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Report on the Implementation of the Investment Policy Review

Egypt

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Report on the Implementation of the Investment Policy Review of Egypt

1. Introduction

The Investment Policy Review (IPR) of Egypt was published in 1999. It was one of the earliest IPRs to be conducted and made recommendations to improve the investment framework, the investment promotion effort and strategy to attract and benefit from foreign direct investment (FDI) in selected business activities.

The Government of Egypt invited UNCTAD to assess the extent to which it has implemented the recommendations of the IPR. A mission to Egypt was conducted in February 2005 and its findings are contained in this Implementation Report. This report was prepared by Rory Allan and Fiorina Mugione under the direction of Taffere Tesfachew and Khalil Hamdani. A preliminary version of this report was discussed at the Commission on Investment, Technology and Related Financial Issues on March 2005.

2. Summary of Findings

The IPR reported on conditions in 1998 and this has been taken as the base year from which to assess the extent of changes. In summary, the key findings are:

- On the **investment framework**, the majority of the policy recommendations have been implemented, mostly in the last two years. In some cases, reforms have surpassed expectations. Changes in administrative procedures and machinery have begun, but only recently. Thus it is still an open question as to whether they will be fully implemented and sustained and, crucially, whether improved governance can be inculcated throughout the large government bureaucracy, including in the regions.

- On **investment promotion**, the recommendation has been adopted to transform GAFI, the investment agency from a regulator to an investment promoter and facilitator. The initial effort has been a pragmatic and sensible focus on improving investment facilitation and after care. Development of investment attraction strategy and capacity has begun and will prime focus of the 2005 agenda.

- **FDI performance** has been weak over the period even taking into account external factors such as the Asian financial crisis and the recent slowdown in global FDI inflows. Egypt's FDI data is unreliable and may understate FDI inflows. Efforts are under way to improve FDI statistics and reliable figures should be available before the end of 2005. The Central Bank of Egypt has adopted the international guidelines for FDI data collection and it is revising the balance of payments statistics series. According to the World Investment Report, FDI in Egypt totalled in 2004 a record $1.2 billion.[1] Currently, interest

[1] UNCTAD (2005). *World Investment Report. Transnational Corporations and the Internationalization of R&D*. United Nations publications Sales. No.E.05.II.D.10.

by new investors is picking up and some investors established before 1998 have dramatically increased capacity.

The new Government, appointed in mid-2004, is spearheading an accelerated pace of reforms of the investment framework. A Ministry of Investment was created within the new Government and this is injecting additional dynamism into investment-related policies and institutions. A progressive new management team has been appointed to the General Authority for Investment and Free Zones (GAFI).

A checklist of initiatives shows a strong implementation record. Also the tone has changed since 1998. The current Government is listening more to investor concerns and acting more quickly on them. Moreover, a vision may be taking hold among legislators and policy makers that entails a groundbreaking change in the relationship between the public and private sectors - one that its architects are confident will enable private investment to flourish and to benefit Egypt. In short, therefore, an impressive agenda and leadership is now at work to improve investor conditions and to enhance the flow and benefits of FDI.

Of course many of the regulatory and institutional reforms only enable Egypt to catch up with good practice elsewhere. Alternative locations for FDI have not stood still since 1998. Egypt has slipped in the World Competitiveness Report rankings from 40th in 1998 to 62nd in 2004. However, it ranked 53rd in 2005. Some established and new investors have found Egypt sufficiently competitive to substantially increase their manufacturing export capacity.

3. Implementation of recommendations on the investment framework

FDI entry

Some formal restrictions on **FDI entry** have been eased since 1998. The 49% ceiling on foreign ownership in commercial banking and insurance has been abolished. Major international banks such as CCF, HSBC, Crédit Agricole and Barclays have increased their presence in banking. Allianz among others has entered the insurance market. Some professional services are a closed shop and foreign investment is restricted in import agencies and distributorships. Restrictions noted in the IPR on foreign ownership of agricultural land have been abolished in 2005.

Apart from those exceptions, almost all Egyptian commercial activities that are open for private investment are also open to FDI. State enterprise is still quite pervasive but in most sectors does not operate to the exclusion of private, including foreign, investment. In the absence of an FDI law there appears to be no single statement as to which activities are restricted to foreign investors, perhaps because such restrictions are so few. A forthcoming FDI policy statement should assist.

There is no explicit screening of foreign investment by GAFI as part of its company establishment procedure. (See below.)

Establishment and operation

Business start-up has improved since 1998 in ways recommended by the IPR. The fundamentals have not changed but it has been speeded up. GAFI now performs the registration procedure for both Law 159 (non-incentive) and Law 8 (incentive) companies, as recommended. In January 2005, GAFI opened a full fledge **one-stop shop** to facilitate establishment procedures as recommended in the IPR. As of July 2005, GAFI has also opened other branches for its one-stop shop in Alexandria and three more are soon to open. The number of procedural steps has been reduced, the system is computerised and in some instances regulation has eased to enable a company to begin operating pending security clearance. Average time taken to register a company over the last 4 weeks was reported to be 3 days. In 1998 the procedure could take from 1-6 months. This is impressive, given that the Law 8 company registrations also entail screening of eligibility for fiscal incentives.

GAFI's one-stop shop includes representation from many government agencies that issue regulatory permits and approvals. In other cases GAFI acts as a window to receive applications. GAFI has encouraged these agencies to set up units within the one-stop shop that as far as possible are fully empowered to grant approvals. Of course, there are some permits in complex matters where the processing must be done in the parent ministry. The table in the Annex shows the representation in GAFI and whether approvals can be given in-house.

The changes are quite recent but should in short order dramatically reduce business start up time. Given the current rate of progress there is reason to expect that there will be further streamlining of procedures, including of those directly controlled by GAFI.

The one-stop shop has only just been established and GAFI officials indicated that the set up would be complete by the end of 2005. There is still much to do including:

- Replicating the one-stop approach in GAFI offices outside Cairo,
- Developing an outreach programme in the key regulatory ministries and regions not touched by the one-stop shop. These include land acquisition and property development, which entail major registration and permitting delays.

Privatisation had been slower than expected until 2003 and the Government had not entirely withdrawn from investing in new businesses. Privatisation transactions were 16% fewer in 1999-2003 than in the previous six years and the value of sales proceeds fell by nearly 30%. However, since 2003, transactions involving sales to strategic investors have accelerated and include a number of acquisitions by foreign investors, notably in the cement industry. Total proceeds tripled in 2004-2005 and totalled 9.8 billion Egyptian pounds.

Yet many companies remain in state ownership. These include important services such as fixed line telecommunications, electricity, gas distribution in which state ownership has precluded direct private investment. Many reasons have been put forward for the slow pace including the prospect of large job losses, the daunting reinvestment requirements for modernisation, the setting of unrealistic reserve prices, the wish to retain control over "strategic" industries, and, in some cases, the need for prior regulatory reform. Undoubtedly, there are complex issues and deep adjustment problems have been generated by decades of widespread state domination of large sections of industry and services.

Privatisation is now the responsibility of the new Ministry of Investment and is being vigorously re-launched with more flexible procedures and a "no sacred cows" approach. A total of 175 companies have been designated for privatisation (54 in 2005) and, where suitable, will entail sale to strategic investors. No restrictions will be placed on FDI in these transactions. More flexible and market oriented valuation procedures will be applied. The Government will absorb more restructuring costs and fiscal incentives will apply. The Government has announced (3 March 2005) that it will divest of its stakes in all joint venture companies and joint venture banks as well as its ownership of a public petroleum company and an insurance company (privatization of Bank of Alexandria and Telecom Egypt has been announced). By the end of 2005, the privatisation record will have markedly improved. In one instance, the petrochemical industry, the Government continues to invest in purely commercial activities. It has been made clear to private investors that state minority participation will be mandatory before access to feedstock will be possible. This activity may undercut the ultimate objective of the privatisation programme.

Protection and treatment of FDI

The IPR reported no contentious issues in the **protection and treatment of foreign investors.** By 1998, 62 bilateral investment treaties had been signed and another 22 have been added since. However, it appears that only 18 have entered into force (one since 1998). No explanation has been given for this. . There have been no expropriations of foreign investment since 1998. Some investor-state disputes have resulted in international arbitration cases. One interviewee operating in a regulated sector reported that the Government had fully honoured its market-related undertakings.

On a more general note, the ministerial level **investor complaints** committee mooted in 1998 has indeed been activated and has met 25 times. This committee was given legislative backing in 2004 and its decisions made binding on government agencies. GAFI was also given the legal authority in 2004 to form an investor conciliation body, headed by a judge. Apart from these formal mechanisms, as noted above, a striking feature of the present Government is its accessibility and its willingness to listen to and act upon concerns raised by investors.

General measures

In **taxation,** several extensions have been made to the direct and indirect tax incentives introduced in Law 8 of 1997:

- The list of eligible activities was extended in 2000.
- The incentives were extended in 2003 to include acquisition of existing businesses through privatisation in return for the new investor undertaking training and R&D.

A more fundamental and important reform has been introduced that introduces a sharp reduction in tax holidays in activities and areas previously exempted by law no. 8 and a simultaneous lowering of uncompetitive general rates of corporate taxation. This applies to companies established after the enactment of the new tax law. The standard corporate tax rate is likely to be reduced from 42% to 20%. This is a welcome development. It will enable all investors to operate in a competitive fiscal regime. Detailed tax policy changes were not addressed in the IPR but it is appropriate to note here this proposal.

This change in business tax policy is a landmark in the reform programme. It offers competitive arrangements to all investors and reduces the scope for unnecessary and discretionary exemptions and intrusive compliance procedures. It seems likely that an exception will be made for the free zones. They will continue to offer lifetime tax holidays to new investors. If this exception leads to others, it may in due course undermine the landmark nature of this reform.

The IPR reported problems with **customs administration** and singled out the poor implementation of customs duty drawback for export investors. The operation of the drawback scheme was improved in 2002 by centralising funding and administrative control in a single agency, the Export and Import Control authority. More generally, important reforms have begun. Tariff rates have been reduced from a weighted average 14% to 9% and the plethora of tariffs bands reduced to six, which will simplify customs' assessments. Reforms in customs' procedures themselves have been implemented by administrative authority, aided by strong ministerial oversight in the current Government. A new law will be issued shortly to institutionalise these. Based on the detail provided, it is clear that these are closely addressed to removing unnecessary red tape. Work will now begin on all-important management and organisational reforms in the customs' administration.

Most investors interviewed report already a noticeable improvement in customs' clearance times. One investor reported the improvement as a "miracle" and another is planning to reduce its customs clearing staff from 20 to 3-4. However, the change is less noticeable for smaller investors who have less administrative resources and clout with government. Thus, the improvements are not yet systemic.

The IPR did not identify **corporate tax administration** as a serious issue although at the time around 200,000 disputed tax cases were before the courts. These disputes often arose from what all investors interviewed described as highly arbitrary tax assessments. The problem appears to have worsened, as there may now be over 300,000 disputed tax cases in court. Details were provided of comprehensive reforms in compliance procedures that have been enacted as law by the Parliament in 2005. The new law will enable the tax authorities to take a more focussed and less arbitrary approach, will introduce an independent appeals system and appoint a watchdog to safeguard taxpayers' rights. An amnesty is planned to clear the backlog of pending cases.

Foreign exchange arrangements have surpassed expectations in the IPR. The requirement for exporters to surrender 75% of foreign currency proceeds was lifted in December 2004 and, in January 2005, Egypt accepted the IMF Article VIII obligation to maintain current account convertibility. This sets the seal on a series of sustained reforms to move to a market oriented approach to exchange rate setting and stable macroeconomic policy to underpin currency convertibility.

Labour regulation was overhauled through the introduction of a unified Labour Law in 2003. Historically, government permission has been required for companies to lay off workers. Although eased and not notably burdensome in practice, this inflexibility in termination procedures remains. This is separate from the issue of handling cases of unfair dismissal, for which governments must provide appropriate grievance procedures.

Work and residence permits for non-citizen employment has improved. Previously, rules were liberal but approvals could be slow. GAFI's one-stop shop incorporates representatives of the relevant authorities and they claim that issuing delays have been reduced. For example, new work permits can be issued in 48 hours and renewals in 24 hours. Provided that foreign workers do not account for more than 10% of total employment the principal check is on the credentials of the employee. At GAFI the entry visa can be issued on the spot once the work permit is approved.

A **competition law** was being prepared in 1998. A new law, including merger provisions, was passed by Parliament in January 2004 and entered into force on 16 June 2005 and the competition authority has been established. Key implementation regulations are not in place. The law was not evaluated in detail for this report.

A new **intellectual property protection** law was issued in 2002 (82 of 2002), somewhat later than the forecast date of 2000. The new law is designed to be TRIPS compliant and gained a positive peer review at the WTO. Furthermore, Egypt's conclusion of **trade agreements** has surpassed the expectations of the IPR.

Longstanding negotiations of a partnership agreement with the European Union were concluded in 2004, enabling Egypt to secure a free trade agreement with its most important export market.

The 1997 Greater Arab Free Trade Agreement (GAFTA) free trade agreement between 17 Middle Eastern states to eliminate progressively tariff and non-tariff barriers has been implemented ahead of time (2005 instead of 2007), at least in respect of tariff barriers. Attention will now focus on reducing barriers to trade in services. Some academic research suggests that the gains to Egypt from domestic services liberalisation arising from GAFTA would exceed those from goods and that FDI would be particularly beneficial in such a liberalisation. The ultimate goal is creation of common market. As yet there is no firm timetable for addressing regional investment.

Not anticipated in the 1998 report was Egypt's negotiation of a system of "Qualifying Industrial Zones" (QIZs) with the US. These will allow non-reciprocal duty and quota access to the US market from seven areas within Egypt provided products contain sufficient Egyptian and Israeli content. They will be especially attractive to the textiles and garments' industry. Within days of its announcement recently the QIZ scheme had attracted hundreds of investor enquiries from home and abroad.

4. Implementation of recommendations on investment promotion

Changes in the mandate, resources and capabilities of GAFI

The IPR recommended that GAFI's foreign investment promotion role be strengthened. This would entail both a reorientation of its mandate from a regulatory authority to a promotional agency and more active investment generation as well as improved investor facilitation, business support and after care services.

The Government's approach has been pragmatic and focussed initially on **improving investment facilitation and after care** to remove impediments caused by the country's cumbersome administrative procedures. Measures include:

- **The creation of a Ministry of Investment** bringing together the Public Asset Management programme, the General Authority for Investment and the Free Zones (GAFI), the Capital Market Authority, Cairo and Alexandria Stock Exchanges, Mortgage Finance Authority and Egyptian Insurance State Authority (EISA). The Ministry has set performance targets on planned reforms and tracks their pace of implementation. Quality performance targets have yet to be established but they are under review.
- **Reorientation of GAFI**: The mandate of GAFI has been changed by the enactment in 2004 of a new Law no.8 chapter (chapter 4) on facilitation of investment procedures and the issuance of a Presidential decree (no. 316 of 2004) to regulate its functioning. The Presidential decree provides for the appointment of a new Chairman and three deputies or vice Chairmen each with specific responsibilities, appointed for one year, renewable. There is an enlarged board of 12 members, with membership of the three deputies and of nine investors and other experienced persons. Today the **majority of the Board is from the private sector** as recommended in the IPR. GAFI also established a board of trustees including representatives of investors, exporters and entities providing services to investors. This board reviews investment problems and ways of solving them, and gives advice to GAFI on investment promotion. GAFI is beginning to make a smooth transition from a regulatory body to a facilitation and promotional agency. So far it has redeployed key staff and recruited new staff both at managerial and at some lower level positions to inject the required skills in investment promotion. Staff has received some training, mainly through mentoring but there are clearly still unmet needs for developing required skills. As of June 2005, GAFI entered into a long-term agreement with MIGA to provide the technical assistance needed by GAFI.

- **The establishment of GAFI one stop shop** for welcoming investors and for facilitating entry and establishment procedures. GAFI opened office in a new building hosted together with the office of the Ministry of Investment. **The new office facilities are excellent** and constitute a welcoming front end dealing with investors, while remaining staff at the back office only engage in support activities. The one-stop shop began operating in Cairo head office in December 2004, opened in Alexandria in 2005 and will soon open in the three other GAFI offices - in Assiut, Giza and Ismailia. It is also planned to use partner agencies at the governorate level as outlets connected to GAFI's main offices to facilitate business establishment throughout the country. The one-stop shop features an attractive layout beginning with a welcome centre staffed with multilingual assistants and three legal counsellors. Other areas house representatives of the key regulatory agencies. A GAFI staff member is assigned to walk the investor through the entire process. GAFI legal and sectoral advisors are available in the premises. 60 80 queries per day are being received from local and foreign investors. The one-stop facilities are very recent and have not yet extensively advertised. They should become a promotional tool and generate information of speedy processing times to be used in promotional material.

Developing an investment promotion strategy

The IPR recommended that Egypt's investment promotion strategy should build on the country's competitive strengths but also aim to attract new types of investment that will enable Egypt to better integrate into the global economy. In light of this diagnosis, it was suggested that it would be opportune to involve the private sector in a thorough review of the incentives framework, and to give higher priority in creating attractive conditions for FDI to infrastructure improvement, - involving physical, technological and educational infrastructure.

In addition, the IPR suggested that a key strategic objective should be to upgrade FDI in Egypt by orienting it more towards higher value added production. For upgrading, after care services to established investors were singled out as of paramount importance.

Work has begun on a master plan for investment promotion strategy. This is supported by MIGA, involving at the first stage the establishment of a strategy and research leading to FDI targeting by creating investment packages around potential opportunities in new sectors, and marketing investment opportunities in Egypt. It will include direct assistance to GAFI for the development and implementation of investor facilitation and servicing programmes coupled with intensive staff training, and assistance in developing information material. Coordination will also take place with the Industrial Modernization Centre (IMC) of Egypt on targeting sectors.

The after care functions have already been assumed by the newly established **GAFI Investors Relations Unit**, headed by a new manager that will be leading a group of about ten people, mostly redeployed staff. The unit is mandated to maintain an investor tracking system to follow up on issues raised investors and to help with problem solving. A research function is being set up for policy advocacy as well as for internal monitoring of all procedures' facilitation. The unit will also develop sector analysis to assist in targeting existing investors to reinvest and upgrade, to build linkages with local firms and, where feasible, to expand production from the local to the regional and global market. Support to existing firms is considered a priority, as it can be an important source of additional investment, either through sequential investment or through a positive signal to potential investors. The following promotional tools are being developed:

- **Investment information.** Under the law, GAFI is mandated to collect, provide, and update investment data and information and to regularly disseminate quarterly bulletins via local branches, Internet websites, and offices abroad. Efforts are under way to improve data collection and analysis.

Towards that end, GAFI is implementing an Integrated Information Investment System. Phase 1 aims to link GAFI with all of Egypt's 7 Free Zones. Phase 2 aims to link Egypt's 40 industrial zones to GAFI. Training has been undertaken to launch both phases. GAFI will also provide more insights on FDI in Egypt according to generated employment, exports, sector and type of activity to facilitate the targeting of specific functions. Information material being distributed at the one-stop shop but it needs updating and refreshing. Printed promotion material has been produced since 1998 annually by GAFI and there have been improvement in its presentation quality. Efforts are under way to provide investors regularly with market intelligence that is timely and accurate.

- **Websites.** The Ministry of Investment (http: www.investment.gov.eg) undertook a very good initiative to launch an Investment Portal. It has been online since January 2005. This is just the first phase and there will be upgrading in the second half of 05. The portal should seek contributions from GAFI and all other stakeholders to advertise the one-stop shop, providing a flow chart on how to invest in Egypt, and key investment opportunities. GAFI and investors association should regularly feed the portal with investment news and success cases. The portal should have more and direct links to other websites featuring specialized investment opportunities, and should provide for on-line forums on special topics, and improve on problem solving. The portal has a good search facility. However, the registration and business matchmaking are not yet user friendly. GAFI (http: www.gafinet.org) has a website that is available in seven languages. This multilingual approach is unique and the site design elements are simple and easy to use. The organization of information is straightforward and consistent. However, there is little information content, and generally it needs upgrading or merging with the main investment portal.

- **Promotion abroad** Seminars on investment in Egypt in targeted foreign capitals and cities have been regularly held, sponsored by GAFI, the Ministry of Foreign Affairs and/or business associations. Special advertising sections in newspapers and magazine in addition to several programmes shown on CNN on economic performance have been also appeared regularly. However, these initiatives have not been undertaken in a coherent manner for consistent branding and establishment of targeted FDI promotion. The IPR had suggested that GAFI should consider locating investment promotion offices in a selected, small number of key locations abroad and to work with other ministries. GAFI has opened an office in London in collaboration with a local business association. An assessment of performance is under way to improve its functioning and take stock of this experience before looking into new initiatives of this kind. GAFI has cooperated with the Ministry of Foreign Affairs in promotion activities abroad. Two training courses for junior and senior diplomats have been held in 2000, and with a number of outward investment agencies in operating marketing programmes abroad. More could be done in this area and it is already planned for the near future. In August 2005, GAFI planned a branding campaign with "Fleishman Hillard".

Upgrading the Free Zones

The IPR observed that free zones had benefited from investment facilitation measures, including tax and tariff incentives, and to some extent from basic infrastructure. It pointed out that a number of new zones were being proposed and it alerted that there could be just too many of them. Despite special incentives, free zones had been in the past less successful than other industrial zones in attracting investment projects. The free zones attracted a larger share of foreign capital in terms of equity participation (34 per cent, compared to 22 per cent inland), but most of the projects were small scale and had lower investment costs. More than half of the approved projects were for storage and warehouse, and many of the approved projects had a low or slow implementation rate. The IPR recommended that priority should shift from creating new zones to focusing resources, energy and time on existing free zones. In general, free zones are now more successful in creating investment opportunities based on labour force availability, strategic location, and incentives for export-oriented projects. However, since 1977, three new zones have been established and two more are being planned. Incentives have been attractive to investors and the free zones have been demand driven. They have in fact raised occupancy to almost 80 per cent in the two largest zones (Alexandria and Cairo) and close to 60 in the other five already operating. The nature of projects has also changed since 1997. Export manufacturing is the largest of total projects with very reduced relevance of storage that was earlier large.

The IPR suggested upgrading the infrastructure in existing areas and that some free zones should evolve into technology parks and/or industrial parks. The IPR also suggested that the upgrading of the zones would require not only a more sophisticated infrastructure but also the establishment of a "centre of excellence" in business services, privately operated. The reasons given were that industrial capability could be upgraded to produce higher value added products with competitive price internationally, thereby enhancing Egyptian exports. Experience of other countries with outstanding EPZ performance (Taiwan, Republic of Korea, Dubai shows that all had strong backward linkages in particular services within the zones and private operations and management. Within the Egyptian zones, there is still lack of services facilities (health and medical services, banks, telecommunication, recreation). However, there has been some progress in services offered in the zones. In addition, since 2001, 16 people at GAFI have been assigned to promote the zones, and their number is expected to rise to 35. GAFI staff has been trained to produce information and to offer tailor made services to investors. They are providing full assistance to potential investors, arranging for site visits and for the interaction with local authorities. In addition, specialized material has been produced giving information on the different zones. There have been a few targeted missions to raise investors' interest. Investment targeting to the zone to develop linkages and horizontal clusters had to date limited results. Most of the zones attract a wide range of manufacturing industries, and only one zone is fully specialized in media and another in pharmaceuticals. No data are available to estimate the cost per job created and on know-how transfer in the Free Zones and on opportunities to strengthen backward linkages that could have a catalyst effect stemming from the Free Zones. Business linkages with local firms have been developed in some cases but the involvement of GAFI was minimum in this respect.

Enhancing the role of local institutions

The IPR had raised specific problems related to attracting investment in the new cities. It suggested the set up of local development agencies as a catalyst to attract investment in the cities, to focus on local strengths and to promote aggressively their uniqueness to attract foreign investors.

Today, decentralisation is a crucial aspect of reforms, and streamlining and improving the administration of governorates will be looked into to provide more efficient services to investors. In the area of investment promotion, there are six governorates directly linked to GAFI through a common investment promotion office. However, all governorates are being solicited to embed the investment strategy into a regional development plan. In addition, the Ministry of Investment is engaging the Governorates in development of the master plan for investment promotion strategy, and providing technical support in the form of templates and advisory services locally. A benchmarking exercise has been conducted to produce Regional Investment Maps. GAFI has supported this effort. It is felt that some governorates are proactive in investment promotion while others lag behind. There are monthly meetings between the Prime Minister and the Governors for trouble shooting as a way to bring them on board. The new cities and the industrial estates are also involved, and many of them have active investors association that have played and can continue to play a useful role in promoting investment in their locations.

5. FDI attraction performance

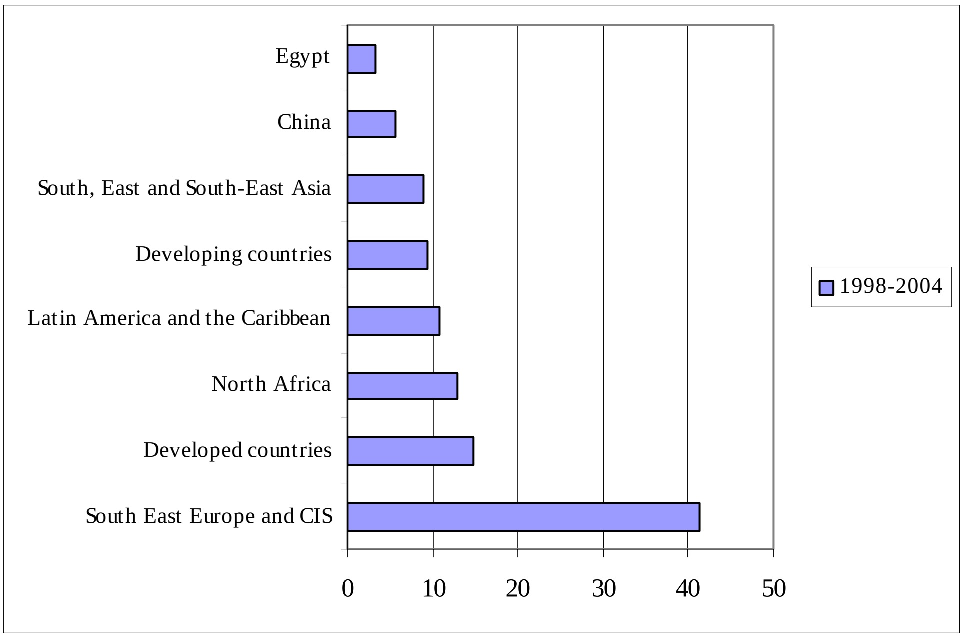
Now and historically it is likely that Egypt has under-recorded FDI inflows. This bias has been consistent over time and thus growth rates of FDI can be validly compared in the manner presented in Figure 1 below. By this measure, the growth rate of FDI stock between 1998 and 2004, it is clear that Egypt has underperformed in attracting FDI. This goes beyond the general weaknesses associated with the fall-out of the Asian financial crisis and the more recent global slowdown.

The official figures suggest that FDI inflow has averaged around $ 739 million dollars annually since 1999. These are low inflows for a country of Egypt's size and potential. Better data were available and these figures have been revised upwards. In 2004, FDI inflows totalled $1.2 billion compared to $237 million in 2003. Examples of significant developments and expansions were noted in the fact-finding mission which suggest that the FDI scene has been very vibrant:

- Upstream oil and gas exploration and development involving petroleum majors such as have taken place.
- At least two major gas liquefaction projects have been initiated involving Union Fenosa (Spain), ENI, Petronoas, British Gas and Gaz de France
- Since 1998 about 25,000 hotel rooms have been added by foreign investors, including in joint ventures.
- The massive Sokhana hub port and logistics complex has been initiated.
- CCF, HSBC, Crédit Agricole and Barclays have expanded their banking investments
- Two manufacturers visited have increased capacity to a world scale since 1998 and now have significant market shares in Europe:

- Alexandria Carbon Black (ACB), in which the strategic investor is P.T. Indo Bharat Rayon of India, has tripled capacity and now has the largest plant of its kind in the world in Egypt
- Lecico the sanitary porcelain manufacturer of Lebanese family origin has expanded capacity dramatically (25% in 2004 alone) and has the largest single production facility in this industry in the world.

Figure 1. Average growth of FDI stock, 1998 and 2004
(Percentage)



Source: UNCTAD, WIR 2005.

6. Conclusion

On improving the **investment framework**, the Government's track record compared against the recommendations in the IPR is impressive. Table 1 summarises the implementation record: Of the number of recommendations made

- The majority of recommendations have been fully or largely achieved or surpassed.
- Another quarter of the recommendations have been partially implemented.
- Only a small minority of areas have seen no change or reversal.

If the momentum for change under the new Government is maintained, it is likely that over 80% of recommendations will be achieved by the end of 2005. This "scorecard" must be read in conjunction with two important supplementary notes - one positive and one a caution. The first, and positive note, is that improvements in the investment framework are not piecemeal improvements but form part of a comprehensive Egyptian reform agenda. The second note, a caution, is that the reforms involving administrative machinery are quite recent and require an enormous programme of management reform and retraining of the civil service before they will be entrenched and sustainable.

Table 1: Summary of implementation achievements: investment framework

Recommendation	Result	Comment
Ease FDI entry in banking and insurance	***	GAFI has authority to register law no. 8 and law no 159 companies.
Expand BITs network	**	Many BITs signed but not in force.
Accelerate privatisation	**	Slow progress but very strong recent relaunch.
Establish GAFI one-stop shop	***	Impressive start, not yet bedded down.
Speed up and simplify business establishment	**	Some unnecessary procedures remain requiring change in commercial law.
Activate high level investor complaint body	****	Given legal backing with enforcement powers and supplemented by a GAFI conciliation body.
Improve tax administration	**	Await new law with modern compliance approach; management reform to start.
Improve customs administration, including duty drawback	***	Compliance procedures vastly improved aided inter alia by tariff simplification, management reform pending.
Remove foreign exchange restrictions	****	Market based exchange rate, full exporters' retention, IMF convertibility undertaking.
Ease labour termination	*	Not addressed in new 2003 law.
Improve foreign staff permitting	***	Foreign hiring quota formalised and in-house approval available in one-stop shop.
Introduce modern IP law	***	Introduced new law in 2002, designed to be fully TRIPS compliant.
Introduce competition law	**	Law and regulations not promulgated. Authority not established.
Expand trade agreements	****	New agreements with EU, Arab countries and qualifying zones for US access.

Key to table:

Key to table:	****	surpassed expectations
	***	fully or largely accomplished
	**	partially accomplished
	*	no change or reversal

On **investment promotion:** Most of the recommendations have been fully or largely accomplished. This review has found that the new Government is committed to promoting investment opportunities and has begun to introduce a "Team Egypt" approach. This is all in direct contrast to the past, which witnessed a deadlock between economic reformists and ministers advocating a more protected, State-run economy. Despite the slow start after 1998, there is a strong recent performance, which is very encouraging for the future.

Table 2: Summary of implementation achievements: investment promotion

Recommendation	**Result**	**Comment**
Change the mandate of GAFI towards an investment promotion and facilitator	***	Decision made to transform GAFI. Implemented changes in the board, redeployment and recruitment of new staff
Implement GAFI's new strategy on investment facilitation, business support and after care services	**	Positive initial focus on investment facilitation and after care
Develop an investment promotion strategy	**	Started recently, a prime focus in 2005
Use new information technology to upgrade information, produce new information material	**	Partly achieved but lacks new tools to monitor new FDI flows and capacity expansion
Open investment promotion offices in small number of key location sand collaborate with other ministries and agencies	**	Partly achieved and being reassessed after first experiences.
Limit the number of free zones	*	Too many new zones have been established
Upgrade FDI in the free zones	**	Suggested upgrading partly achieved but shifting to private management did not take place
Decentralize investment promotion	**	Good start in involving governorates in the preparation of the master plan and investment maps

Key to table:
**** surpassed expectations
*** fully or largely accomplished
** partially accomplished
* no change or reversal.

Annex 1: GAFI One-stop Shop

Business licensing representation within the one-stop shop

Ministry	Agency/function	In-house approval?
	Lawyer Syndication	Yes
Ministry of Supply and Internal Trade	Chamber of Commerce	Yes
Ministry of Supply and Internal Trade	Commercial Registry	Yes
Ministry of Supply and Internal trade	General Authority for Jewel Stamps and Weightss	Liaison Officer
Ministry of Supply and Internal Trade	Control and Distribution Department	Yes
Ministry of Justice	Public Notary	Yes
Ministry of Finance	Income Tax Office	Yes
Ministry of Finance	Sales Tax Office	Yes
Ministry of Finance	Customs Office	Liaison Officer
Ministry of Foreign Trade and Industry (MFTI)	General Oraganization for Industrialization (GOFI)	Yes
MFTI	General Authority for Standardization	Liaison Officer
	Industrial Control Authority	Liaison Officer
	Chemistry Administration	Liaison Officer
	Foreign Trade Administration	Yes
	Import & Export Control Authority	Yes
Ministry of Interior	Passport Department	Yes
Ministry of Interior	Committee of Explosives	Liaison Officer
Ministry of Health and Population	Executive Bureau for Protection from Ionised Radiation	Liaison Officer
Ministry of Health and Population	National Institute for Nutrition	Liaison Officer
Ministry of Health and Population	Administration for Private Medical Care	Liaison Officer
Ministry of Health and Population	Administration for Pharmaceutical Affairs	Liaison Officer
Ministry of Health and Population	Central Administration for Environmental Affairs	Liaison Officer
Ministry of Health and Population	HACCP Committee-Administration for Desease Control	Liaison Officer
Ministry of Health and Population	General Authority for Standardization	Liaison Officer
Ministry of State For Environmental Affairs	Egyptian Environmental Affairs Agency	Liaison Officer
Ministry of State for Scientific Research	Egyptian Patent Office	No
Ministry of Petroleum	Egyptian Geological Survey and Mining Authority	Liaison Officer
Ministry of Petroleum	Egyptian General Authority for Petroleum	Liaison Officer
Ministry of Local Development	The Governorate	Liaison Officer
Ministry	Affiliate agency	In House Approval
Ministry of Culture	Supreme Council for Monuments	Liaison Officer
Ministry of Culture	National Center for Cinema	Liaison Officer

Ministry	Agency/function	In-house approval?
Ministry of Culture	Relevant Authoriy for Issuance of Technical Licenses	Liaison Officer
Ministry of Agriculture	General Authority for Veterinary Services	Yes
Ministry of Agriculture	Department of Animal Production Development	Liaison officer
Ministry of Agriculture	General Authority for Urbanization &Agricultural Development	Liaison officer
Ministry of Agriculture	General Authority for Fisheries Development	Liaison officer
Ministry of Irrigation	General Authority for River Transport	Liaison Officer
Ministry of Irrigation	Administration of Nile Protection	Liaison Officer
Ministry of Irrigation	Administration of Irrigation	Liaison Officer
Ministry of Communications and Information Technology	IT Industry Development Authority	No
Ministry of Education	Administration of Preparing Books for Educational Purposes	No
Ministry of Defense	Security	Liaison officer
Ministry of Housing & Urban Communities	General Authority For the Development of Urban Communities	Liaison officer
Ministry of Tourism	Administration for Licensing Tourist Establishments	Yes
Ministry of Tourism	General Authority for Touristic Development	Liaison officer
Ministry of Manpower	Office of Issuance of Work Permits for Foreigners	Yes
Ministry of Transport	Maritime Transport Administration	Liaison officer
Ministry of Transport	Road & Bridge Authority	Liaison officer
Ministry of Electricity	Electric Utility Regulatory Agency	Yes
Ministry of Civil Aviation	Civil Aviation Authority	Liaison officer

Total (Ministries)	(22)
Total (Affiliated Agencies)	(52)
Total (Yes)	(16)
Total (No)	(3)
Total (Liaison Officer)	(33)