Osman, CEO of CHROME, told OBG. "The project pipeline will continue to be centred around government projects in the new cities and NAC, and related private sector residential and commercial developments," he added.

Start-ups and SMEs

Expert ratings of the entrepreneurial framework conditions



Egypt's growing weight in the MENA venture capital (VC) arena is valuable for the development of its entrepreneurial ecosystem. This is especially true for the dominant tech sector, which requires significant funding but has difficulty accessing conventional finance due to its elevated risk profile. In 2019 Egypt led the region in VC transactions, accounting for 25% of the total, and ranked second for its share of total VC funding, at 14%.

The country is actively building other key aspects of the ecosystem, including accelerators that offer access to training, networking and

collaboration. In November 2020 the IT Industry Development Agency, in collaboration with the American University in Cairo Venture Lab, launched an eight-week capacity-building programme aimed at knowledge-sharing and helping entrepreneurs refine business pitches.

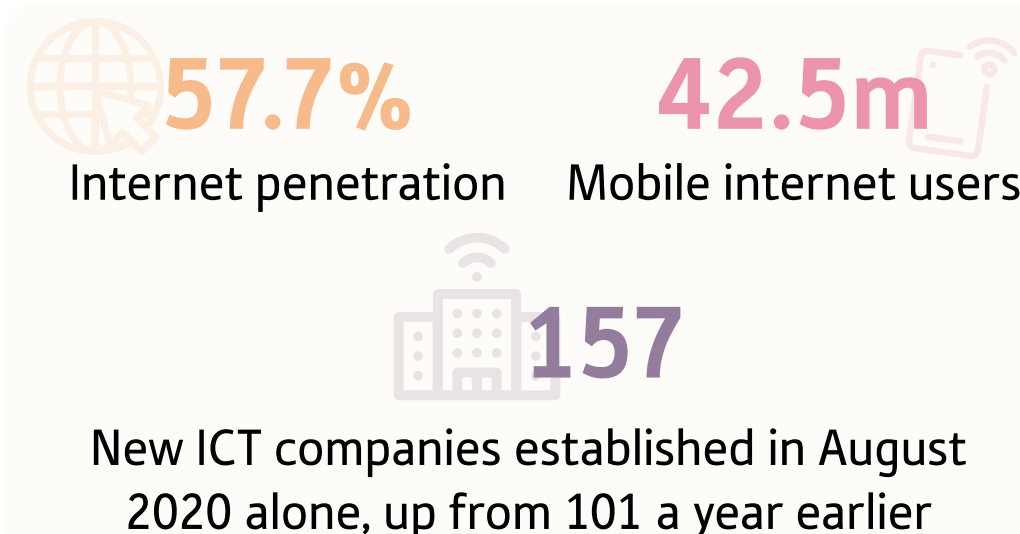
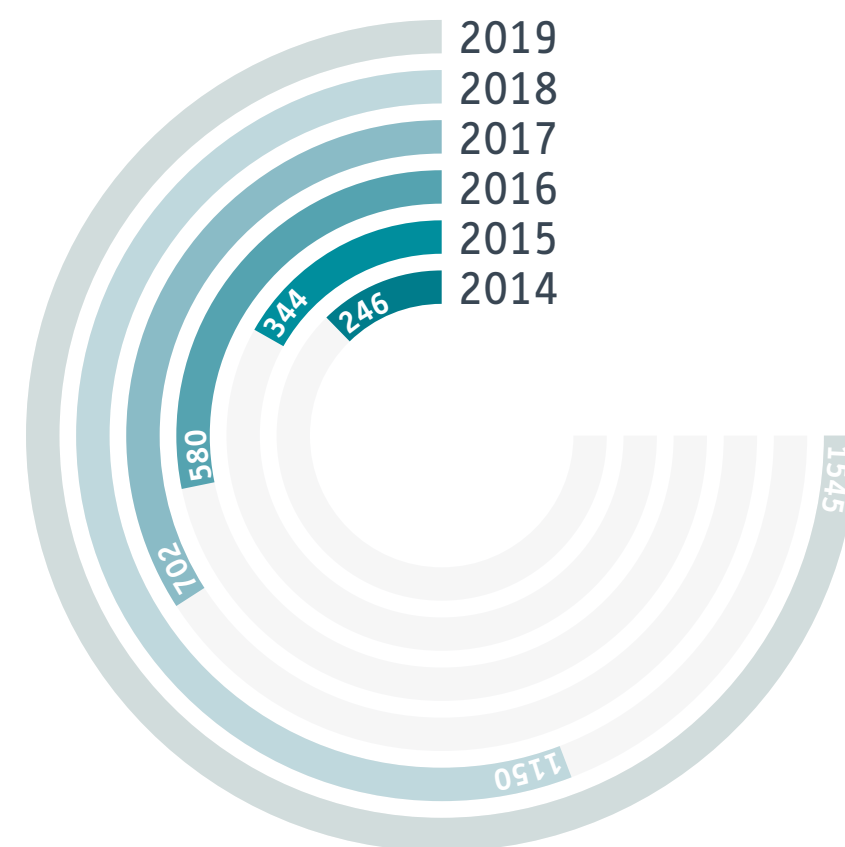
Cairo is now home to several fintech accelerators and has been ranked among the top-10 cities globally for affordable talent. As a sprawling metropolis known for its traffic, Cairo has seen notable interest in its transport start-ups, recording the highest investment growth in this category in the MENA region in 2019.



Part 3: Economic and Social Priorities

Digitalisation

International internet bandwidth
2014-19 (Gbps)

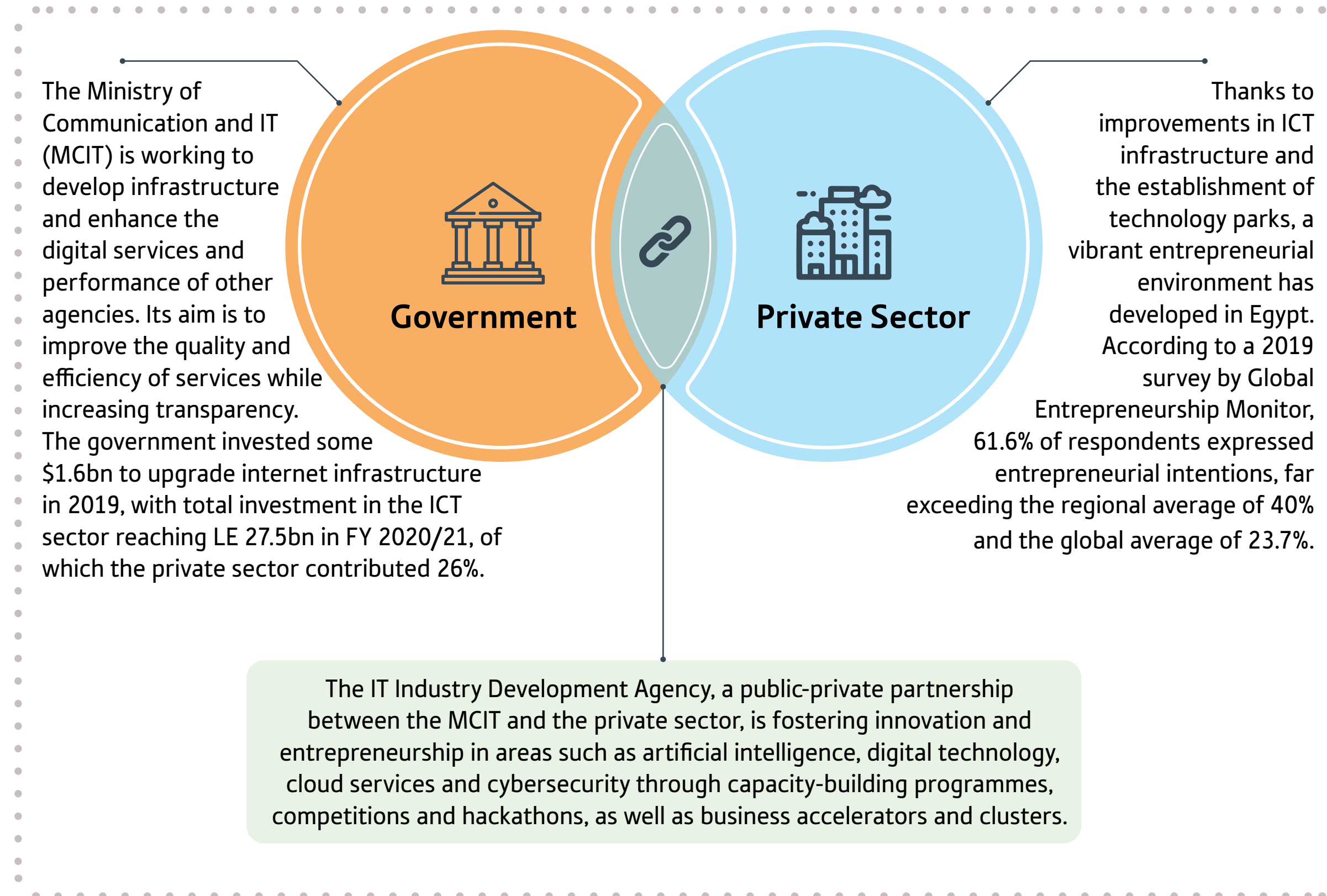


While the pandemic has prompted significant recent changes in purchasing behaviour, pushing consumers towards online shopping and food delivery, digitalisation has long been a policy priority, and remains at the core of Egypt's economic reinvention strategy for both the government and the private sector.

To promote sustainable, long-term growth of the sector, education and training are a primary focus. Roughly 10% of Egypt's 500,000 annual graduates major in IT, and there are more than 200,000 professionals currently employed in the country's BPO industry.

This makes Egypt an attractive outsourcing option, particularly given its low attrition rates – estimated at between 5% and 11%, compared to more than 15% in India. Indeed, Egypt is one of the fastest-growing exporters of BPO services in the world, with its wider ICT industry generating roughly \$6.9bn in revenue in FY 2020/21.

Tech giants such as Vodafone, Uber and Amazon already have IT resources in the country.



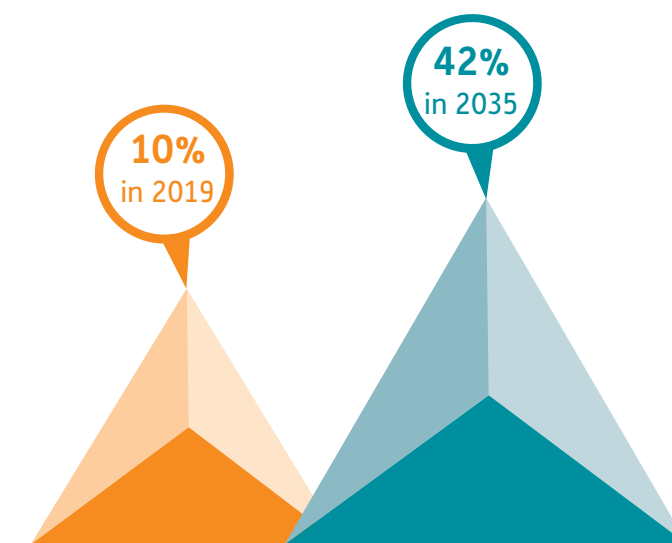
Part 3: Economic and Social Priorities

Energy Infrastructure

The wide-ranging economic, fiscal and monetary reforms carried out in recent years were combined with an ambitious infrastructure investment strategy to attract private capital, particularly in export-focused industries.

The significant power shortages experienced in the years leading up to 2015 were addressed by the construction of three power plants by Siemens, Orascom Construction and El Sewedy Electric, adding 14.4 GW of generation capacity when the €6bn projects came on-line in 2018. By February 2020 the installed capacity totalled 59.5 GW, exceeding peak demand of 30.8 GW registered in 2018. Of the total, just under 10% stems from renewable sources such as hydro, wind and solar, which the government aims to increase to 42% by 2035.

The ongoing joint development of the Benban Solar Park by the private sector and international development organisations offers a possible model for future development of large-scale infrastructure. The park is designed to add 1.8



Egypt aims to increase renewables' share of total installed generation capacity from just under **10% in 2019** to **42% by 2035**

GW of capacity across some 41 solar plants at a total expected cost of \$4bn, which will make it the world's largest solar photovoltaic park upon completion.

Egypt plans to maintain a generation capacity surplus over the next decade, which will enable it to export excess power to neighbouring countries; the nation has already inked deals with Saudi Arabia, Sudan, Cyprus and Greece.

However, given ageing underlying infrastructure and growing local demand fuelled by population growth and industrial development, Egypt will need to continue investing heavily in national capacity in order to maintain its energy export ambitions.

Case Study



Consolidated Contractors Company (CCC) is the largest construction firm in the Middle East and ranks among the top-25 international contractors, with 120,000 employees and projects in over 40 countries in 2019.

Given its importance to GDP and employment in Egypt, the construction sector enacted wide-ranging measures to ensure the safety of workers during the pandemic, with companies following the advice of the government as well as implementing their own rules.

The shift to a digital corporate working environment at CCC was facilitated by the company's previous investments in ICT infrastructure, ensuring there was sufficient bandwidth to conduct normal operations.

As an essential industry, the construction sector did not completely halt operations, though some

delays in starting projects have been seen. And while there were some procurement issues with foreign-produced materials, the resilience of the domestic supply chain and the abundance of quality Egyptian-made materials were major factors in maintaining healthy operations.

"We all need social infrastructure, and due to Egypt's large and fast-growing population, that will always be in demand. Even though tourism is experiencing a slump, owners are capitalising on low visitor numbers to renovate their hotels," Mohamed Tarek, area managing director for North Africa at CCC, told OBG.

Looking ahead, greater private sector involvement in the construction sector would help to make the industry more dynamic and competitive, in addition to benefitting local players with experience financing developments and managing projects internationally.

Part 3: Economic and Social Priorities

Construction

In the years since 2014, when the National Road Project was rolled out, Egypt has improved significantly in the World Economic Forum's global assessment of road quality, moving from 118th out of 144 countries in 2014 to 28th out of 141 countries in 2019.

By 2019 it had extended the national road network by 4500 of the 7000 km planned under the project, and constructed some 600 bridges and tunnels at a cost of LE85bn, including the 540-metre Tahya Masr suspension bridge spanning the Nile, and four new tunnels linking the Sinai Peninsula to mainland Egypt.

Government mega-projects remain the driving force of the country's construction industry – notably, the development of fourth-generation



cities and the NAC. The 14 planned new cities are expected to accommodate approximately 14m inhabitants and create 6m permanent jobs upon completion. Underlying smart infrastructure is also being built to serve them, in line with the country's Vision 2030 economic development blueprint.

Further development of hard infrastructure will likely focus on access to clean water through the construction of desalination and water-treatment facilities, which have become higher priorities in light of significant population growth, rising demand from the industry and agriculture sectors, and climate change.

14 New Fourth-Generation Cities



14m inhabitants

6m permanent jobs

Case Study



AluNile was founded in Egypt in 1999 as an aluminium manufacturer with a factory in 6th of October City. Beyond the production of aluminium, the company is active in glass processing, structural glazing, and making curtain walls, skylights, and hinged and sliding windows and doors.

In 2020 Egypt's population surpassed 100m and the country's economy has continued to outperform many other nations globally, thereby creating demand across all segments of the construction industry. With the fourth stage of new cities under development across Egypt, including the NAC on the outskirts of Cairo, the residential and commercial building segments represent key pillars of demand for building materials – especially glass and aluminium. The expansion of key infrastructure in the transport, health, education and retail sectors has also increased the requirements for glass and

aluminium in recent years. For example, AluNile contributed to Cairo Airport's Terminal 2, as well as to the Steigenberger Hotel in Tahrir and the Mall of Egypt in 6th of October City.

At the outset of the pandemic, construction initially slowed to allow for the adaptation of new health and safety requirements before picking up again soon thereafter, ensuring that there was no measurable fall in demand for building materials. "The trend towards localisation of supply chains picked up in the wake of the currency floatation, but in the context of the pandemic's greater disruption of global supply chains, local and regional suppliers have grown in importance," Ahmed Guindy, CEO and managing director of AluNile, told OBG. "The quick recovery of the construction sector underlines Egypt's resilience for long-term business perspectives and demand stability."

Part 3: Economic and Social Priorities

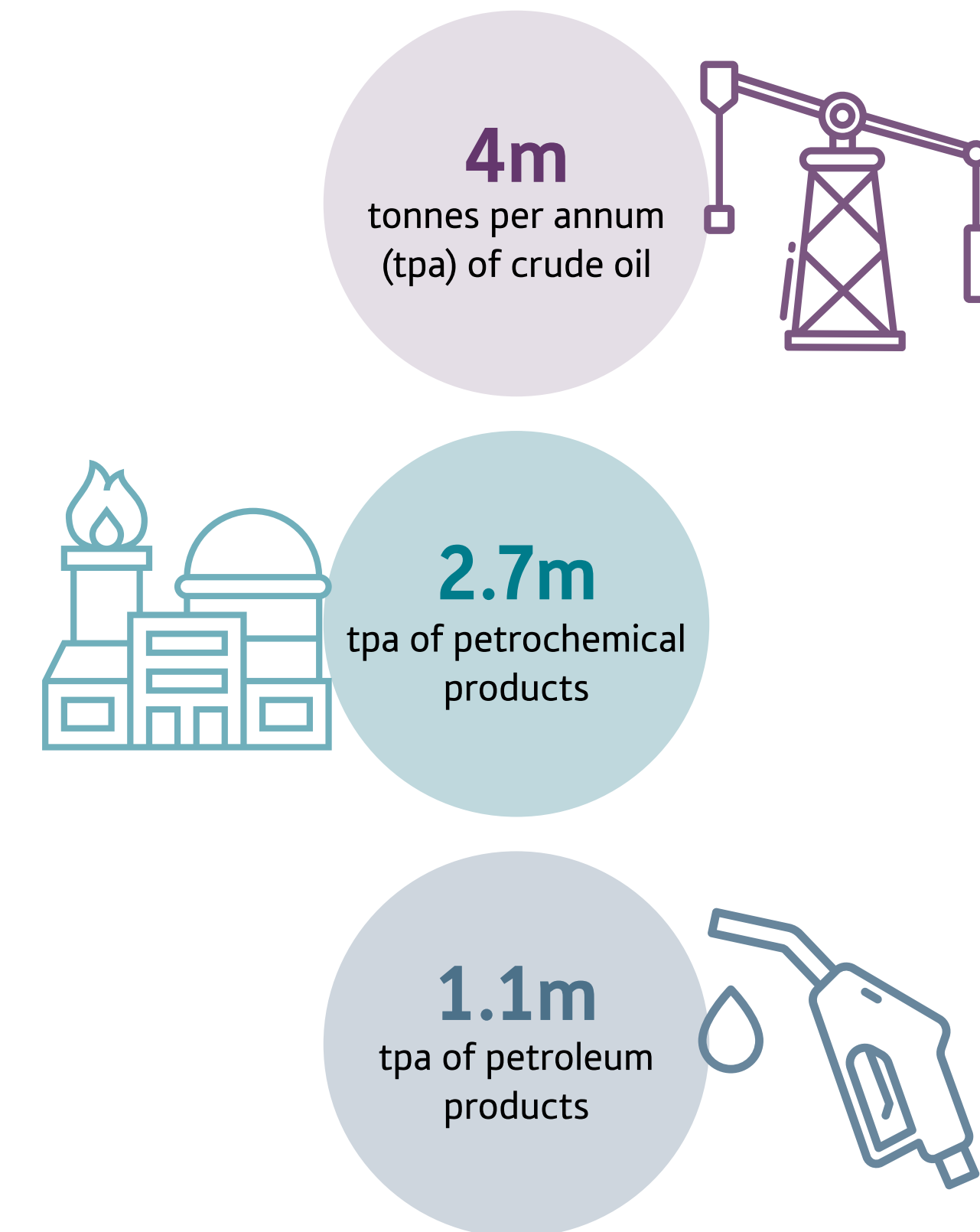
Supply Chain Localisation

Supply chain distributions underscore the importance of localisation, particularly for value-added products and intermediary components. Egypt has enacted policies to encourage this, including 2015 regulations that state a preference for locally made goods in public contracts, with minimum 40% local content. Recent tenders for the \$7.5bn refining

and petrochemical complex in the Suez Canal Economic Zone should help increase the local supply of important industrial inputs. Upon completion, it expects to process 4m tonnes per annum (tpa) of crude oil, 2.7m tpa of petrochemical products and 1.1m tpa of petroleum products. This is notable given sizeable recent oil and gas discoveries.



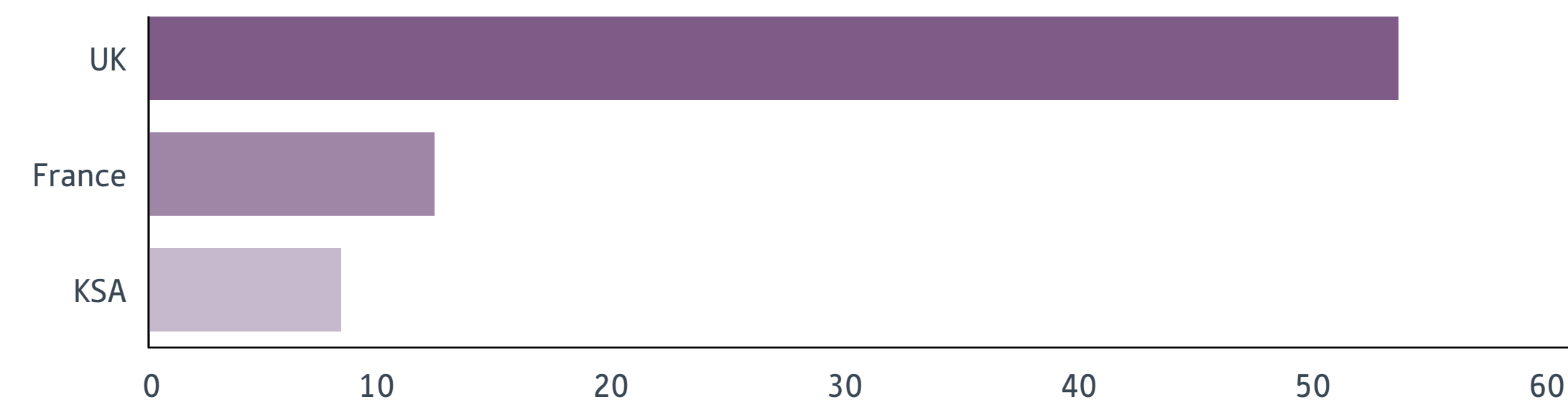
Upon completion, the Suez Canal Economic Zone refining and petrochemical complex will process



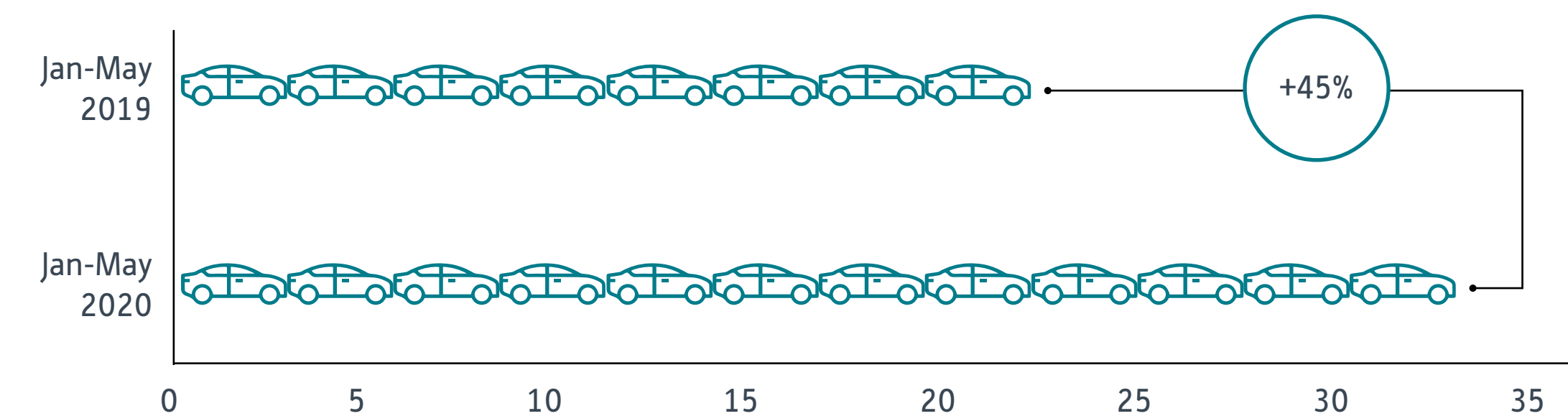
Part 3: Economic and Social Priorities

Supply Chain Localisation

Top-three car export markets, 2019 (% share)



Exports of locally assembled vehicles, 2019-20 (\$ m)



The importance of localising component production and feeder industries is also evident in automotives, where the local content requirement for vehicle manufacturing increased to 46% in April 2019. Assembly line contributions were also raised, from 17% to 28%. The ultimate aim is for domestic components to comprise as much as 60% of locally produced cars – the same threshold currently set for buses.

While these local content moves have spurred investment in industries further up the value chain, competition from abroad remains, particularly after a trade deal with the EU saw Customs duties on fully assembled vehicle imports fall to zero from 2019.

However, it is hoped that local content measures will go some way towards allowing Egypt to compete with cheaper imports in the region – for example, from Morocco and Turkey, with whom it also has trade agreements.



Part 3: Economic and Social Priorities

Case Study



Established in 1998, Suez Industrial Development Company (SIDC) is a private firm that owns, develops and maintains industrial parks, and high-tech utilities and infrastructure. Located in the Suez Canal Economic Zone in Ain Sokhna, SIDC's 10m-sq-metre industrial park provides facilities and services for both national and international investors. SIDC integrates 79 companies within its industrial park – 18% of which were foreign and 82% of which were local firms as of 2020.

Due to hygiene protocols that the company adopted on-site, in addition to remote working conditions for staff not required to be on location, SIDC did not observe any notable disruptions to its daily operations during the height of the Covid-19 pandemic. Within the broader public policy aims of

Egypt's economic development plan, Egypt Vision 2030, the company aims to modernise industrial infrastructure and provide long-term business guarantees to investors operating in the country. More broadly, hard infrastructure development, heavy industry manufacturing and telecoms firms are currently driving the demand seen by SIDC.

The resilient nature of Egypt's economy, combined with the long-term impact from the Covid-19 pandemic, will accelerate industrial needs for segments like food, textiles and health care manufacturing.

To keep up with its expansion plans, SIDC has also focused on fast-growing small and medium-sized enterprises (SMEs). To this end, the company assists SMEs and start-ups by providing affordable business

and logistics facilities, pricing plans and transport access to Sokhna International Port. These incentives helped to increase the number of contracts in SIDC concession sales by 15-20% in 2020.

The dynamism of the Egyptian economy over recent years has underlined the need for fully equipped industrial facilities and infrastructure to host the country's fast-growing and large companies.

Furthermore, the increase in public-private partnerships in recent years – combined with ongoing mega-projects – has strengthened the demand for modern industrial parks across the country. To this end, SIDC plans to extend its model to strategic locations such as West Cairo, Upper Egypt and the North Coast.



Viewpoint

Amr El Batrik, CEO of SIDC

Next-generation industrial parks are set to expand over the coming years in Egypt. Leveraging sustainable economic growth and political stability, public investment plans are framed over a 10- to 15-year horizon to develop the necessary infrastructure. That said, the Covid-19 pandemic has established new challenges for industrial facilities. Given the importance of digitalisation both internationally and across organisations in all sectors, Egypt needs to significantly integrate automation, connectivity and data analytics into its industrial projects.

In light of these trends, the country has ambitions to attract investors from both Africa and the Middle East. In the medium to long term Chinese and Western investors will also be targeted. The performance of industrial parks is vital to Egypt's strategy to increase its business attractiveness going forwards. In addition, understanding commercial needs and providing a full range of integrated services in order to strengthen the business environment are key to positioning Egypt as an essential industrial centre in the region.

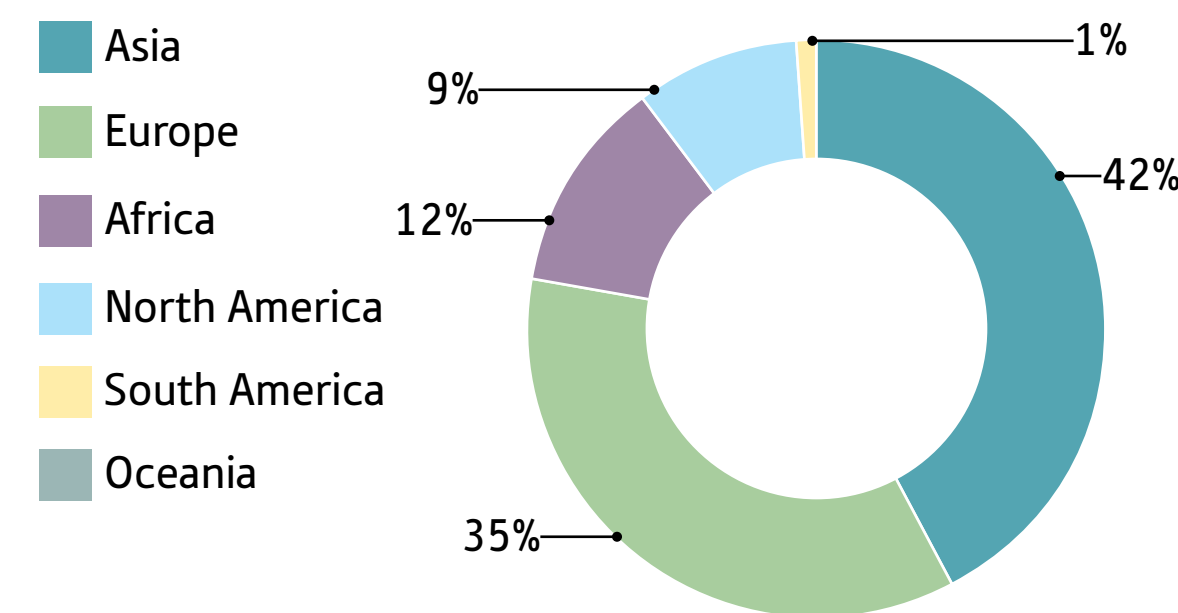
Part 3: Economic and Social Priorities

Exports

Egypt's exports are primarily centred around traditional or low-value-added products, and some of its largest export categories are not necessarily those in which the country has a comparative advantage. As such, expanding export capacity in higher-potential areas like ready-made clothing, fast-moving consumer goods and value-added petrochemical products will be key to broadening the manufacturing base and increasing export revenue. Each of these segments has significant global demand, which will allow the country to take advantage of the competitive value of the Egyptian pound following its flotation in late 2016.

Its location at the heart of global trade is another key asset in the country's push to become a focal point for logistics in MENA and beyond. The Suez Canal generated \$5.6bn in revenue in 2020, down from \$5.8bn in the previous year, and saw approximately 12% of global trade by volume pass through. Another factor that has contributed to Egypt's attractiveness to investors is the variety of trade agreements it has signed. In addition to the bilateral trade deal with the EU first signed in 2004, Egypt belongs to the 17-member Greater Arab Free

Exports by destination region, 2018 (%)



Trade Area; the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia; and the 21-market Common Market for Eastern and Southern Africa.

The implementation of the recently ratified African Continental Free Trade Area (AfCFTA), of which Egypt is a member, has the long-term potential to create a unified market able to compete with the largest global economies, though a number of regulatory and infrastructure barriers will first need to be overcome. When fully operational by 2030, the AfCFTA is expected to cover a market of 1.2bn people with a combined GDP of \$2.5trn.

Case Study



Egypt is a key market in the region for international food and beverage company Nestlé. The country is well suited for food manufacturing due to economic reforms that have strengthened the local business environment, the large consumer base and easy access to export markets.

Alongside government measures, the private sector played an important role in ensuring the safety of employees, clients and consumers during the pandemic. When the crisis hit, the initial priority for Nestlé was the health and safety of its employees, particularly those in manufacturing operations.

To maintain continuity, the company reviewed factory layouts and reassessed the positions of people at machines to ensure social distancing. Additionally, over 800 employees were tested

for Covid-19 to increase the chances of early detection of the virus. At the same time, 90% of office-based positions transitioned to remote work, and later employees gradually returned to a reconfigured office space.

Shifts in consumer behaviour have affected each segment of the food and beverage sector differently. For example, restaurant, hotel and corporate purchases experienced significant declines due to closures, while overall trade saw an increase that has persisted beyond the initial few weeks of panic buying.

Nestlé is aiming to bolster Egypt's status as a major export centre through additional investments in manufacturing facilities. As such, the firm is looking beyond the existing LE50m worth of products it currently exports annually to the Levant, North Africa and the Gulf.

Part 3: Economic and Social Priorities

Tourism

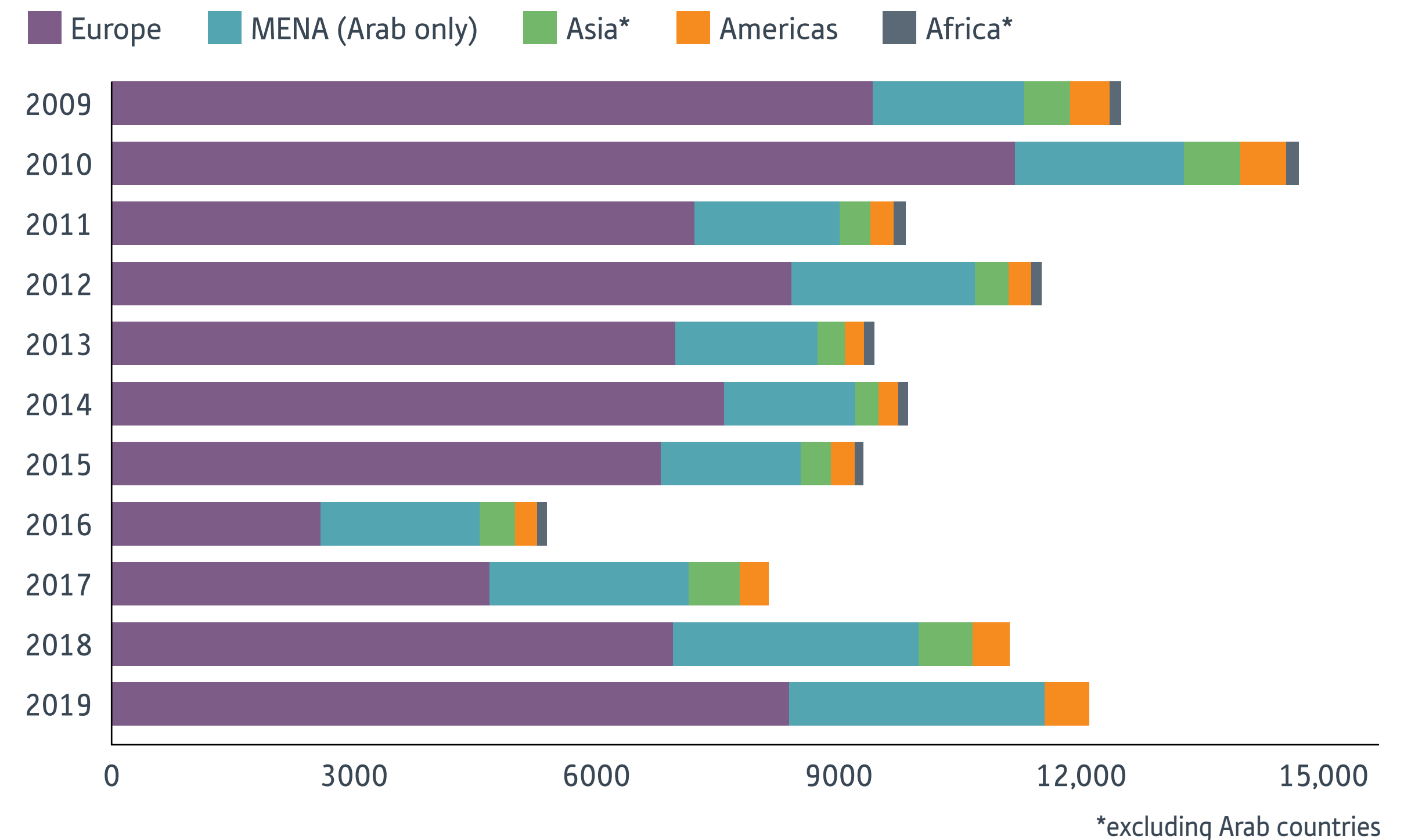
Prior to the pandemic Egypt was expected to attract as many as 15m tourists in 2020, up from 13m the previous year, according to the World Tourism Organisation. However, in the face of global travel bans and sweeping lockdown measures, Egypt recorded just 3.5m, with revenue down 70% to \$4bn. Tourism has long been a pillar of the country's economy, accounting for nearly 10% of GDP, and as one of the most negatively affected sectors in 2020, its growth prospects are closely tied to the rollout of vaccines and the easing of international travel restrictions.



Nonetheless, efforts are continuing to renovate and expand tourism infrastructure, which should support the industry as it rebounds. The government also recently rejigged the sector's related ministerial portfolios, creating a unified Ministry of Tourism and Antiquities in 2019. The new body is focused on a coherent and integrated approach to exhibiting Egypt's historical heritage and attracting tourists from around the world.

The Djoser Step Pyramid reopened in 2020 following a \$6.6m restoration. The same year marked the discovery of 59 well-preserved sarcophagi at the necropolis in Sakkara and the near completion of the new Grand Egyptian Museum. The \$1bn project to build the world's most extensive archaeological museum, projected to attract 5m visitors annually, is now set to open in mid-2021 following a delay imposed by the pandemic. At the same time, investment in hotel renovations and the improvement of other tourism infrastructure is preparing the sector to have more capacity to handle a wider variety and volume of tourists as global travel resumes.

Visitor arrivals by region, 2009-19 (000)



Part 3: Economic and Social Priorities

Knowledge and Innovation

Recent years have seen the rollout of a number of programmes for the development of professional and technical skills. This has taken place across a variety of sectors, including ICT, where the MCIT's Digital Egypt programme features a pillar focused on capacity-building in key areas, and oil and gas, where a secondment programme has been implemented to develop middle managers and young professionals.

Initiatives to build local expertise have also taken place in banking, where a concerted effort to reform the sector since 2004 has focused in large part on the cultivation of well-trained professionals. The construction and engineering industry – and notably government efforts to include local players in key projects – has similarly built up capacity that can leverage knowledge for future projects within Egypt and further afield.

Egypt moved up 10 places in the UN Development Programme's 2020 Global Knowledge Index to 72nd overall, and 23rd in technical and vocational training. However, despite the progress made to date, research and development (R&D) broadly

UNDP Global Knowledge Index 2020

Overall: 82nd in 2019 → 72nd in 2020

ICT: 78th in 2019 → 74th in 2020

R&D innovation: 82nd in 2019 → 74th in 2020



remains in its infancy. R&D spending in Egypt rose from 0.43% of GDP in 2010 to 0.71% in 2016, below the government's 1% target and the 2.25% average in the EU. Boosting the relative weight of R&D spending could have significant knock-on benefits for Egypt's economy as well as local industry. Indeed, the economic multiplier effect of R&D spending is thought to be significant – according to a 2019 study by the University College London Institute for Innovation and Public Purpose, non-military R&D spending by the US government from 1947 to 2017 generated a 7.76 GDP multiplier, meaning that for every \$1 spent, \$7.76 of GDP was produced. The private sector multiplier, meanwhile, which measures additional private sector R&D spending fostered by public commitments, was 0.25.

Case Study

Egypt has taken a number of steps in recent years to amend its legal and regulatory framework in order to improve the business climate. One such initiative was the introduction of the New Investment Law in 2017, which introduced protections and rights for investors across various sectors. The legislation guaranteed fair and equal treatment with local investors, as well as ensured protections against nationalisation, seizure or the suspension of an investment licence without recourse. In doing so, Egypt sought to capitalise on its geography, market size, competitive cost of talent, and access to Europe and regional markets.

Additional regulations have been adopted in order to promote an environment that allows the country's small and medium-sized enterprises to thrive, boosts financial inclusion, facilitates the uptake of financial technologies

and increases the economic feasibility of renewable energy investments.

Shehata & Partners is an Egyptian law firm established in 1996 that offers arbitration, corporate, employment and litigation services. It specialises in finance, construction, real estate and renewable energy. "While the Covid-19 pandemic has been a tragedy, it has had an advantageous impact on Egypt's business environment," Ibrahim Shehata, partner at Shehata & Partners, told OBG. "It catalysed regulatory adjustments and the adoption of new ways of doing business. These changes will create long-term benefits." As such, Shehata & Partners is looking to expand its focus to encompass emerging sectors in light of these trends, while at the same time building its client base in areas that are expected to see significant growth, such as construction and renewable energy.

6 Key Takeaways

1

Recent fiscal and economic reforms helped Egypt effectively respond to the pandemic and remain one of a few countries in the world to post positive growth in 2020. Continued sector reforms will likely form the basis of economic growth in the medium term, with SMEs playing an outsized role

2

A large pool of well-educated and cost-competitive labour in the financial, engineering and technology sectors will support innovation and entrepreneurship, as well as the reinvention of established businesses, all of which will be core drivers of growth over the next decade

3

Egypt's population growth and large youth cohort are both an important source of consumer demand, and a driving force to create the permanent jobs needed to improve living conditions across the board

4

Technology has become integral to government services and business operations during the pandemic – a trend that is likely to accelerate as the economy reinvents itself over the next decade. Smart technologies and BPO will present significant opportunities for growth.

5

Egypt's geostrategic location makes it an increasingly important centre for international trade as global supply chains are realigned, and speed, security, regional localisation and quality take a front seat to cost. Leveraging improvements to telecommunications, road, rail and ports will be key

6

While government mega-projects have been an important driver of job creation and growth, a medium- to long-term shift towards private sector-led expansion will be important for preserving recent gains. Tourism has the potential to be a pillar of the recovery but ultimately remains dependent on the successful global rollout of vaccines

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