

**Policy Position Paper By
the Egyptian Junior Business Association on
MAJOR CHALLENGES FACING
BUSINESSES IN EGYPT
IN LIGHT OF COVID-19 CRISIS**

June 2020



RESPONSIBLE ENTITIES:

- * The House of Representatives
- * The Cabinet
- * The Ministry of Tourism
- * The Ministry of Health
- * The Ministry of Communications & Information Technology
- * The Ministry of Finance
- * The Central Bank of Egypt
- * The Ministry of Trade and Industry

** This paper includes the key points & takeaways from the Egyptian Junior Business Association (EJB) meeting on May 4, 2020*

SECTORS SEVERELY AFFECTED BY THE COVID-19 CRISIS

Several sectors came to a complete halt; businesses had to redirect available cash flows to payment of government dues and other administrative expenses, and at the same time continue paying staff salaries. Undoubtedly these expenditures, which were coupled with the lack of revenues, exerted significant pressures on the financial capabilities of these businesses. If the crisis continues, these businesses may be forced to reduce their investments and their workforce. Among the most severely affected sectors are:

- * The collective passenger transport, and the tourist transport sector, which primarily relies on transporting passengers to and from airports, as well as to tourist attractions. The sector was severely affected across the board due to the shutting down of airports and the halting of air travel, as well as the closure of hotels and tourist sites.
- * The hotel services sector was hard hit due to quarantine measures and the cessation of tourism, in spite of the fact that at the beginning of May the government decided to gradually ease hotel shutdown procedures and restrictions.

- * The machinery and equipment manufacturing sector was severely impacted by the fraying of supply chains, which rely heavily on imports of production inputs. Consequently, production lines either stopped due to the lack of these inputs or operated at a very limited capacity within the available stock of inputs.
- * The real estate, restaurants, entertainment centers, and commercial malls.

SECTORS PARTIALLY AFFECTED BY THE COVID-19 CRISIS

Sectors falling under this category were able to continue paying staff salaries, albeit they continued to suffer from a progressive decline in their cash flow due to reduced sales and collections. These sectors include the following:

- * The textile and ready-made garment sector continued to operate amidst the crisis while taking into consideration health precautions in the production facilities; workers were assigned some tasks that can be completed while staying at home. However, the curfew and the reduced store opening hours resulted in significant adverse effects on sales. As for the factories that export their production, exports came to a screeching halt since March as a result of the global shutdowns.
- * Because of the decision to close all educational centers and gathering places in general, the training services sector faced problems related to the operation of education and direct training. However, businesses were able to use modern communication technologies to provide online training services to their clients. The majority of the tasks related to the delivery of these services were performed by employees while working from home. That said, these businesses suffered from a decline in contracting during the crisis period due to the overall cultural weaknesses limiting distance learning and online training.

SECTORS LEAST AFFECTED BY THE COVID-19 CRISIS

- * The crisis did not materially affect businesses that provide legal services, as well as businesses providing financial and administrative consultancy services; these businesses are flexible and are not dependent on, or are unrelated to, fixed production lines, as well as they can use technology to communicate with clients.
- * The telecommunication sector; and domestic trade, pharmaceuticals, and agriculture sectors.

THE EGYPTIAN JUNIOR BUSINESS ASSOCIATION PERSPECTIVE ON POSSIBLE SOLUTIONS

- * Promptly return to the pre-crisis production levels, taking into consideration adopting the necessary precautionary measures.
- * Assist businesses operating in tourism-dependent sectors to implement new health standards that have direct effects on the sector's revenues.
- * Establish government investment funds to work jointly with the private businesses on investing funds in the coming period, it is expected that these businesses will require major restructuring to adjust to the post-crisis realities.
- * Reduce fees and taxes or grant businesses a full exemption from any tax or fee for at least one year to reduce the significant pressures placed on the financial capabilities of businesses.
- * Expedite the development of an effective strategy to deepen the local product and localize supply chains to help with circumventing production disruptions due to any global crisis, as well as reducing dependency on imports and expanding export opportunities.
- * Obligate government bodies to enforce the pertinent local product preference law and increase contracting with local businesses to encourage them to expand, develop, and employ more Egyptian workers.
- * Extend the loan repayment grace period announced by the Central Bank of Egypt beyond September 2020 to avoid cash flow pressures while gradually resuming full production.
- * Develop the information and telecommunications network to expand its capacity and improve its quality to ensure uninterrupted online services; the COVID19-crisis has highlighted the importance of internet communications for executing business, holding conferences, shopping, and online payments, all of which are expected to expand in the future.
- * Amend the labor law to make it more responsive, particularly with regards to providing provide businesses with flexibility in the event of laying off staff due to contraction of business and declining revenues; severance pay upon termination should be reduced from the equivalent of two months of pay for each year of service to one month's pay for each year of service.
- * Increase the allocation for health insurance in the state budget to heighten workers' sense of security; this may help obviate the need for workers to persistently demand increases in cash wages.



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