Sohag Investors Association

SOHAG BUSINESS AGENDA 2019

STIMULATING THE BUSINESS ENVIRONMENT

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Sohag Investors Association

Sohag Investors Association (SIA), the first civil organization in Upper Egypt, was founded in 1995, registration # 447, with a membership base of (55) investors. SIA is established with mission to improve the investment environment in Upper Egypt through supporting investors and raising the efficiency of the labors in the investment sector and the civil society at large. SIA's core objective is to achieve sustainable development of the investment sector and the civil society, supporting SIA members in solving their problems, collaborating and building communication channels with the government, decision makers, and business associations in Upper Egypt aiming at consolidating efforts to achieve a better business and investment environment that leads to growth. To reach out this objective, SIA provides training for labors, leadership training for investors especially youth, bringing awareness to the members on the importance of social responsibility to advance the civil society and proving the vital role played by the industrialization and investment in developing the Egyptian economy.

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Executive Summary

Investors in Sohag Governorate face a multitude of challenges posed by the unfavorable business environment that prevails. These challenges stifle business growth—investors are impeded from achieving growth that commensurate with their own actual and potential capabilities. This also hinders the governorate's economic potential for growth significantly. Thus, investors are unable to make a significant contribution to meeting the pressing need for job creation, and boosting economic growth and development in Sohag.

In spite of Sohag's economic potential, and the frequent government proclamations regarding focus on economic growth and development in governorates in Upper Egypt, both the statistics and the situation on the ground reveal a different reality. For most, Sohag's human development indicators continue to be dismal, showing no progress over the years; the business environment remains unfavorable, with no significant improvements to support growth.

In an effort to contribute to improving the overall business environment, Sohag Investors Association (SIA), a local nongovernmental organization dedicated to supporting and serving investors, worked diligently to identify and examine these challenges, and explore appropriate solutions for tackling them. Thus, the purpose of this policy paper is to provide government officials and other decisions makers with a thorough account of the challenges facing Sohag investors, and how best to address them. To this end, the policy paper presents a set of short, medium, and long-term recommendations, along with an action plan, which includes enough details to support achieving these recommendations. It should be stressed here that all proposed recommendations are practical and actionable, in other words, they are not merely an expression of investors' unrealistic or impractical wishes and expectations.

The findings and recommendations contained in this policy paper are backed by a rigorous mixed- method research approach, which included an in-depth case study, as well as administering a questionnaire to collect primary data directly from Sohag investors, holding meetings and consultations and carrying out a desk review of earlier research. In brief, investors identified the following as the most prominent problem zones negatively affecting the success of their business:

1. Inadequate provision of infrastructure and public utilities in industrial zones;
2. Difficulties in accessing finance, whether for establishing a new enterprise or expanding operations;
3. Disruptions caused by the economic reform program adopted by the government;
4. Shortages of skilled workers;
5. Domestic and international marketing challenges; and
6. Overly cumbersome, bureaucratic, and excessively complicated government procedures.

No doubt, there is no shortage of policies and plans designed to address the majority of these obstacles; the problem lies in implementation, or the lack thereof. In most cases, polices and plans remain ‘paper promises’, and are not implemented. If implemented, they lack an adequate monitoring system, with clearly defined and measurable indicators, which hinders the government’s ability to track progress in achieving the desired results. Consequently, the government cannot measure the impact on the intended beneficiaries, whether investors or citizens at large.

In an effort to bridge this implementation gap— the gap between policy and practice—this policy paper classifies the recommendations according to their expected implementation timeframe: short and medium-term recommendations are designed to address problems that can be resolved with rapid solutions, while long-term recommendations are designed to address the root causes of the problems—nipping the problems in the bud and preventing them from occurring in the future.

The policy paper proposes eighteen recommendations covering a number of thematic zones, including infrastructure, utilities and services in industrial zones; access to bank and non-bank financing; business development services; business climate; decentralization; monitoring and evaluation; and collaborative and consultative policymaking.

It is expected that government takes this policy paper into account, and seriously considers the recommendations and action plan proposed, particularly given that the paper is based on input from a broad array of investors, who are always keen on reaching out and engaging with the actors in economic policy making.

Reason for the Policy Paper

Problem Statement

Sohag investors are facing a myriad of challenges that impede their ability to utilize their full capacities and realize their growth potential; challenges also result in a colossal waste of investor and state resources. These challenges are primarily institutional, legal and regulatory, procedural, and financial. The situation is further aggravated by the less than adequate attention given to resolving such challenges in governorates in Upper Egypt, such as Sohag—policy makers focus all their attention on Cairo and other governorates thus, Sohag and similarly overlooked governorates are never high on the government's priority list.

Objective of the Policy Paper

The primary objective of this policy paper is to provide a coherent document that includes a set of practical and actionable recommendations, as well as an action plan, that can serve as a blueprint for government officials and other decisions makers to address the challenges facing Sohag investors. To enhance its relevance and usefulness, the policy paper uses an approach steeped in the local context—it takes into account the specificities of Sohag and incorporates the views and perspectives of the governorate's business community.

Methodology of Research

For generating the recommendations and the action plan, the policy paper adopted a mixed- method research approach, informed by the local context. The approach entailed the following:

- Quantitative and qualitative fieldwork research, which included conducting meetings and visits to factories in Sohag, and administering a questionnaire that was completed by local enterprises;
- A desk review of research findings on Sohag's social and economic conditions, as well as the relevant government priorities;
- Consultations with competent government entities;
- A study of the December 2017 Working Paper titled "Challenges and Future of Investment in the Governorate of Sohag". The paper was developed based on a number of consultations and workshops, which brought together a large and diverse group of investors from Sohag governorate, local and central government officials, and financial institutions.

Primary and secondary data from the various sources were reviewed and analyzed to develop practical and actionable recommendations that can adequately address the challenges at hand. Recommendations are presented in an action plan that details the fundamentals of the process —What, Why, How, Who, and When— to help policy makers implement the recommendations.

Finally, it should be noted that the recommendations are context-sensitive and based on evidence—they take into consideration the investment climate in Sohag and are informed by the priorities identified by Sohag investors. In-depth analysis of the challenges revealed that Sohag investors face two sets of challenges which directly impact them: Sohag-specific challenges, and other challenges resulting from the prevailing investment climate in Egypt. Thus, the policy paper offers national and local recommendations. It should be emphasized here that a number of the proposed recommendations require a strong political will, as well as an extended time frame for successful implementation; adopting these recommendations is crucial if policymakers are keen on eliminating these challenges altogether

Recommendations & Action Plan

Primary Responsibility

Refers to lead entity to spearhead the implementation of the recommendation concerned, in coordination with other relevant entities.

Secondary Responsibility

Refers to entities that are to participate in implementing the recommendation concerned.

Timeline

Short-run is defined as less than one year;
medium-run is defined as from 1 year to3 years,
and long-run is defined as more than 3 years.

1 Upgrading Industrial Zones

Recommendation: Expedite the execution of the role of the Upper Egypt Local Development Program* in order to complete all the required construction work related to public utilities in industrial zones.

* Refers to the five-year program, which is jointly funded by the World Bank ($500 million loan) and the government of Egypt ($457 million contribution).

Primary Responsibility:

- Ministry of Trade and Industry (responsible for issuing the executive regulations of Law No. 95 of 2018)
- The Industrial Development Authority
- The Ministry of Local Development
- The New Urban Communities Authority

Secondary Responsibility

- The Ministry of Housing, Utilities & Urban Communities, and affiliated entities
- The Ministry of Electricity and Renewable Energy, and affiliated entities
- The Ministry of Petroleum and Mineral Resources, and affiliated entities
- The Ministry of Transportation, and affiliated entities
- The Ministry of Communications and Information Technology, and affiliated entities

Timeline: Medium-run

Objective of the Recommendation:
To make optimal use of an existing program that has funds allocated for the provision of infrastructure and public utilities in industrial zones, which is a high priority for investors.

Implementation Procedures:

- Expedite the issuance of the executive regulations of Law No. 95 of 2018, "The Industrial Development Authority Law"; fully enforce Article 3 (no. 3 and no. 8) of Law No. 95 of 2018, concerning equipping industrial zones with public utilities, taking into consideration that the executive regulations, and the relevant implementation procedures should address all implementation and procedural issues that are not specified in the law.
- Carry out infrastructure works and upgrade all public utilities according to investors› top priorities. Current priorities include:
  - Electricity networks
  - Water networks,
  - Communication networks
  - Wastewater networks
  - Lighting system
  - Natural gas network
  - Roads networks

Upgrading Industrial Zones

2

Recommendation: Prior to establishing new industrial zones, ensure that all public utilities works in established industrial zones are complete, and that occupancy rates are maximized.

Objective of the Recommendation:
To optimize the utilization of available funds, and maximize economic return on existing investments.

Primary Responsibility:

- Ministry of Trade and Industry
- The Industrial Development Authority
- Sohag Governorate
- The New Urban Communities Authority

Secondary Responsibility: N/A

Timeline: Short-run

Implementation Procedures:

- Activate Law No. 95 of 2018, “The Industrial Development Authority Law”, particularly Article 3 (no. 4), concerning the approval of requests for establishing or expanding industrial zones; ensure that the yet-to-be-issued executive regulations, and the relevant implementation procedures address all implementation and procedural issues that are not specified in the law.
- Solicit the views and ideas from investors when assessing the condition of existing industrial zones to determine whether new industrial zones are needed.

3 Upgrading Industrial Zones

Recommendation: In collaboration with investors, develop and implement a blueprint for managing industrial zones.

Objective of the Recommendation:
To optimize the management of industrial zones so that they better serve the interest of investors;
to ensure that maintenance of infrastructure and quality of services provided in these zones are sustained over time.

Primary Responsibility:

- Ministry of Trade and Industry
- The Industrial Development Authority

Secondary Responsibility:

- Sohag Governorate and its various local units
- Investors Associations

Timeline:

- The short-run for developing the blueprint
- The medium-run for implementing the management blueprint

Implementation Procedures:

- Activate Article No. 9 (no. 4, par. 1) of Law No. 95 of 2018, “The Industrial Development Authority Law”, regulating the establishment, role and responsibilities and the running of the boards of industrial zones; issue the executive regulations of Law No. 95 of 2018.
- Grant voting rights to investors in their capacity as members of industrial zones’ boards.
- Outsource the daily management of industrial zones to private companies.
- In collaboration with investors, develop a fair funding mechanism to support the various operations related to managing industrial zones, including routine maintenance; cleaning, security and logistics services; internal transport services (within the industrial zone); and other shared technical services, such as laboratory services, fire extinguishers, clinics and food services.

Upgrading Industrial Zones

4

Recommendation: Proactively promote industrial zones, highlighting available services.

Objective of the Recommendation:
To attract more investors, and support established enterprises in order to increase the occupancy rate of the industrial zones. This should attract more service providers to the industrial zones; attain value chain complementarity (linkages between enterprises); and reduce costs that otherwise would have to be borne by any individual enterprise in the case that service charges are levied on enterprises.

Primary Responsibility:

- The Industrial Development Authority
- Ministry of Investment and International Cooperation
- The General Authority for Investment and Free Zones
- Sohag Governorate

Secondary Responsibility:

- The boards of industrial zones

Timeline: Medium-run

Implementation Procedures:

- Activate Article No. 3 (no. 16) of Law No. 95 of 2018, "The Industrial Development Authority Law", regarding the promotion of industrial zones; issue the executive regulations of Law No. 95 of 2018.
- Widely disseminate information about the number and type of industrial activities in each of the industrial zones.
- Develop mechanisms to attract service providers to industrial zones, and adequately advertise these services.
- Reach out to big investors to incentivize them to locate their activities in industrial zones.
- Present and market the investment maps developed by the of Ministry of Investment and International Cooperation and the Ministry of Trade and Industry in a manner that attracts domestic and foreign investors to invest in the different governorates, including Sohag.

5 Upgrading Industrial Zones

Recommendation: Provide enterprises with adequate technical support to upgrade their industrial waste treatment facilities.

Objective of the Recommendation:
To assist investors with liquid waste disposal in a manner that complies with the industrial waste disposal requirements.

Primary Responsibility:

- The Egyptian Environmental Affairs Agency
- The Ministry of Trade and Industry
- The Micro, Small and Medium Enterprises Development Agency

Secondary Responsibility:

- The Ministry of Housing, Utilities & Urban Communities
- The Holding Company for Water and Wastewater (and its affiliate, Sohag Company)
- The Technology and Innovations Industrial Council/ Ministry of Trade and Industry
- Egypt National Cleaner Production Center
- The Industrial Modernization Centre

Implementation Procedures:

- Conduct an industrial waste survey to ascertain whether factories have industrial waste treatment facilities in place; in the event that treatment facilities exist, evaluate their quality to determine whether they meet the specified requirements.
- Identify the technical needs of each factory regarding the required industrial wastewater treatment solution.
- Determine the cost of the required industrial wastewater treatment solution for each factory.
- Provide government financial support to assist factories with implementing solutions.
- Make available the necessary technology and training to assist individual factories with implementing solutions.

Timeline: Medium-run

Upgrading Industrial Zones

6

Recommendation: Separate the billing for water and wastewater services.

Objective of the Recommendation:
To stop the practice of overcharging enterprises for wastewater services; overcharging customers happens in two cases: in the absence of a wastewater network; and in industries that use large amounts of water in their manufacturing processes and thus discharge only a relatively small percentage of the water consumed into the wastewater network.

Primary Responsibility:

- The Office of the Prime Minister
- The Ministry of Housing, Utilities & Urban Communities

Secondary Responsibility:

- The Holding Company for Water and Wastewater (and its affiliate, Sohag Company)
- Sohag Governorate and its various local units

Implementation Procedures:

- Amend Prime Ministerial Decree No. 1012 of 2018 to allow the separation of the wastewater tariff from the water tariff for industrial enterprises; currently, the wastewater tariff is set at %98 of the water tariff (Schedule 1, Annexed to the Prime Ministerial Decree).
- Approve a wastewater metering system and wastewater rates for industrial enterprises.
- Approve the cost estimates or quotations for installing wastewater meters for industrial enterprises.
- Install wastewater meters in factories, and start using the new system in earnest.

Timeline: Short-run

7 Upgrading Industrial Zones

Recommendation: Fund part of the infrastructure projects through partnerships with the private sector.

Objective of the Recommendation:
To diversify the funding sources, and to the extent possible, avoid tapping into the state budget to fund infrastructure works.

Primary Responsibility:

- The Public Private Partnership Central Unit/The Ministry of Finance
- The Ministry of Investment and International Cooperation

Secondary Responsibility:

- The Industrial Development Authority
- Sohag Governorate and its various local units
- Regions Gas Company (ReGas)
- The Egyptian Electricity Holding Company (and its affiliated companies in Upper Egypt)
- The Holding Company for Water and Wastewater (and its affiliate, Sohag Company)

Implementation Procedures:

- Identify infrastructure projects that can benefit from for this type of financing mechanism, and those which can be implemented over the long-run (not urgent priority projects).
- Perform studies to ascertain the feasibility of carrying out the identified infrastructure projects through public-private partnerships (PPP).
- In the event that infrastructure projects are determined to be appropriate for funding under PPP arrangements, initiate their financing in accordance with Law No. 67of 2010, "The Law Regulating Partnerships with the Private Sector in Infrastructure Projects, Services and Public Utilities".

Timeline: Medium-run

Engaging Investors in Policy-Making

8

Recommendation: Hold systematic consultations and dialogue with investors and solicit their views before making decisions.

Objective of the Recommendation:
To provide investors with the opportunity to express their needs and priorities, and effectively participate in the policy-making process; Initiating a practice of dialogue will ensure that investors have their concerns, questions and problems addressed, as well as prevent future issues.

Primary Responsibility:

- The Ministry of Investment and International Cooperation
- The Ministry of Planning, Monitoring, and Administrative Reform
- The Ministry of Local Development
- The Ministry of Social Solidarity

Secondary Responsibility:

- All government entities and agencies

Timeline: Medium-run

Implementation Procedures:

- Institutionalize* the decision-making process in government entities and ensure that the process includes the effective participation of investors from the planning stage.
- Take into consideration the priorities of investors when making any decision.
- Make available, and widely disseminate decisions and decrees.
- Establish effective complaint mechanisms; In addition, set up mechanisms for receiving investors' inquiries, suggestions and ideas.
- Act to ensure that complaints are resolved in a timely manner

* In this context, institutionalization means making dialogue with investors an integral part of the entity's modus operandi; the practice should remain in place, regardless of management changes.

9 Access to Financial Services

Recommendation: Facilitate investor access to finance from banks, and work to ease lending conditions and procedures.

Objectives of the Recommendation:

- To remove barriers that investors encounter when seeking funding (loan applications are rejected by banks, banks require prohibitive guarantee levels, approved loans are less than the financing required; and the loan application review process is lengthy).
- To activate and expand the scope of the various SME financing initiatives (e.g. The Central Bank of Egypt Initiative, the Ministry of Local Development Initiative “Mash’rouak”, the Federation of Egyptian Industries/Environmental Compliance Office Initiative).

Timeline: Medium-run

Primary Responsibility:

- The Central Bank of Egypt
- The Micro, Small and Medium Enterprises Development Agency

Secondary Responsibility:

- Commercial banks (in particular the National Bank of Egypt and Banque du Caire, as both have extensive presence across all governorates, and investors rely primarily on state-owned banks)
- The Federation for Egyptian Banks
- The Ministry of Local Development
- The Federation for Egyptian Industries

Implementation Procedures:

- Empower managers of local branches of banks to make credit decisions.
- Banks should issue internal directives requesting that branches adhere to the requirements to ease loan conditions and procedures.
- Banks' branches should prepare quarterly reports to include information on the number and amount of loan applications received, the status of these applications, as well as the loan processing timeline. These quarterly reports should be submitted to headquarters, which in turn should aggregate these reports and submit one report to the Central Bank of Egypt; systematic review and analysis of these reports should improve lending performance in banks.
- Activate the initiatives that are designed to provide SMEs with non-financial consulting services, including assisting with developing work plans and feasibility studies, and preparing them to apply for funding (e.g., Nile Pioneers" Initiative of the Central Bank of Egypt and the Nile University).
- Banks should issue loan guides to help enterprises in obtaining financing; guides should include information about the loan requirements, the required documents, the cost of the loan, and the timeframe for reviewing loan applications, as well as the most common mistakes investors make, and how best to avoid them.
- Develop complaint-handling mechanism to review investors' complaints and resolve them either by undertaking certain measures within the banks, or through coordinating with other entities that are designed to provide non-financial technical assistance to SMEs.

10 Access to Financial Services

Recommendation: Facilitate investors' access to non-bank financial services.

Objective of the Recommendation:
To make the best use of the available, yet inadequately executed non-traditional financing mechanisms that are more appropriate to the needs to small and medium-sized business investors (e.g., short-term financing)

Primary Responsibility:

- The Financial Regulatory Authority
- The Ministry of Investment and International Cooperation

Secondary Responsibility:

- Non-bank financial institutions

Timeline: Medium-run

Implementation Procedures:

- The Financial Regulatory Authority should adopt an initiative, similar to that of the Central Bank of Egypt, to promote the use of non-bank financing that offers eased lending conditions and procedures.
- Increase investors' awareness of the availability of non-traditional financing alternatives such as factoring, leasing, and investment funds; educate investors of how best to access these financing mechanisms by holding orientation sessions for investors in the presence of representatives from institutions offering these services.
- Incentivize non-bank financial institutions to engage with small and medium-sized business investors, particularly in Upper Egypt governorates, and educate them about the growth potential in these governorates.

Access to Non-Financial Services

11

Recommendation: Enhance the capacity of Sohag investors to penetrate external markets.

Objectives of the Recommendation:

- To facilitate investors' access to information about external markets.
- To increase investors access to new markets, and thus increase production and expand exports.

Implementation Procedures:

- Conduct market research and analysis for the products of Sohag investors (e.g., chemical, minerals, and textiles products).
- Provide Sohag investors with information about the international standards for the goods they produce.
- Brief Sohag investors on the different trade agreements that Egypt has signed, particularly those that grant preferences to Egyptian exporters.

Primary Responsibility:

- Various relevant sectors and agencies affiliated with the Ministry of Trade and Industry, including the Egyptian Commercial Service, and the General Organization for Export and Import Control
- The Export Development Authority
- The Ministry of Investment and International Cooperation
- The General Authority for Investment and Free Zones

Secondary Responsibility:

- The Micro, Small and Medium Enterprises Development Agency
- The Federation of Egyptian Industries
- Investors and Business Associations

Timeline: Short-run

12 Access to Non-Financial Services

Recommendation: Improve investors' access to business development services.

Objective of the Recommendation:
To facilitate SMEs' access to non-financial services that can support their development and growth (e.g. product promotion and marketing services; vocational and professional training; technical consultations; expo participation, etc.)

Primary Responsibility:

- Industrial zones' management.
- The General Authority for Investment and Free Zones

Secondary Responsibility:

- The Micro, Small and Medium Enterprises Development Agency
- All governmental and non-governmental service providers

Implementation Procedures:

- Carry out an investors' needs assessments and identify the services that investors are lacking.
- Negotiate with service providers so that they simplify their procedures and offer their services at reasonable prices.
- Industrial zones management should contract with service providers to establish a presence in industrial zones.
- Disseminate information about available services among investors.

Timeline: Medium-run

Improving the Business Climate

13

Recommendation: Streamline business registration and all procedures related to the operating of enterprises.

Objectives of the Recommendation:

- To assist investors in establishing and operating their business enterprises and incentivize formalization.
- To contribute to addressing unfair competition that compliant businesses face; the presence of informal enterprises creates competition challenges as they offer unregulated and inferior products at prices that formal enterprises cannot compete on.

Primary Responsibility:

- The Ministry of Investment and International Cooperation
- The Ministry of Trade and Industry
- The Industrial Development Authority

Secondary Responsibility:

- The Micro, Small and Medium Enterprises Development Agency
- The Ministry of Finance
- The Ministry of Social Solidarity

Implementation Procedures:

- Activate Article 3 (no. 9) of Law No. 95 of 2018, "The Industrial Development Authority Law", that addresses the enabling of the investment environment in industrial zones.
- Activate Article 21 of Law No. 72 of 2017, "The Investment Law", regarding the investors service centers; put in place mechanisms for measuring and evaluating the performance of these centers to achieve continuous improvement of services delivered.
- Raise investors' awareness of the full menu of available services, and how to access them.

Timeline: Short-run

14 Improving the Business Climate

Recommendation: Streamline export procedures.

Objective of the Recommendation:
To assist investors who are unable to export due to the cumbersome and lengthy export procedures.

Primary Responsibility:

- The Export Development Authority

Secondary Responsibility:

- The Micro, Small and Medium Enterprises Development Agency
- The General Organization for Export and Import Control
- The Customs Authority/Ministry of Finance

Implementation Procedures:

- Update and make available information about export procedures, including specific information tailored to the nature of the products intended for export.
- Automate export procedures so as to save investors from making frequent calls to the same entity or visiting multiple entities to complete the required paper work.

Timeline: Medium-run

Improving the Business Climate

15

Recommendation: Activate the Export Support Program

Objective of the Recommendation:
Enhance the export competitiveness of investors.

Primary Responsibility:

- The Export Support Program

Secondary Responsibility:

- The Export Development Authority
- The Ministry of Trade and Industry
- The Ministry of Finance

Implementation Procedures:

- Give priority (in the short-run) to Sohag investors with regard to tapping into the benefits offered by the Export Support Program so as to increase Sohag's comparative advantage in export competitiveness.

Timeline: Short- run to Medium run

16 Long-Term Comprehensive Solutions

Recommendation: Adopt the program-based budgeting approach, instead of the current "line item budgeting" approach used for preparing the state annual budget.

Objective of the Recommendation:
To help resolve many of the financing challenges over the long-run; adopting program-based budgeting, whereby government entities receive annual budgets linked to specific programs and projects, with clear objectives and performance indicators, allows for better monitoring of progress and achievement of results, as well as supports the move towards decentralization.

Primary Responsibility:

- The Ministry of Finance

Secondary Responsibility:

- All ministries
- House of Representatives

Timeline: Long- run

Implementation Procedures:

- Amend Chapter I of Law No. 53 of 1973, "The State Budget Law", so that changes can be introduced to budget preparation.
- Comply with the budget circulars issued by the Minister of Finance in the past years; the circulars called on a number of ministries and their respective local-level directorates to prepare parallel budgets using the program-based budgeting approach, and publish their final accounts in order to measure performance and evaluate results.
- Provide government staff with adequate training in program-based budgeting.
- Provide parliamentarians with adequate training in how to monitor budget execution, and evaluate results using well-defined indicators.

Long-Term Comprehensive Solutions

17

Recommendation: Ensure the systematic monitoring of public employees' performance and hold them accountable for any dereliction of duty.

Objective of the Recommendation:
To close the implementation gap between laws and policies and their actual implementation in practice; in most cases, performance problems in government can be traced back to implementation gaps, whereby laws, regulations, and strategies are not implemented or enforced; lack of implementation or enforcement can be due to negligence, dereliction of duty, administrative corruption or lack of consistency between laws and their executive regulations.

Implementation Procedures:

- Activate Chapter 3 of Law No. 81 of 2016, "The Civil Service Law", that addresses employee performance evaluation.
- Monitor the performance of the complaints offices in government agencies, and evaluate their effectiveness.

Primary Responsibility:

- The Ministry of Planning, Monitoring and Administrative Reform
- The Administrative Control Authority
- The Central Auditing Organization

Secondary Responsibility:

- All government entities

Timeline: Long- run

18 Long-Term Comprehensive Solutions

Recommendation: Implement Article (176) of the Constitution, which stipulates that the state shall ensure administrative, financial, and economic decentralization.

Objective of the Recommendation:
To empower local administration units by granting them independence and more control over the management of their resources, and enabling them to develop according to the needs and priorities of their citizens.

Primary Responsibility:
- The House of Representatives
- The Cabinet
- The Ministry of Local Development
- The Ministry of Planning, Monitoring and Administrative Reform

Secondary Responsibility:
- All government entities

Timeline: Medium-run and Long-run

Implementation Procedures:
- Enact the necessary laws to support the adoption of decentralization.
- Assess the capabilities and the resource bases in all governorates to determine the readiness to operate under a decentralized system of governance.
- Strengthen the capacity of administrative units at the local level to support the efficient implementation of decentralized governance.
- Enhance community dialogue at the local level in order to improve responsiveness to local needs.
- Promote transparency and accountability through widely disseminating information, and strengthening performance monitoring and evaluation at the local level.

Annex I: The Significance of Sohag Governorate

Despite possessing advantages that could bolster its growth and development, Sohag, a governorate in Upper Egypt, continues to suffer debilitating economic stagnation. Sohag has much untapped potential, however governorate does not receive adequate attention from the central government. Tapping into this potential is likely to unleash a wave of change in the economic and social conditions in the governorate. There are a number of factors that underpin Sohag's economic potential, including:

A growing entrepreneurial mindset: In line with the policy direction espoused by the state, particularly lately, citizens in Sohag have embraced entrepreneurship and private sector employment. However, this policy direction declared by the government has not been supported by adequate improvements in the business climate. In fact, 20% of private enterprises that exist in Sohag were established between 2015 and 2018, and 45% in in the period 2009 – 2014; which means roughly two-thirds of private enterprises were established after 2009). This trend is indicative of the evolving role of the private sector, as well as entrepreneurship in the governorate, which calls for making financial and non-financial services available to support these enterprises and help them not only sustain their operations, but also grow over time.

An increased reliance on the private sector for creating employment opportunities: Compared to the national average private sector employment of 93%, the percentage of private sector employment in Sohag is 99%, which confirms the pivotal role that the private sector plays in generating jobs in Sohag.

Underutilized capabilities: Currently, the total number of private enterprises* in Sohag that are temporarily closed is 9000, which represents 6.8% of the total number of private enterprises in the governorate. These idle enterprises represent unused capacity and untapped potential; addressing the problems that caused them to temporarily shut down would be a huge step toward reenergizing the economy. Indeed, many of the business owners confirmed that removing the barriers that they routinely encounter will result in doubling the employment opportunities in their enterprises, and increasing their sales and exports.

Export potential: While some enterprises succeed in exporting their products, many others encounter significant barriers to exporting. Thus, to help enterprises expand exports, it is critical that export-relevant information and services be made available. Because of its proximity to the governorate, rehabilitating and developing of Safaga Seaport is vital to expanding exports from Sohag.

Alignment of Sohag investors priorities with government priorities: Juxtaposing the priorities of Sohag investors and those of the government reveals that, to a large extent, there is much in common. That said, while the government often enthusiastically announces its priorities, investors noted that, in reality, they never follow through on these pronouncements. Among the areas of shared interests and priorities are: giving adequate attention to the neediest governorates in Upper Egypt; promoting entrepreneurship and financial inclusion; developing industry; reducing imports; expanding exports in targeted industries (e.g., engineering equipment, chemicals, textiles and apparel, building materials, all of which are predominant industries in Sohag).

The active role of women in the economic sphere: Women play an important role in the Sohag's private sector. A large number of enterprises have a notable proportion of female employees, or are partially owned by women; indeed, enhancing women's participation is one of the goals the government pursues in order to advance its development goals.

* The Central Agency for Public Mobilization and Statistics defines the term "enterprise" as any fixed location, which houses an economic activity; an "enterprise" can be owned by a natural or juristic person, and it does not necessarily mean a factory.

Annex II: Analysis of the challenges and priorities of Sohag investor and the priorities of the government in Sohag

Priorities of Sohag's investors

1. Public Utilities and Services

Electricity: Putting in place a well-functioning electricity network tops the priority list of Sohag's investors, who suffer from poor service quality. Problems include unstable power supply, power outages, technical deficiencies in the network, and billing issues. Undoubtedly, problems in the electric power network translate directly into losses for investors: production disruptions, increased electric bills, and damaged appliances and equipment.

Water: Investors in industrial zones face problems in accessing sufficient quality water for their operations; problems include poor quality, water supply disruption, and low pressure.

Telecommunications: Industrial zones lack a well-functioning telecommunication network; investors suffer from lack of landline services, poor internet access, and poor mobile networks, which limits their ability to communicate with others, whether in other industrial zones in Sohag or outside the governorate.

Discharge of industrial wastewater: The absence of a wastewater network in a number of industrial zones, as well as problems with the accounting and billing system are common problems facing investors. At present, industrial wastewater charges are calculated as a percent of the water used in the industry, regardless of the type of industry. This practice is viewed as unfavorable, as some industries consume large amounts of water in their manufacturing processes, and thus they discharge only a relatively small amount of the water consumed into the wastewater network; because of the billing system, investors end up paying large wastewater bills that do not reflect their actual use of the service.

Lighting systems in industrial zones: While lighting is considered one of the safety factors in industrial zones, Sohag investors suffer from basic problems with lighting systems, including network breakdowns, and theft of light poles and electrical cables. Inadequate lighting increases the risk of robbery, and exposes workers to serious danger during their commute to and from work. The latter undermines the quality of working conditions, and limits women's employment choices, and their access to good jobs.

Sources of Energy: While the government planned to extend natural gas to factories in Sohag by 2014/2015, this plan was never accomplished, and factories continue to use other more expensive and polluting sources to run their operations; supplying factories with natural gas will undoubtedly significantly lower energy costs for the majority of the factories.

Other basic Services: Industrial zones are lacking in several basic services, such as a fire brigade, an ambulance service, security services (which exacerbates the security issues due to the poor lighting system and heightens the risks for workers and factories), and public transportation.

2. Access to finance

Typically, only a small number of enterprises that apply for bank funding, albeit for small amounts, have their applications approved. The funds requested by these enterprises are modest, and are dwarfed by the bank loans extended to large enterprises (banks prefer funding large business loans to small business loans), yet they make a huge difference for small and medium-sized enterprises, which are productive and employ a high percentage of the workforce, with no cost to the government. Investors indicated that they seek financing for a variety of reasons, including financing working capital, purchasing manufacturing lines or expanding their business.

3. Policies and economic changes

In the context of the Egypt's economic reform program, which was adopted in the past few years, the government has undertaken a number of measures, including enacting a value-added tax law (VAT); increasing electricity prices (an increase of 35% for commercial use and 52% for industrial use); reducing water subsidies (by roughly 46.5%); adjusting the custom duty rates for a number of goods; and increasing fuel prices. These measures, along with the liberalization of exchange rate regime (i.e. floating the EGP), have resulted in an increase in the operation and production costs, especially due to the fact that many enterprises rely on imported production inputs, which increased the cost of manufacturing 80%

This situation was further exacerbated for many investors since increases in the selling price of products were not commensurate with the increases in production costs, and thus their profit margins declined. On the demand side, the rise in inflation has led customers to refrain from buying certain products and change their spending patterns to fit the economic situation, which has also negatively affected businesses. Finally, while a number of laws, which aimed at improving the investment climate, were enacted, implementation is lagging. Issuing the necessary executive regulations, and positioning government entities and public officials to implement these laws has taken an inordinate amount of time to complete; thus, these laws have not yielded the expected tangible benefits as quickly as hoped for.

4.Other barriers

Investors in Sohag encounter a myriad of other problems, including: 1) lack of skilled workers; 2) challenges in marketing products nationwide due to high production costs, and thus prices of products, in addition to their inability to compete, price-wise, with other inferior and unregulated products on the market (particularly informal sector products). Consequently this affects their competitiveness, and ability to reach appropriate markets; 3) barriers to exporting due to difficulties in obtaining information on foreign markets and how to access them, and the multiplicity and complexity of export procedures; 4) cumbersome government procedures, which highlights the need to activate and enforce laws and regulations; and 5) the sporadic availability of business development services* ; when available, the services are usually either too expensive or not appropriate for the needs of investors.

Government's Priorities and their tackling of the challenges

Table 1 provides a comparison between government's priorities, as defined in strategy documents, and those of investors. It shows that while, in principle, their priorities converge, due to the gaping deficiencies in translating the government's priorities into reality (indicative of lack of effective oversight and accountability), investors are left unsatisfied, with their needs unmet.

* These are non-financial services that are intended to assist enterprises operate and develop; they include conducting market research, product marketing, vocational training, technical assistance, technological support, etc.

Comparison between Government's Priorities, as Defined in Strategy Documents, and those of Investors

In this regard, it is important to reiterate that the action plan included in this policy paper is informed by this reality; it was developed to address the identified barriers to investment in a realistic and practical manner. Sohag Investors Association hopes that government jumps on the bandwagon, adopts the action plan, and expeditiously executes it, while ensuring the systematic monitoring and evaluation of results.

Annex III: A Case Study

A factory in Sohag produces medical gases, including liquid and gaseous oxygen and nitrogen; argon; carbon dioxide and acetylene. The factory is the third largest factory nationwide, and the only one of its kind in Upper Egypt. The factory supplies 90% of its output to government agencies (including hospitals), which is indicative of the industry's strategic and vital nature. More so, the market can accommodate a much larger supply than the current one.

Not only is the factory in compliance with all environmental requirements, but it has attempted to engage with fertilizer factories to utilize their waste—putting carbon dioxide to good use and manufacturing eco-friendly products. Unfortunately, none of the fertilizer factories welcomed the idea.

Relevance of the Factory

- Part of a vital industrial manufacturing sector
- Fills a gap between demand and supply, and market demand is increasing
- 90% of the output is sold to government entities

Obstacles

- Electricity disruptions
- Difficulty accessing finance

Direct Losses

- An annual loss of LE 2 million due to electricity disruptions

Indirect Losses

- Inability to expand and grow business, thus:
- Unmet market demand persists
- 100 forgone employment opportunities
- Loss in annual sales
- Lost tax revenues for the State

The factory is facing a number of challenges, including a long cash conversion cycle—the time period it takes to collect payments from customers; and a shortage of funds for expanding its operations. Its expansion potential, which promises to increase its workforce from 300 to no less than 400 workers (a 33% increase), is hampered by the unmet need of approximately EGP 250 million in capital.

The factory, which operates at 4-megawatt power capacity, is also facing a problem of power outages, which result in significant disruption costs incurred by the factory, as outages result in increased consumption due to the need to recharge the machines. For example, a twice a day, half-hour power outage costs the factory an estimated EGP 5000 per day (in the order of EGP 1.8 million annually), in addition to EGP 200,000 in damage to equipment, bringing the total amount of losses to EGP 2 million a year.

As illustrated above, the magnitude of losses borne by the investor are considerable—EGP 2 million per year in direct losses, in addition to the opportunity cost of not being able to expand the business due to the lack of funds. Envisioning a different scenario in which this investor does not encounter these challenges produces strikingly different outcomes: expanded business; increased sales; 100 additional employment opportunities; increased purchasing of production inputs from the current suppliers, and potentially new ones; and improved environmental conditions. Under such scenario, the living standards of workers will improve, the state's tax revenues will increase as far more taxes will be collected (e.g., profit and payroll tax and value-added tax), and finally the gap between supply and demand for the type of products produced by the factory will be bridged. Indeed, this scenario is a vivid example that captures the essence of the frequently repeated expression "let the wheel of production rotate".

Thus, it is critical that decision-makers get on board: they must believe in the importance and necessity of resolving these challenges, even if they appear minor, and be fully cognizant of the full range of possible economic and social gains that would result from addressing them, as well as the expected multiplier effects that will benefit society at large.

Annex IV: Analysis and Findings

To enhance the quality of the policy paper, the research team was focused on using a primary data source—collecting data firsthand through a questionnaire completed by Sohag investors.

Profile of questionnaire respondents

The sample included 24 enterprises, 23 of which are from the industrial sector and 1 from the agriculture sector. 14 of the surveyed enterprises (64%) are members in SIA, and the majority of the enterprises, 22 enterprises, are located in the industrial zones in Sohag. Of the 24 enterprises, 15 are located in El Kawthar district, 5 in West Gerga, 3 in El Ahayiwia, and 1 in West Tahta.

Enterprise Size: According to the number of employees, the majority of the surveyed enterprises (71%) are small enterprises (Figure 1). In terms of capital, 45.8% of the enterprises have a capital of EGP 1 million to EGP 50 million, and 41.6% of the enterprises have annual sales of EGP 1 million to EGP 50 million.

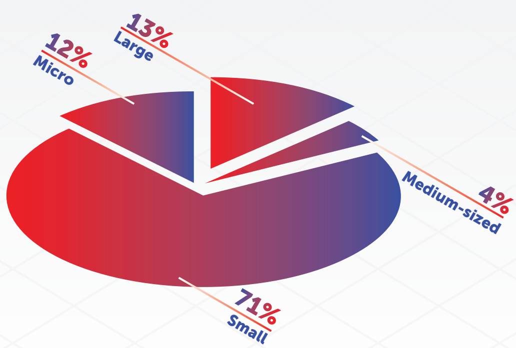
Size of the Enterprise by No. of Employees

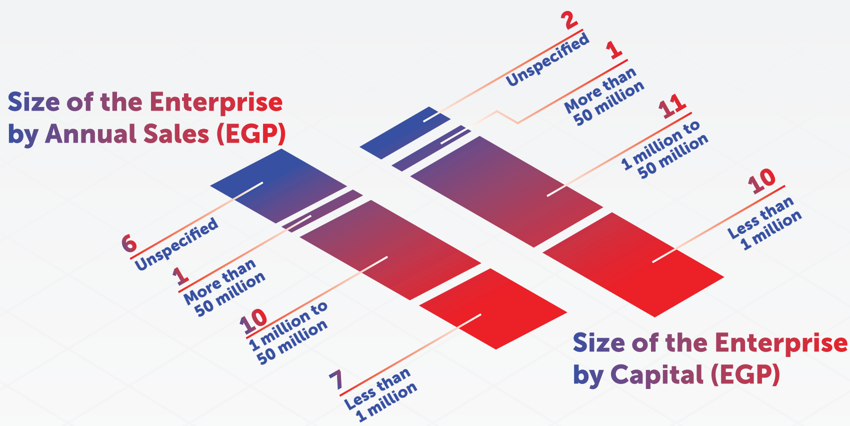
A micro enterprise is defined as an enterprise which employs up to 5 persons.

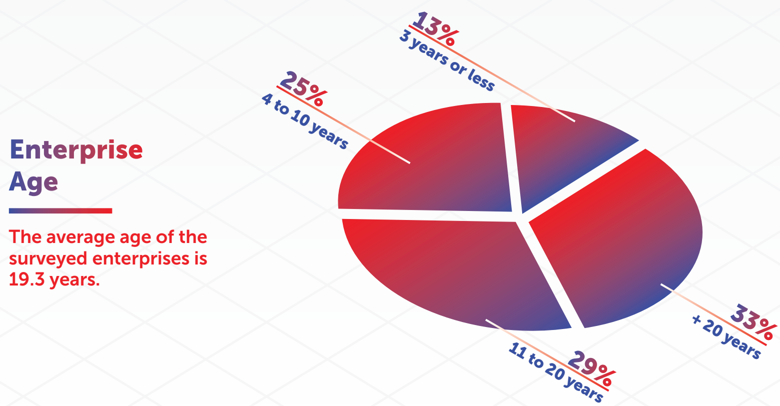
A small-enterprise employs 50-6 persons.

A medium-sized enterprise employs 100-51.

A large enterprise employs more than 100.







Growth Potential: As for growth potential, during the past three years, 2/3 of the surveyed enterprises were able to grow in terms of number of employees, capital, or annual sales. The number of employees increased in 33.3% of the enterprises, while capital and/or annual sales increased in 55% of the enterprises.

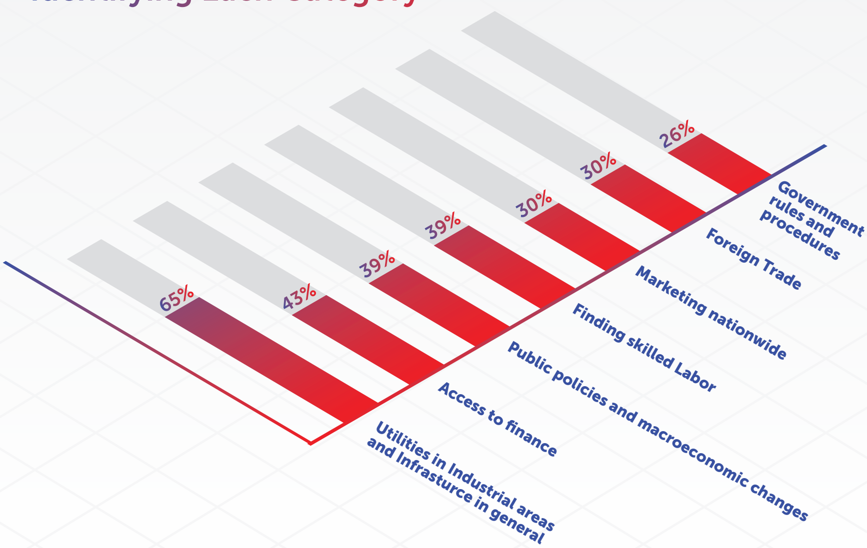
Female Participation: 45% of the enterprises have some women employees, and 25% are fully or partially owned by women.

Source of Energy: All enterprises in the sample use electricity as the source of energy, and 50% of the enterprises use diesel fuel and mazut, as a secondary source of energy.

1. Barriers to Investment viewed through the eyes of Sohag investors:

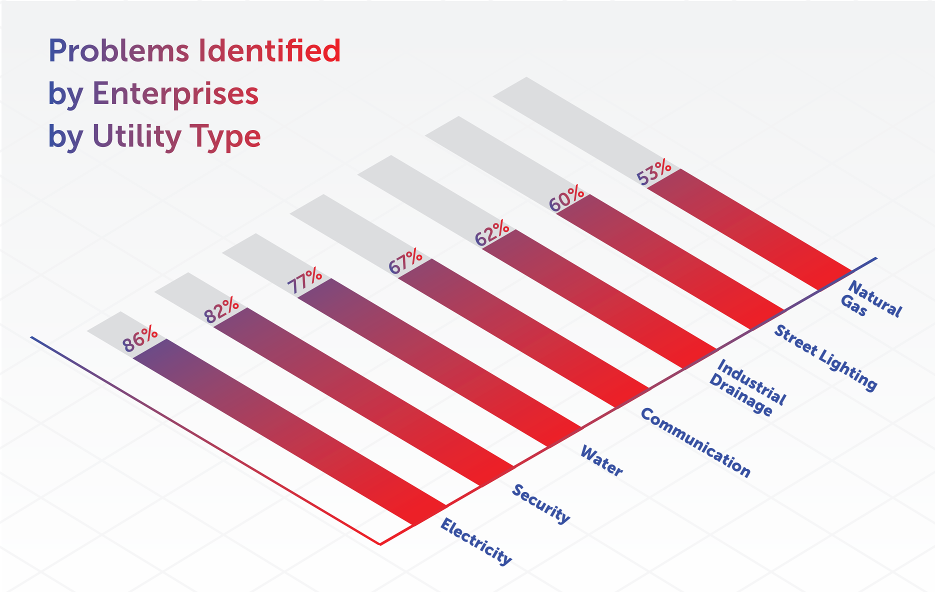
Infrastructure tops the list of Sohag investors' concerns. Other concerns, ranked in descending order, include: access to finance; skilled labor and macro-level policies economic changes; domestic and foreign trade; and government rules and procedures. Figure 3 presents the ranking of investors' priorities. Provided below is a detailed discussion of each of the barriers.

Categories of Investors Priorities and Percentage of Enterprises Identifying Each Category



The dismal state of utilities and services

Inadequate provision of public utilities and services in industrial zones is viewed as one of the major problems facing investors in Sohag. Thus, it is important to present the problem in a clear and thorough manner so as to provide specific insights into its nature and severity and, in doing so, establish priorities for resolving it, within the budgetary constraints.



Electricity: 86% of the surveyed enterprise identified electricity problems as a major area of concern, including poor quality and unstable power supply; power outages; and billing problems due to electric grid deficiencies.

Security: 50% of the respondents believe that security and patrol services inside the industrial zones are non-existent, while 33% of the respondents believe that the available services are poor.

Water: Investors face problems in accessing sufficient quality water for their operation due to poor quality, water supply disruption, and low pressure.

Telecommunications: 67% of the enterprises believe that all telecommunications services are problematic—lack of landline services, poor internet access, and poor mobile networks.

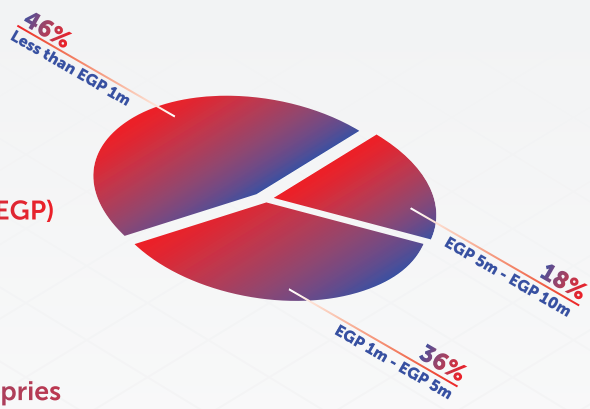
Industrial wastewater: 62% of the respondents identified more than one problem with the industrial wastewater system, including the lack of an industrial wastewater network, and problems with the accounting and billing system.

Lighting Systems: The majority of enterprises, 60% of the respondents, think that there are basic problems with the industrial zones lighting system, including network breakdowns, theft of light poles and electrical cables.

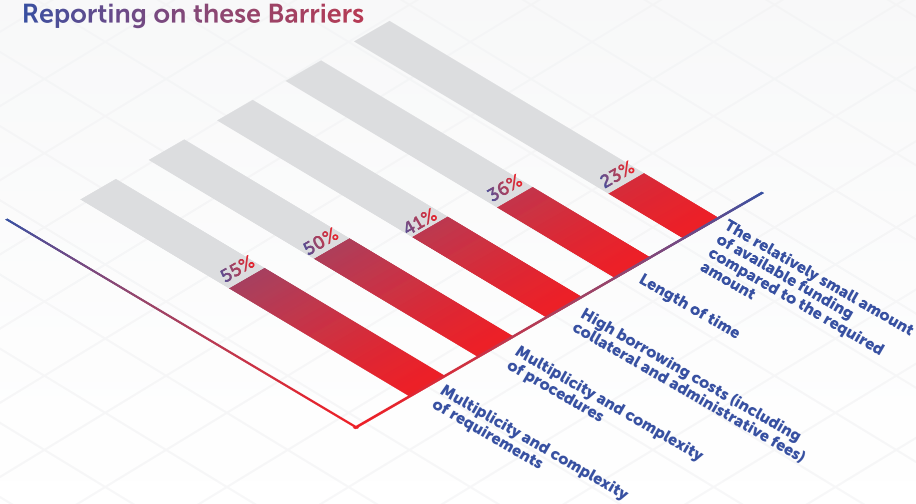
The lack of access to finance

67% of the surveyed enterprise have requested finance from different sources, and 50 % of those who requested finance have already received it. The National Bank of Egypt accounted for 45% of the funding requests, followed by Banque Misr, which received 18% of the requests. The majority of these requests were submitted after CBE launched its SME financing initiative. 83% of the funding requests were submitted in 2016 and after. Funding requests ranged from EGP 1 million to EGP 10 million.

Amount of Funds Requested by Surveyed Enterprises (EGP)



Barriers to Finance and Percentage of Enterprises Reporting on these Barriers



Respondents indicated that they sought financing for a variety of reasons: 41% requested funds to finance their working capital, while 32% sought funding for purchasing machinery, equipment, and manufacturing lines to start their operations, and 23% to expand business*.

Investors face a host of barriers when seeking finance, major barriers reported included the multiplicity and complexity of procedures and requirements; the high borrowing cost; the amount of time it takes to obtain an approval, and the relatively small amount of available funding compared to the required amount (due to the limited lending authority of managers of branches and regional offices of banks).

The lack of access to non-financial Services

50% of the surveyed investors were not aware of the business development services available in the governorate. Moreover, 50% of those who know of the services believe that the products are good but expensive. Over 60% of the enterprises stated that, over the past three years, they have provided their staff with training; training covered technical matters, however, management training topics did not receive much attention. Product development activities and working with research and technology centers are not common among the surveyed enterprises—only 33% of the enterprises engaged in such practices.

60% of surveyed enterprises reported that they face challenges in marketing their products. Marketing challenges stem from the high production costs, which is reflected in the price of their products, in addition to the lack of access to appropriate markets, and the inability to compete, price-wise, with other inferior and unregulated products on the market— "back-alley products".

* The percentages do not necessarily add up to 100% as some enterprises applied for financing more than once, and for different reasons.

Exportation

30% of the enterprise are already engaged in export activities with 16 countries (each of these exports 10-40% of total output). As many as 25% of the enterprises tried to export their products, but faced significant obstacles, which prevented them from exporting. The principle export barriers identified by the investors include difficulties in obtaining information on foreign markets, and the multiplicity and complexity of export procedures. Saudi Arabia tops the list of countries that import from Egypt, which underscores the importance of giving due attention to developing the Safaga Port, and the Sohag – Safaga highway. Export activities rely mainly on four ports: Alexandria, Ain Sokhna, Al Adebeya and Safaga. In this regard, because of its proximity to Sohag, rehabilitating and developing Safaga Port should be seriously considered, as this promises to benefit Sohag investors, among others, through reducing transport costs to other distant ports.

2. Investors' assessment of the magnitude of forgone opportunities

The survey revealed that obstacles faced by Sohag investors result in significant unrealized opportunities. In the view of the respondents, removing these obstacles will undoubtedly result in positive outcomes, including an increase in employment opportunities, as well as annual sales and exports. 42% of the respondents indicated that they would be able to increase the number of workers up to 25%, while another 42% of the respondents indicated that their workforce has the potential to increase 150-200% Along the same lines, 42% of the respondents estimated that annual sales can increase in the range of 1-25%, while 33% of the enterprises indicated that their annual sales could increase in the range of 25-50%, and 35% of the enterprises estimated the potential increase to exceed 50%, and possibly reach 100%. Further, the consensus was that exports could increase by 25%, compared to the current volume of exports, and there would be fewer forgone export opportunities because of overwhelming obstacles.

Annex IV: List of Competent Entities

The Central Bank of Egypt	http://www.cbe.org.eg/ar/Pages/default.aspx
Holding Company for Gas	http://www.egas.com.eg/home.aspx
Holding Company for Water and Wastewater/Cairo	https://www.hcww.com.eg/
Industrial Development Authority	http://www.ida.gov.eg/webcenter/portal/IDA
The Ministry of Communications and Information Technology	http://www.mcit.gov.eg/
Local Units/Sohag Governorate	http://www.sohag.gov.eg/gov2/zone/default.aspx
Public Private Partnership Central Unit/Ministry of Finance	http://www.pppcentralunit.mof.gov.eg/
Upper Egypt Local Development Program	http://ueldp.gov.eg/en/upper-egypt-local-development-program
The Micro, Small, and Medium Enterprises Development Agency	http://www.msme.eg/
Water and Wastewater Company/Sohag	http://www.gcsdc.com.eg/
Upper Egypt Electricity Distribution Company/Sohag Region	http://www.ueedc.com/company/sectors/
Greater Cairo Water Company	http://www.gcwc.com.eg/

Maritime Transport Sector	http://www.emdb.gov.eg/ar
Industrial Modernization Center	http://www.imc-egypt.org/index.php/ar
Federation of Egyptian Industries	http://www.fei.org.eg
Foreign Trade Points	http://www.mti.gov.eg/Arabic/aboutus/Sectors/Trade/Entities/EgyptianInternationalTradePoint/Pages/default.aspx
New and Renewable Energy Agency	http://www.nrea.gov.eg/
Regional Gas Authority (ReGas)	http://www.regas.com.eg/
The Egyptian Environmental Affairs Agency	http://www.eeaa.gov.eg/
Ministry of Investment/Investor Service Center	http://www.miic.gov.eg/Arabic/Investment/InvestorServicesCenter/Services/Pages/default.aspx
The Environmental Compliance Office/Federation of Egyptian Industries	http://www.fei.org.eg/index.php/ar/fei-units-site-map-ar/eco-ar
The Office of the Prime Minister	http://www.cabinet.gov.eg/
The House of Representatives	http://www.parliament.gov.eg/
Egypt National Cleaner Production Center	https://www.encpc.org/
The Center for the Promotion of Imports from Developing Countries (CBI)	https://www.cbi.eu/
The Customs Authority	http://www.customs.gov.eg/
The Financial Regulatory Authority	http://www.fra.gov.eg/

The General Authority for Roads, Bridges and Land Transport	www.garblt.gov.eg/
The General Organization for Export and Import Control	http://www.goeic.gov.eg/
The Export Development Authority	http://www.expoegypt.gov.eg/
The Ministry of Housing, Utilities & Urban Communities	http://www.mhuc.gov.eg/
The Ministry of Petroleum and Mineral Resources	http://www.petroleum.gov.eg/
The Ministry of Planning, Monitoring and Administrative Reform	http://mpmar.gov.eg/
The Ministry of Social Solidarity	http://www.moss.gov.eg/
The Ministry of Local Development	http://www.mld.gov.eg/
The Ministry of Electricity and Renewable Energy	http://www.moee.gov.eg/
The Ministry of Finance	http://www.mof.gov.eg/
The Ministry of Transport	http://mot.gov.eg/
The Ministry of Trade and Industry	http://www.mti.gov.eg/

Banks

National Bank of Egypt	8
Egyptian Agriculture Bank	12
United Bank	1
Bank of Alexandria	7
Al Ahli Bank of Kuwait	1
Attijariwafa Bank	1
Housing and Development Bank	1
Banque du Caire	3
National Bank of Kuwait/Egypt	3
Emirates NBD	1
Faisal Islamic Bank of Egypt	1
QNB Ahli	1
Credit Agricole	1
Banque Misr	13
Misr Iran Development Bank	1
Nasser Social Bank	4
Abu Dhabi Islamic Bank/Egypt	4

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