

Summary of Proceedings

Egyptian National Investment Reform Agenda Workshop

17th May, 2006

On May 17th, the MENA-OECD Investment Programme in co-operation with the Ministry of Investment of Egypt and the General Authority for Investment and Free Zones highlighted the progress on key issues of investment policy reform in Egypt. This workshop featured high level participation by Egyptian government officials across various ministries, representatives of international organizations, and private sector participants reflecting the items selected by the Egyptian Ministry of Investment as Egypt's investment reform targets, including one-stop shops for investors, most recent tax law reforms, privatisation of state-owned banks and new capital markets instruments. Each of the sessions featured a presentation on the reform progress and challenges by an Egyptian official, followed by commentary and suggestions by OECD and external experts, as well as a presentation by local investor who had interacted with a Ministry in question. A number of key organizations - including USAID, EU, CIPE, CAEU, the Hawakama Institute - working on improvement of investment climate and encouragement of greater private sector participation in the local economy attended and commented during the course of the day. Private investor representatives such as the Arab Business Council and foreign investor organisations such as the American Chamber of Commerce in Egypt supported the event and challenged the interventions given by government officials in the four sessions.

Opening

The day was opened by a keynote speech of H.E. Mahmoud Mohieldin, Minister of Investment of Egypt, who summarised the progress of investment reform and outlined the connection between investment climate and economic development in Egypt. In his speech, the Minister suggested that the emphasis on the differences between MENA region economies and others can at times be misplaced, and that global standards need to be adopted in the region. Another key message of the Minister was that despite the remaining challenges in improving the business climate in his country, there are certain advantages from starting late as Egypt is now in position to benefit from lessons learned by other states which have over the time encountered similar challenges. For instance, the OECD guidelines in different areas have benefited his country by serving as a benchmark in various areas. Most recently, the OECD Guidelines on Corporate Governance have served as a basis for development of the first Corporate Governance Code to be issued in Arabic in the region. The Minister concluded his speech on an optimistic note, stating the need for Egypt to look to other emerging economies such as Mexico and the Czech Republic, who set ambitious long term goals for economic development, and accomplished them. He completed his speech by saying that a very long term goal for Egypt would be to “possibly join the OECD, or at least have a plan”.

Investment Policy – One Stop Shop

Mr. Ziad Bahaa El Din, Chairman of the General Authority of Investment and Free Zones (GAFI) chaired the first session of the day on Egypt's experience operating a One Stop Shop (OSS). He outlined Egypt's accomplishments in streamlining procedures and its success bringing together the relevant agencies in a single operating framework. From the discussions held, it appears that a key success factor for Egypt's

future efforts in this area will be for the OSS to successfully reengineer the company establishment and licensing procedures. The challenge in the coming year, as suggested by GAFI's Chairman, will be to establish a process to deal with business establishment requirements which fall outside the 90-95% of cases which are covered by the standard procedure and have been streamlined already with remarkable success. Another challenge facing GAFI will be to branch out and roll out the same quality of service in other parts of Egypt. Mr. Antonio Fanelli, a senior OECD expert on the topic, commented positively on Egypt's physical set up of the one stop shop and its operational procedures.

Tax policy related to investment climate

Mr. Ashraf Al Arabi, Senior Advisor to the Minister of Finance on Tax Policy and one of the key authors of the new tax law highlighted Egypt's progress in implementing the new taxation legislation in force since last year. This legislation supersedes Egypt's previous income tax law. The goals of the new taxation legislation, as noted by Mr. Al Arabi, is to create a uniform tax for all taxpayers, to assure certainty over tax administration, and to remove tax obstacles to economic growth. Mr. Al Arabi highlighted a number of advantages of the new legislation, including reduction of taxes to 20%, introduction of a thin capitalisation rule and a transfer pricing concept into the new legislation. According to Mr. Al Arabi, the new law has borne fruit – before introduction of the law, tax collection has yielded 1 million LE, whereas after this amount has increased to 4.5 million LE. It was also noted that the Egyptian government expects even better tax collection performance in coming years. The Egyptian government is currently contemplating establishing a 'MENA Regional Tax and Financial Management Training Center' – a new regional institution to "help ministries of finance in the Arab world develop well trained highly qualified critical masses capable to carry and spread the swiftly ongoing reforms in their home institutions through vertical development of staff." Ms. Susan Himes, an international tax expert from the OECD suggested that OECD's expertise on international tax rules and revenue forecasting could be relevant to the dissemination of good practice envisaged as a mandate of this Center.

Privatisation of state-owned assets

Ms. Naglaa El Bialy, Advisor to the Minister of Investment, presented on the remarkable success of Egypt's Asset Management programme. She reported that from 1999 to June 2004, Egypt's privatisation Programme has reached 216 transactions and yielded 17.9 billion LE, whereas from then to July 2005, the programme has encompassed 28 additional transactions, resulting in income of 5.6 LE billion. Egypt's planned privatisation for the coming year includes divestment from 45 publicly owned companies and 57 joint venture companies. Mr. Rainer Geiger, Director of the MENA-OECD Investment Programme, has noted the success of Egypt's privatisation since 2004, suggesting however that with respect to financial institutions, the privatisation process is further complicated by removal of restrictions, regulatory reform and liberalisation of financial flows, suggesting the need to carefully manage transition in order to avoid banking crises. Dr. Nasser Saidi, Director of the Hawakama Institute for Corporate Governance, also conceded to the critical need to evaluate sequencing of reform in the financial sector, predicting that indigenous banking sector will grow in the next 2-3 years.

Capital market reform

The last panel of the day, dealing with capital market reform, was chaired by Dr. Hanie Sarie El Din, the Chairman of the Egyptian Capital Market Authority. In his presentation, Dr. El Din highlighted three main

areas of reform being taken forward under his supervision: the capacity building of regulatory authorities, improving investor protection, and restructuring the capital market. Dr. El Din noted that despite many securities available and privatisation programs, the Egyptian market is still shallow, and the way forward would be through securities diversification. In this context, Dr. Alaaa Ezz, Secretary General of the Egyptian Businessmen Association, has noted that despite the thin capitalisation today, Egypt's performance over the recent years has been rather strong and the current capitalisation is triple the 2003 figure. Dr. Ezz brought to the audience's attention a number of other positive trends, highlighting that Egypt's position rose last year in IMF ranking on financial sector development. Dr. Fouad Shaker, Secretary General of the Arab Union of Banks, discussed the development and challenges to the Egyptian financial system historically, noting in particular that a key issue today is the amount of non-performing loans, which stood at 27% in 2004-2005. A key issue disputed by the discussants participating in the panel was the impact of the interest rates on entrepreneurship and the overall economic performance.

This workshop held in Cairo was timely given the speed of reforms witnessed in Egypt over the last 2-3 years, and has served to strengthen the co-operation between the OECD and its hosts, the Ministry of Investment and the General Authority for Investment and Free Zones. The workshop was a first in a series of country specific events, organized by the MENA-OECD Investment Programme which is currently chaired by the Minister of Investment of Egypt, focusing on progress of in investment climate reform in the region. To this end, the workshop has generated significant debate on the form and substance of investment climate reforms in Egypt and helped further specifying the Investment Reform Agenda of Egypt under the MENA-OECD Investment Programme.

The event received substantial media attention - the local and international press displayed a high level of interest in the event, asking the H.E. Mahmoud Mohieldin and Mr. Richard Hecklinger, Deputy Secretary General of the OECD to comment on a number of issues related to the current investment climate in Egypt and the measures envisaged for the coming months. A selection of articles covering the event is available below. For press release related to this event issued by the Ministry of Investment of Egypt, please visit

http://www.investment.gov.eg/MOI_Portal/Announcements/OECD+lauds+Egypt's+Reform+Programme.htm