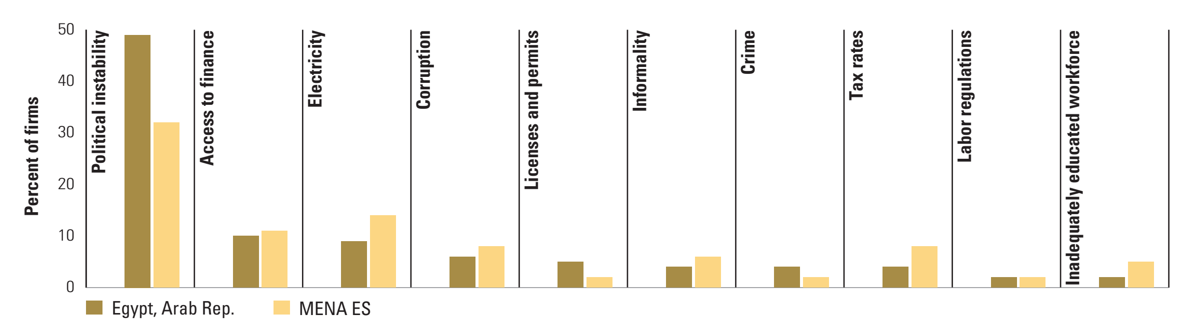
ARAB REPUBLIC OF EGYPT

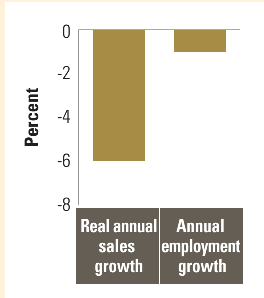
FIGURE 1: Ranking of the top business environment obstacles for firms in Egypt



Political instability is the top obstacle reported by Egyptian firms

Nearly half of Egyptian firms choose political instability as their top obstacle, which was higher than the MENA ES average (figure 1). The uncertain business environment that followed the 2011 uprising and developments in the summer of 2013 was reflected in firms' economic performance: between 2009 and 2012, the typical firm in Egypt saw revenues decline by 6.4 percent per year and employment by more than one percent per year (figure 2). Access to finance is named as the top obstacle by one in every ten firms—not surprising, given that fewer than 60 percent of firms have a checking or savings account and only 6 percent of them have a bank loan or a line of credit. Electricity issues emerge in third place, linked to a major deterioration in electricity supply reliability in 2012, the reference year for the survey. Although named as the top obstacle by only 6 percent of firms, corruption is widespread: 17 percent of firms report being exposed to at least one bribe request.

FIGURE 2: Sales and employment growth



Access to finance remains a key issue for Egyptian firms

Banks account for only 2 percent of firm finance in Egypt, well below the MENA ES average of 12 percent. The low prevalence of bank finance is mirrored by a high share of disconnected firms—those that did not apply for a loan because they have sufficient capital (figure 3). The fact that 40 percent of formal private sector firms do not have a checking or savings account (figure 4) and therefore do not use the financial system even for payment services suggests that the disconnect is structural. Anecdotal evidence suggests that Egyptians themselves characterize their economy as a cash economy. This is in line with the strong role typically ascribed to Egypt's informal economy—estimates from the Egyptian Center for Economic Studies suggest that it constitutes around 40 percent of GDP and 66 percent of total non-agricultural private sector employment.

FIGURE 3: Degree of connection to the banking sector

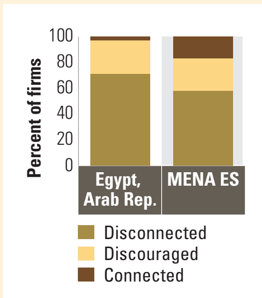
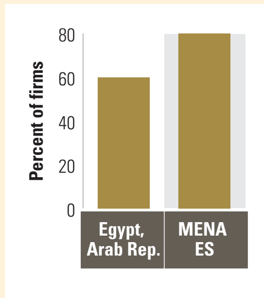


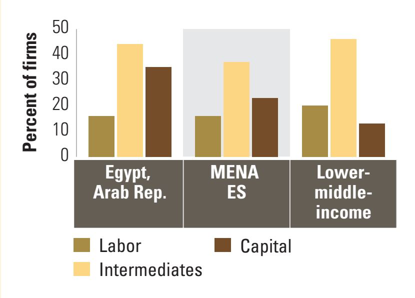
FIGURE 4: Firms with a checking or savings account



Egyptian manufacturers have high capital intensity and the use of capital seems inefficient

Egyptian firms have labor productivity levels on par with firms in lower-middle-income economies. Where they lag behind is in total factor productivity (TFP), which measures the efficiency of use of not only labor, but also capital and intermediate inputs. When comparing the median factor shares of the three main inputs used by manufacturers—their labor, intermediate inputs, and capital costs—Egyptian manufacturers are more capital-intensive than the average manufacturer in MENA ES as well as in their peer economies (figure 5). Among the MENA ES economies, only Tunisian manufacturers are more capital-intensive. This can partly be explained by the presence of energy subsidies, which distort production structures by promoting energy- and capital-intensive industries.

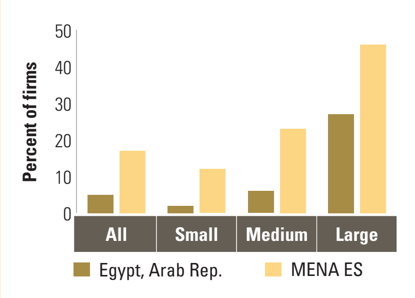
FIGURE 5: Median factor shares



Compared with larger firms, SMEs in Egypt are less likely to provide training to their employees

Egypt is suffering from a mismatch between labor supply and demand, particularly in the area of technical and vocational skills. Post-secondary vocational education and training are often perceived as low status and low quality, without systematic engagement of employers in developing the programs and curricula. Moreover, only 5 percent of Egyptian firms offer formal training, far lower than the MENA ES average of 17 percent. The difference is driven primarily by the low percentage of SMEs providing formal training for their employees—only 2 and 6 percent of them do so, compared with 12 and 23 percent in the MENA ES region on average respectively (figure 6). Lack of skilled workers affects fast-growing firms in particular, and as such, has important implications for aggregate growth and productivity.

FIGURE 6: Firms offering formal training



Due to the large domestic market, fewer firms are engaged in international trade

Given the large size of its domestic market, it is not surprising that Egypt has one of the highest proportions of non-trading firms in the MENA ES region. Almost half of all manufacturing firms do not engage in either export or import activities (figure 7). Moreover, only a quarter of firms in Egypt are engaged in at least one type of innovation, compared with more than two-thirds in the MENA ES region (figure 8). This may be due to the fact that the Egyptian market is vast and underserved, which means that firms do not need to compete for customers and hence do not feel the pressure to innovate. Moreover, only 3 percent of firms engage in knowledge acquisition, either through R&D or other sources. Compared with other MENA ES economies, this proportion is particularly low in high- and medium-high-tech manufacturing sectors.

FIGURE 7: Firms by trade status

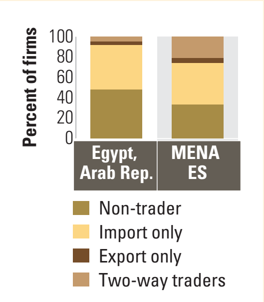
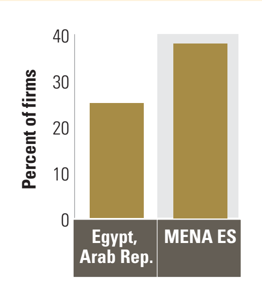


FIGURE 8: Firms engaged in at least one type of innovation



The Economy Fiches summarize the economy-specific findings of the report "What's Holding Back the Private Sector in MENA?" Note that annualized sales and employment growth statistics are calculated using the reference years 2009 and 2012; these reference years are used due to when the Enterprise Survey was administered. The findings, interpretations, and conclusions expressed in this fiche are entirely those of the authors. They do not necessarily represent the views of the European Bank for Reconstruction and Development/European Investment Bank/World Bank and its affiliated organizations, or those of their Executive Directors or the governments they represent.