



COMPACT FOR ECONOMIC GOVERNANCE

Key Findings of the Egypt Stocktaking Report

Deauville Partnership
Compact for Economic Governance
Cairo, July 3, 2019



Context

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- **May 2015, Paris:** Compact adopted
 - **March 2016, Tokyo:** Tasking from DP Senior Officials for country-level implementation
 - **November 2016, Barcelona:** Methodology endorsed, including qualitative and quantitative elements
 - **March 2017, Paris:** Tunisia & Egypt* Pilot Stocktaking Reports discussed
 - **November 2017, Rome:** Morocco Stocktaking Report discussed
 - **June 2018, Tunis:** Egypt and Jordan Stocktaking reports, and Tunisia update discussed
 - **Today:** *Making Reforms Happen in Egypt* Seminar based on the main findings of the report



Compact for Economic Governance: *Priority areas*

OVERALL OBJECTIVES: Good governance for effective public service delivery
Sound business climate for spurring inclusive growth

PILLARS

1

**Economic policies for
inclusive, sustainable growth**

2

**Public sector transparency
and efficiency**

3

**Investment climate and
private sector development**

4

Inclusive decision-making

INDICATIVE POLICY AREAS

- Macro-economic management
- Structural policies for economic diversification
- Financial sector development
- Trade, regional and global economic integration
- Active labour market policies

- Open government
- Public financial management (incl. procurement)
- Fiscal institutions and tax systems
- Regulatory and competition frameworks
- Judicial systems

- Investment legal, policy and institutional frameworks
- Business and regulatory environment; SME development
- Anti-corruption
- State-owned enterprises
- Skills development

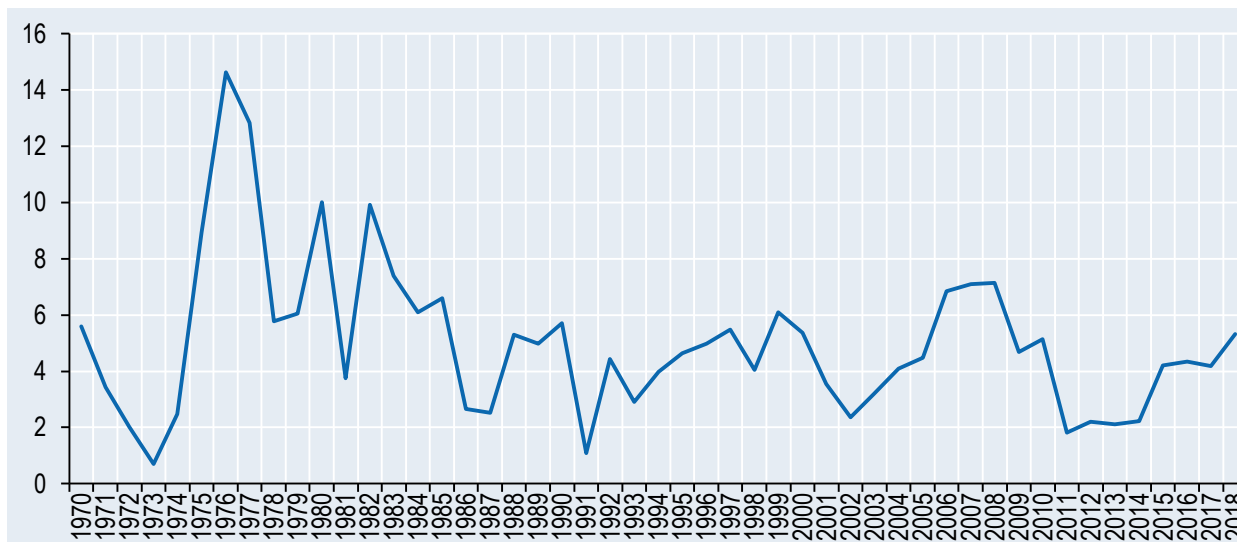
- Women and youth economic empowerment
- Women's political, social, and cultural participation
- Public-private dialogue, including private sector, civil society
- Public participation in government oversight
- Citizen's participation and digital governance



Egypt's Macroeconomic performance deteriorated between 2011-2016

- **Macroeconomic performance (2011-2016):**
 - Lower levels of growth compared to 2000-2010
 - Mounting inflationary pressures
 - Twin deficits – fiscal deficits around 10-13% of GDP; Balance of Payment Pressures in 2016

Real GDP growth (%) – 1970-2018





Reform efforts have been undertaken

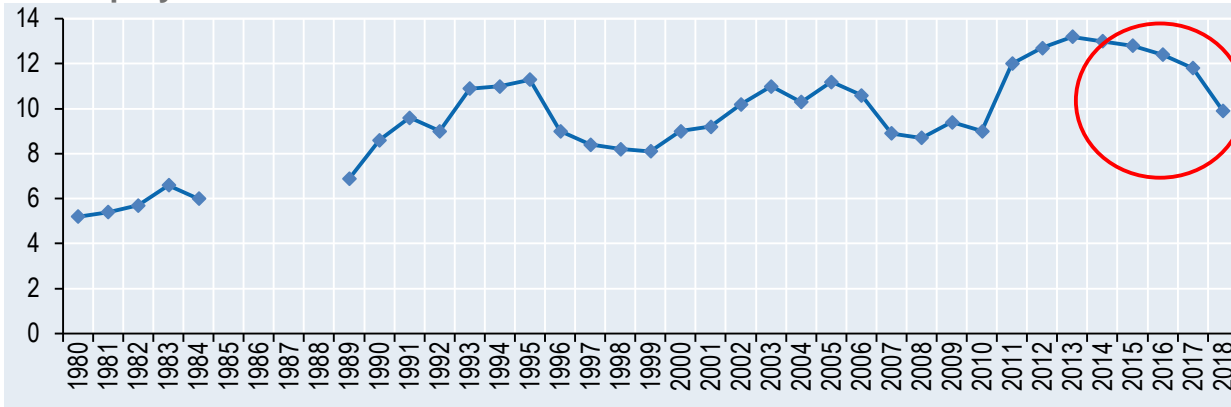
- **Reform programme (from 2015 and particularly since mid-2016):**
 - Far-reaching fiscal consolidation effort (VAT, subsidy reform)
 - Market-based exchange rate
 - Business environment reforms, megaprojects to boost investment
 - Social programmes (e.g. conditional cash transfers)



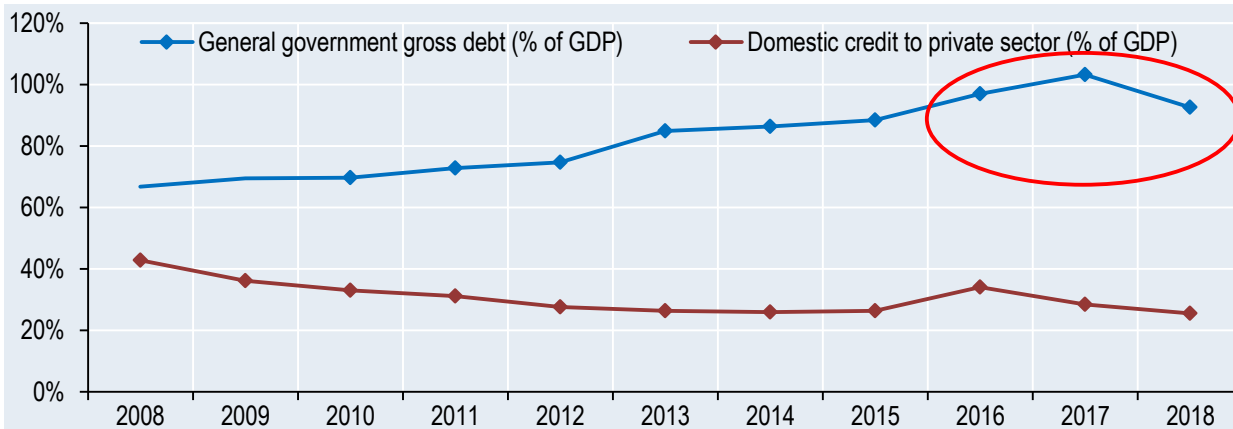
Reforms are starting to bear fruit

- **Growth** over 5% in 2017/2018
- **Inflation** subsiding 14.8% in 2018

Unemployment rate 1980-2016



Government borrowing and domestic credit to the private sector (2008-2016)





Challenges remain: key reform priorities going forward

Main message: *“Egypt has made remarkable progress in macroeconomic stabilisation but needs to enhance its structural and economic governance reform agendas to boost sustained, resilient and inclusive growth, in particular to create the jobs needed to meet the country’s demographic challenge”*

Three broad structural priorities:

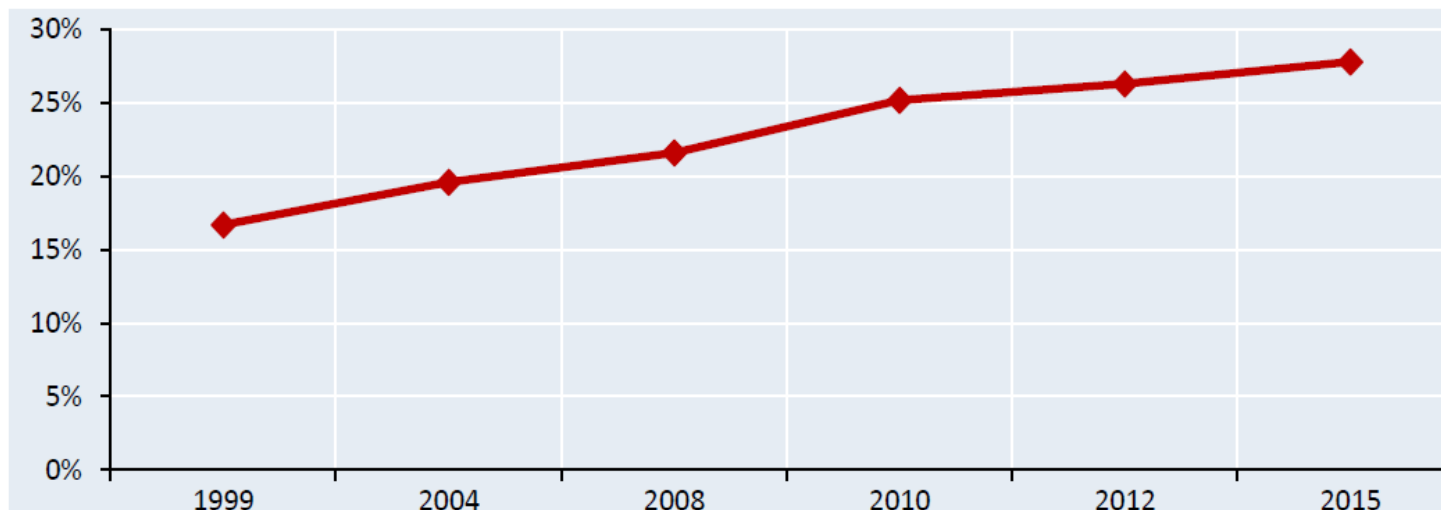
- 1. Building an inclusive and sustainable market economy**
- 2. Enhancing the transparency and efficiency of the public sector**
- 3. Building an attractive environment for private sector development**



Building an inclusive and sustainable market economy

- Despite significant improvements in the macroeconomic framework, challenges remain to make growth more inclusive and sustainable
 - Quality job creation and the importance of the informal remain a challenge
 - Poverty levels remain stubbornly high

Population below the national poverty line (% of the population)





Key reform priorities going forward

Two broad structural priorities:

1. Addressing unemployment and underemployment

- Lead labour market reforms to increase flexibility in the labour market and reduce the cost of formality; while enhancing active labour market policies
- Continue improving education including TVET
- Continue leading private sector pro-growth reforms

2. Strengthening and expanding social protection systems while removing distortive and ill-targeted subsidies :

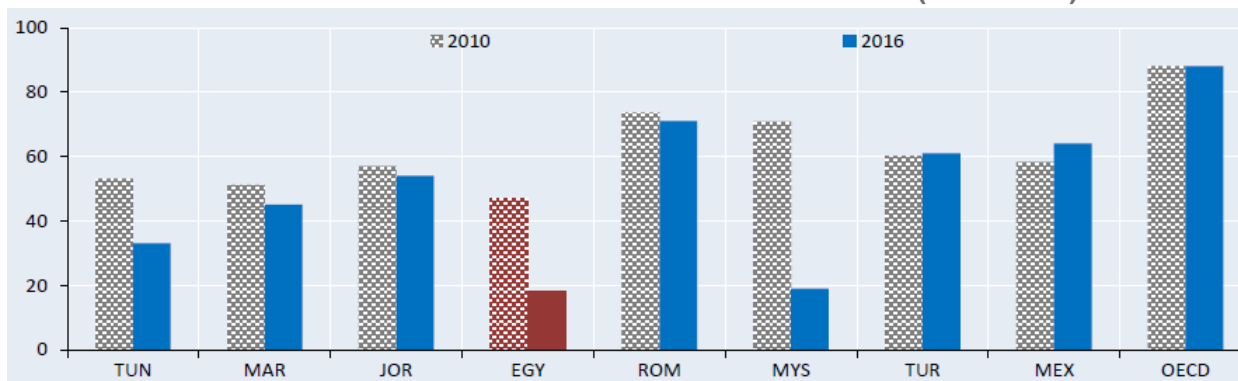
- Leverage fiscal consolidation efforts to increase social protection and enhance social programmes
- Continue improving the targeting and efficiency of social spending including through an improved registry of beneficiaries and the use of information technologies
- Continue removing distortive subsidies



Enhancing the transparency and efficiency of the public sector

- **Governance reforms will be essential to accompany the current positive trends and to ensure the efficiency of fiscal consolidation**
 - Egypt's public sector remains oversized, complex and its efficiency could be improved, including those of the SOEs
 - Open governance, transparency and anti-corruption efforts need to be strengthened
 - Tax revenues remain low because of a narrow tax base and wide spread tax evasion

Worldwide Governance Indicator for Government Effectiveness (2010-2016)





Key Reform priorities going forward

Three broad structural priorities:

1. Enhance public sector efficiency beyond fiscal consolidation:

- Stepping up the ongoing efforts to modernize the civil service, including through a more strategic human resource planning
- Introduction of administrative simplification measures and enhancing the digitalization of the administration
- Developing a comprehensive strategy to improve the corporate governance standards and transparency of SOEs

2. Step up governance and anti-corruption efforts:

- Developing a consistent and integrated vision for reforms in the area of PFM, including fiscal risk management, internal audit and PMI
- Strengthening the anti-corruption legislative framework and continue improving public procurement

3. Improve tax revenue collection

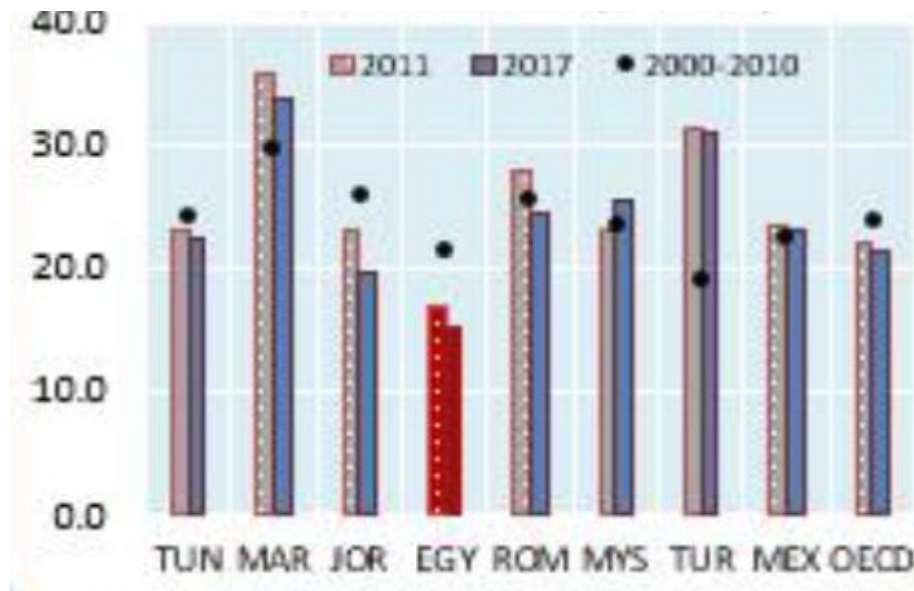
- Enlarge the tax base while enhancing the tax system's fairness; and enhance administrative capacity
- Adopt international standards such as BEPS or AEI



Building an attractive environment for private sector development

- Building a conducive business environment will be essential to face the employment challenge and enhance productivity
 - Investment levels remain low
 - Despite reform efforts the regulatory framework offers room for improvement
 - Access to finance remains one of the major constraints for private sector development

Total Investment (as a % of GDP)





Key Reform priorities going forward

Ensuring a conducive business environment will essential to sustain growth, enhance productivity and ultimately to create jobs

Two broad structural priorities:

1. Streamline the regulatory framework for investment and enterprise development:

- Continue efforts to address the business regulatory framework
- Revamp the policy efforts for SMEs

2. Expand financial inclusion:

- Improving the regulatory and competitive conditions, while improving financial market infrastructure
- Promoting financial literacy and improving SME access to finance, including through credit guarantee schemes



Egypt: Compact Implementation Plan (I)

Pillar	Short Term (1 year)	Medium to Long Term (> 1year)
I. Designing sound economic policies for an inclusive and sustainable market economy	<ol style="list-style-type: none"> 1. Continue fiscal consolidation in line with the objectives set in the IMF programme with a specific focus on fuel subsidy reform (automatic fuel indexation) and mitigation of fiscal risks (including contingent liabilities) 2. Maintain a prudent monetary policy to contain inflation and bring it down to the single digits over the medium term; revise the Law of the Central Bank and the Banking System 3. Maintaining a flexible exchange rate regime to rebuild reserve levels as a buffer against future shocks 4. Dedicate part of the fiscal savings arising from fiscal consolidation efforts to social protection and social programmes 5. Continue strengthening the coverage, effectiveness and targeting of social protection programmes, including <i>Takaful and Karama</i> ; mitigating the impact of high inflation 	<ol style="list-style-type: none"> 1. Strengthen the independence and transparency of the CBE and prepare the ground for an inflation-targeting approach to monetary policy 2. Accelerate the work to create a unified registry of beneficiaries for social safety net programmes 3. Review existing labour market legislation to address key constraints to job creation; strengthen active labour market policies 4. Undertake a comprehensive reform of the education (including TVET) system to improve quality and reduce skills mismatches. 5. Design and implement a comprehensive strategy to tackle the informality phenomenon
II. Enhancing the transparency and efficiency of public institutions and processes	<ol style="list-style-type: none"> 1. Step up the ongoing efforts to modernise the civil service by review the operational performance of economic authorities, considering their inclusion in the state budget 2. Develop a consistent and integrated vision for reforms in the area of PFM in the form of an Action Plan or a Strategy. 3. Ensure the effective implementation of the 2014 National Anti-Corruption Strategy and strengthen the powers, independence and transparency of existing control institutions (including ACA and CAO). 4. Finalise the parliamentary approval of a new public procurement law based on international best practices and introduce an online procurement portal 5. Continue expanding the tax base, including by avoiding the introduction of new tax exemptions and tax credits 6. Improve tax administration and reduce tax compliance costs, including through a simplified, turnover-based tax regime for SMEs. 7. Continuing and scaling up business regulation streamlining and simplification under ERRADA 	<ol style="list-style-type: none"> 1. Prepare a digital government strategy 2. Develop a comprehensive strategy to improve the corporate governance standards and transparency of SOEs, leveraging the IPO programme 3. Improve the planning and monitoring of public investment projects through a full-fledged Public Investment Management System (PIM), following on existing discussions. 4. Introduce ICT systems to improve the effectiveness and efficiency of the judiciary and undertake a comprehensive justice sector reform programme. 5. Developing and communicating a comprehensive vision for tax reform in the form of a clearly-defined strategy. 6. Enhancing Egypt's engagement on international tax cooperation, including by joining the Multilateral Convention on Mutual Assistance in Tax Matters 7. Adopting ex-ante and ex-post mechanisms to enhance regulatory quality (e.g. RIA, ex-post evaluation systems)



Egypt: Compact Implementation Plan (II)

Pillar	Short Term (1 year)	Medium to Long Term (> 1year)
III. Building an attractive environment for investment and private sector development	<p>13. Ensure the effective implementation of recent reforms including (a) new industrial license law and implementing regulations; (b) sole proprietorship law; (c) customs regulatory simplification.</p> <p>14. Implementing the new policy framework for SME development (i.e. new law) and develop a strategic approach to SME development</p> <p>15. Develop an investment strategy building on the approval of the new law.</p> <p>16. Adopt key measures to strengthen financial infrastructure (including the introduction of a collateral registry) and implement the recently-adopted insolvency law in line with international best practices.</p>	<p>13. Develop a comprehensive approach to facilitate access to land, including greater transparency and efficiency in the allocation of industrial land</p> <p>14. Strengthen competition enforcement, building the capacity of ECA</p> <p>15. Develop and implement a comprehensive export promotion strategy led by the Export Development Authority.</p> <p>16. Building on recent reforms, undertake a comprehensive review of the company law, including corporate governance standards</p> <p>17. Promote financial education and literacy, including the possible development of a national strategy with specific actions concerning SMEs and informal firms</p> <p>18. Promote the development of alternative sources of finance to offer alternatives to bank lending, including equity finance and leasing</p>
IV. Involving the public and civil society and the business community in decision-making	<p>13. Develop a multi-dimensional youth empowerment strategy</p> <p>14. Developing active labour market policies, including specialised programmes for the youth and job intermediation schemes.</p> <p>15. Develop and implement a comprehensive and multifaceted plan to improve women participation in the labour market in co-ordination with the National Council of Women</p>	<p>17. Develop structured and transparent mechanisms and platforms for public consultation and dialogue with stakeholders (including public-private dialogue)</p> <p>18. Removing any remaining legal provisions which discriminate against women</p> <p>19. Enhance CSO autonomy by reducing the level of government controls and reviewing the Associations Law</p>