



**Ministry of Investment
and International Cooperation
The Minister**

**OFFICIAL
DOCUMENTS**

Dr. Jim Yong Kim
President
World Bank Group

November 12, 2018

**Arab Republic of Egypt
Egypt Takes Off Program
(2018 – 2022)
Letter of Development Policy**

Dear President Kim,

The Government of Egypt, in July 2018, launched a home grown comprehensive Program, “Egypt Takes Off” (2018- 2022), to address inclusive growth and job creation. The Government has developed a credible, sustainable, and effective reform Program with a clear vision, backed by strong political leadership at the highest level, and which comprises five pillars, namely: (i) protecting national security and Egypt's foreign policy; (ii) developing human capital; (iii) economic development and improving government performance; (iv) job creation; and (v) improvement of standards of living.

The Program aims to further build a competitive and diversified knowledge-based economy, with an expected outcome of promoting inclusion and sustainable development, through promoting private sector participation, and boosting investment, both foreign and domestic. It also seeks to implement a package of structural policies to rationalize and direct support to eligible beneficiaries, strengthen social safety nets and develop Egyptian human capital.

This ambitious Program builds on the first phase of the Economic Reform Program (2014-2018) which had the objective of restoring macroeconomic imbalances, accelerating improvements in the investment climate, enabling industrial licensing reforms, ensuring a sustainable energy supply, addressing social inclusion priorities and achieving high, sustainable and well-diversified growth. The prior program has yielded positive results. Fiscal conditions have improved with the introduction of a new Value-Added Tax (VAT) and the gradual phasing-out of energy subsidies. Natural gas and electricity supply are now more reliable through energy sector reforms. Under the business environment, a clear strategy was laid out focusing on implementing reforms that would enhance the legislative, institutional and administrative environment, and adopt an effective competition framework. As such, several new legislations were drafted and enacted, and important amendments to existing laws have been introduced. The centerpiece of the improved legislative environment is the new Investment Law No. 72 of 2017 and its Executive Regulations, in addition

to a series of complementary laws including a modern industrial licensing law, which are all contributing to an exponential increase of operating licenses, permits and building licenses, as well as an increased flow of investments into the country.

As Egypt continues its ambitious reform agenda, and with higher global volatility, risks to emerging markets, elevated inflation and high unemployment, the potential of adverse effects on the most vulnerable groups of society have been amplified. The Government remains committed to protect the most vulnerable segments of society as well as to ensure the sustainability of the reforms through the mainstreaming of social protection measures to eligible families, as well as is increasing the targeting of social protection schemes in lagging regions. The Government is using a significant portion of the freed-up resources, from eliminating subsidies, to strengthening the social protection system, and has increased spending on health and education.

To meet the aspirations of Egyptians and especially the youth, the Government has now launched more ambitious and deeper structural reforms in the second phase of its program, to strengthen current economic trends, as well as attract deeper private sector participation in the development process, in addition to creating hundreds of thousands of jobs and boosting inclusive and sustainable growth. The reforms aim to accelerate real GDP growth to a rate of above 7 percent by FY2020/21 to cope with rapid population growth and to curb inflation; reduce the budget deficit to 5 percent of GDP; improve the efficiency of tax collection; mobilize savings and to achieve a targeted rate of investment of 25 percent of GDP by FY2020/21. In addition, the Government is targeting the creation of approximately 900,000 jobs annually with a total of 3.6 million jobs throughout the program, to reduce the unemployment rate to 8.4 percent compared to 9.9 percent in Q4 of FY2017/18.

In effect, the Government has adopted a practical and pragmatic approach by focusing on modernizing the legal framework, addressing the key issues hindering financial inclusion, private sector development and fiscal management, to unleash Egypt's potential for fast-paced, sustainable growth. As such, concrete actions are being taken to reinforce the implementation of new legislations, ensuring tangible impact on the ground, including the rollout of the collateral registry, electronic and mobile payment for microfinance companies, and online tax filing.

To support financial inclusion, the Government is developing new and innovative savings vessels and financial instruments; promoting a savings culture among households and firms; encouraging remittances from Egyptians abroad; expanding investment and entrepreneurship funds; and expanding access to finance, tapping on Egypt's strong partnerships with international and regional institutions. Other measures envisaged to increase investment rates are: public-private projects maximizing the use of state-owned assets; restructuring public sector companies and settling their debt; and stimulating participation in public companies.

To boost job creation, the Government has exerted significant efforts anchored in addressing key constraints that hinder the growth of a vibrant smaller-scale business sector. A key priority of these efforts is to nurture and promote SMEs, entrepreneurship and innovation, which are important drivers of competitiveness, youth empowerment, growth, and employment generation. The Government's plan includes working to streamline the regulatory environment, provide equal access to inputs and production requirements. In that context, the Government is introducing legislative and organizational reforms that encourage self-employment and entrepreneurship; boosting integration of the informal sector into the formal system; linking learning outputs to labor market needs through developing education methodologies and curricula; establishing centers for

entrepreneurship, technical education and vocational training programs; and intensifying developmental efforts for labor-intensive industries such as agriculture, industry, trade and construction.

Improving standards of living of all Egyptians is at the heart of the Government's development agenda. As such, the Government is taking multiple measures to promote this aim, including preventing over-population in existing population centers; providing affordable housing units; bridging regional gaps by giving priority to lagging regions; improving quality of potable water services; expanding transport services; enhancing social safety networks; eliminating gender-based discrimination; enhancing protection of Egyptian expatriates; and increasing projects focusing on environmental improvements.

Within this overall framework, three areas of the Government's Program will be particularly critical to its success and ensuring inclusive growth; namely supporting financial inclusion and access to finance; private sector development; and strengthening fiscal management.

Financial Inclusion and Access to Finance

The Government has adopted an integrated bottom-up reform approach to ensure financial inclusion and broader access to finance of all segments of society, to expand their economic opportunities, and improve standards of living of Egyptian families. These reforms aim to level the playing field and improve access to finance for subsistence entrepreneurs; as well as SMEs; including through alternative and innovative instruments; and provide fairer and more efficient capital markets and broadening access of investors to funds.

These reforms build on the significant progress the sector has been witnessing, reflected in the increase of the microfinance active portfolio from EGP 4.5 billion and 1.8 million borrowers as of December 2016 to EGP 9.7 billion and 2.7 million active borrowers as of June 2018, representing a 215% and 150% increase respectively. Moreover, mobile money penetration is increasing with 11 million accounts; 2 million monthly transactions with a total of value of EGP 955 million; and 100,000 agents for mobile wallets.

Moving forward, the Government is committed to ensuring these reforms yield stronger impact in terms of addressing geographic and gender disparities, and several key regulations were adopted to that end. For example, decisions were issued to allow the use of mobile payment for microfinance activities and to maximize the engagement of relevant actors in mobile money services and loan disbursement/repayment, and to maximize the use of the E-Payment in microfinance activities. To maximize the engagement of relevant actors in mobile money services and loan disbursement/repayment, the Government is issuing three decrees defining the eligibility criteria and necessary documentation to obtain mobile payment licenses and e-payment to microfinance companies and NGO-MFIs.

Moreover, and building upon what is considered to be one of the top secured transactions laws in the region (namely the Secured Transactions Law of November 2015, and its Executive Regulations of December 2016), the Government has further strengthened the implementation of the framework for secured transactions by launching the electronic collateral registry for security interests in March 2018. This should increase private sector access to credit, particularly MSMEs, and enhance the financial sustainability of the financial sector in Egypt.

To reach the top of the pyramid, and with a view of broadening access of investors to funds, the Government has introduced amendments to modernize the Capital Markets Law No. 95 of 1992,

through Presidential Decree operationalizing Law No 17 of 2018 on Capital Markets Law, to encourage fairer and more efficient capital markets and broaden access of investors to funds. This amendment, among others, institutes further transparency by allowing for better adherence to the International Organization of Securities Commission standards and objectives; improves consumer protection and anti-manipulation provisions; increases competition in the marketplace; encourages fair treatment of shareholders; and protects minority shareholders' rights.

Private Sector Development

Eliminating constraints on private sector development and boosting investment is an integral part of Egypt's vision and significant efforts are being exerted to foster a thriving business environment that supports the role of the private sector as the main driving force of the development process. In that context, major strides are being taken to implement reforms that would enhance the legislative, institutional and administrative environment, promote gender equality, support SMEs, and nurture the entrepreneurship ecosystem, to achieve high levels of sustainable and inclusive growth. These reforms have been designed taking into account recent economic developments in global markets, and factoring in the rapidly changing technological landscape, ensuring innovative solutions and tools are effectively tapped on.

Among these strides, is the enhancement of the regulatory framework governing companies, through amendments made to the Executive Regulations of the Companies Law, to improve and modernize corporate governance and provide better minority protection. This is expected to encourage an expansion in the activities of private equity and private capital firms and facilitate access to finance to startups and SMEs. Further, as part of the ongoing reforms to improve ease of doing business in the country, as per the Doing Business reforms action plan, the Government aims to reduce the number of steps to establish companies, in order to improve the business environment. This will help increase the country's ranking in this area as measured by the World Bank's flagship Doing Business report by 2020.

Continuing in this effort to improve the business environment especially in lagging and frontier regions, investor facilitation services will be provided in selected underdeveloped regions of the country. The Government plans to provide these services in two governorates in the Upper Egypt region and/or frontier governorates, to help facilitate establishment and operations of businesses, and also improving transparency and predictability for investors. This complements ongoing and planned efforts to improve development outcomes in underdeveloped areas of the country and spread prosperity evenly nationwide.

Strong efforts are also underway to support the creation of a vibrant and supportive entrepreneurship and startup investment ecosystem that capitalizes on the entrepreneurial potential in Egypt. Empowered by the new Investment Law, which provides several tax and non-tax incentives for SMEs, the Egypt Entrepreneurship Program was launched, comprised of four essential pillars: funding, qualifying entrepreneurs, entrepreneurship service centers, and new legislative and regulatory reforms. Together, these four components represent the foundation of a robust and comprehensive trajectory to advance entrepreneurship across the country. In order to facilitate this, Fekretak Sherketak was launched in 2017, a comprehensive platform designed to catalyze the entrepreneurial ecosystem via nation-wide start-up service centers and joint investments with the private sector and international financial institutions into leading venture firms and accelerators. The initiative is a reflection of the Government's commitment to ensure that entrepreneurs are equipped the tools they need, including finance, advice, and networks, that

would enable them to innovate and grow. In addition, to ensure effective private sector development, in particular with regards to promoting and facilitating SME participation in public procurement, the Government has taken a bold step by amending the Public Procurement Law, which introduces measures specifically designed to promote greater opportunities for SMEs, provides for more transparency, and aligns with international standards.

The Government also recognizes that access to land and security of land tenure is a constraint for private sector investment. To improve the efficiency of land administration and help move towards alleviating this constraint, the Government undertook a bold and acutely-needed reform on improving property registration. This reform will improve transparency and quality of information and provide users with proper grievance redress mechanisms to improve land registration.

Moreover, Egypt has taken major step forward regarding the regularization of the ride-sharing industry, becoming one of the first countries in the Middle East to pass such progressive regulation mainstreaming the application of sharing economy. This was achieved through the endorsement of the Ride Sharing Law No. 87 of 2018 which regulates the application of the services in Egypt and enhances consumer protection. This is expected to have a significant impact on job creation, particularly for younger segments.

Strengthening Fiscal Management

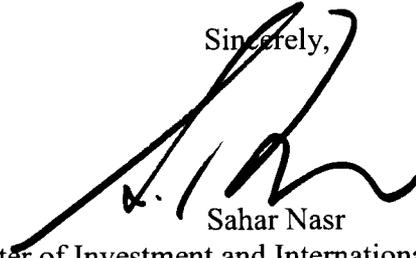
Under this pillar, the Government has taken significant reforms towards enhancing fiscal management by following a consolidated and coordinated approach to simplifying tax payment, adjusting electricity and fuel prices to enhance fiscal consolidation, developing a debt management strategy, and establishing a predictable funding flows of central transfers to finance local government capital investment planning. The overarching aim of these efforts is to enhance fiscal management and to foster inclusive and sustainable growth across the country.

A significant step towards e-government that brings more efficiency to the tax administration has been taken, through making electronic filing of tax returns mandatory for Legal Persons, thus replacing manual filing to increase efficiency and transparency. Substantive reforms have also been made aiming at adjusting electricity and fuel prices, and the Government is committed to continuing energy subsidy reforms in the future, aiming at utilizing the saving generated to enhance fiscal consolidation and allocating higher budgets for the more targeted conditional cash transfer program for the poor and marginalized sections of the society. With the aim of sustaining positive economic performance and managing the debt the Egyptian government has developing and updating its expanded debt management strategy, which aims at improving Egypt's debt profile, increase fiscal discipline, and enhance market development and investors' confidence. In addition, to enhance transparency, the Cabinet approved the application of a formula-based medium-term capital allocation system for Governorates and districts to enable effective use of public capital resources. The Government remains committed to continuing and building on these reforms, to enhance fiscal sustainability, and ultimately improve development outcomes.

This comprehensive reform program is already yielding promising results, whereas following the implementation of bold reforms in fiscal consolidation, energy, and business environment, real GDP grew at 5.3 percent in FY2017/18, compared to 4.2 percent in FY2016/17. Headline inflation slowed to an annual 16 percent in September 2018 from a record 33 percent in July 2017. Similarly, core inflation fell to single digits in July for the first time in more than two years. The overall fiscal deficit narrowed by more than 1 percentage point to 9.8 percent of GDP in FY2017/18 from 10.9 percent of GDP the year before.

With strong dedication and firm commitment at the highest political level, strong efforts are being exerted to build on the momentum of progress achieved, and propel the economy forwards. Through a clear Government program, and bold reforms, planned measures along these lines will enable a broad transformation of the Egyptian economy, through promoting efficient and balanced spatial development, unlocking the potential of the private sector to expand economic opportunities and job creation, and ultimately promote inclusive and sustainable development.

Sincerely,

A handwritten signature in black ink, appearing to be 'S. Nasr', written in a cursive style.

Sahar Nasr

Minister of Investment and International Cooperation