

Egypt Fishing for Investment

Since 2011, Egypt has been on a roller-coaster ride with two revolutions, various transitional governments, conflicting regimes with polarized ideologies and finally a war against terrorism. This volatility has had its toll on the economy as the country rapidly burned through its foreign exchange reserves in an attempt to maintain the exchange rate, before finally succumbing to an overdue devaluation decision. In 2017, the economy is finally stabilizing and Egypt is once again open for business. The current regime promoting Egypt as an attractive investment destination. Yet do the actions match that mantra?

Numerically, FDI in Egypt is once again on an upward trajectory; World Bank estimates have it at USD 4.3 billion in the first half of the fiscal year 16/17, compared to USD 3.2 billion during the same period the previous fiscal year. Unfortunately, these investments lack the required diversification with the oil & gas industry continuing to dominate the majority of FDI inflows into Egypt over the past 10 years. More recent years have witnessed new life being poured into the construction (as an inflation hedge & saving vehicle in Egyptian culture) and service industries (telecom & business process outsourcing).

The modality of FDI to Egypt has greatly been reliant on acquisition of an established domestic player over greenfield investment. This is reflective of the level of mistrust associated with investment in Egypt; global players are seeking local partners who are more equipped to navigate the regulatory framework and business environment. During 2016, the Egyptian market saw 10 acquisitions valued at more than \$20 billion dominated by the technology, energy, and FMCG sectors.

Egypt's ranking in the doing business report of 2017 has improved putting it at par with the region average for Middle East and North Africa; yet far behind countries with which Egypt is competing for FDI. The main improvement drivers being the ease of starting a business and the getting electricity. Meanwhile aspects such as getting credit or registering property have actually worsened. Yet those investing in Egypt should be wary that the challenge to starting a business in Egypt is not the number of steps in the process or the complexity of documents required, rather the limited qualitative advisory support that investors receive with regard to aspects such as what they can cite as the main activities, the associated tax implications, the

best form of company (legal establishment) for their requirements, and the means of guaranteeing they will be able to operate in the desired line of business (availability of land, utilities, access to finance, etc.).

On the positive side, there are many measures that support the government mission; these have taken the form of structural changes through the establishment of the Supreme Council of Investment, which studies incentives and other investment related issues. As well as reforming the industrial licensing law, and developing new economic agencies concerned with export development, food safety and SME development. Furthermore, sound economic decisions by Sahar Nasr as the new patron of investment and the Central Bank of Egypt have collectively resulted in boosted trust by Development Organization towards channeling funds for loans and equity, an elimination of the exchange rate parallel market, a stabilization in raw material prices and the finalization of the IMF deal which has improved Egypt's standing in a global context. Efforts have also been channeled toward improving the base infrastructure and addressing the energy shortages.

Yet it isn't all rainbows and unicorns, there are severe obstacles to attracting that investment. One key consideration has been the crowding out effect due to military involvement in economic activities and government reliance on internal debt exacerbating access to finance challenges by private sector investors. From a regulatory framework perspective, there have been multiple delays in issuance of investment, bankruptcy and industrial development related laws & decrees which further fuels the uncertainty fears. These fears are further highlighted by the weak implementation of the rule of law and the ongoing terrorism threats. For private equity and VC investors, the main challenges revolve around the absence of a legal context for many of their financing tools, furthermore, the current legal and institutional setup offers no good exit channels/strategies for small ticket investments.

Accordingly, in order for Egypt to really be successful in its fishing efforts, reforms have to be more aggressive and more agile. This will require political will and coordinated efforts towards greater legal and regulatory reform, transparency and enforcement. This is imperative given the rapidly changing global dynamics and the serious efforts by other fishermen to attract these investments.