EGYPT

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- **The economic outlook for 2015 is cautiously optimistic, with the GDP growth rate projected at 3.8% in 2014/15 in the wake of important ongoing reforms and anticipation of parliamentary elections, which is the final stage of the political roadmap.**
- **The successful outcome of the March Egypt Economic Development Conference secured over USD 60 billion worth of investments, loan agreements and grants and reinforced the government's commitment to continue the structural reforms and promote inclusive growth and restore back investor confidence.**
- **Economic activity, policy making and development programmes are concentrated in Cairo and a few major cities, which perpetuates spatial disparities.**

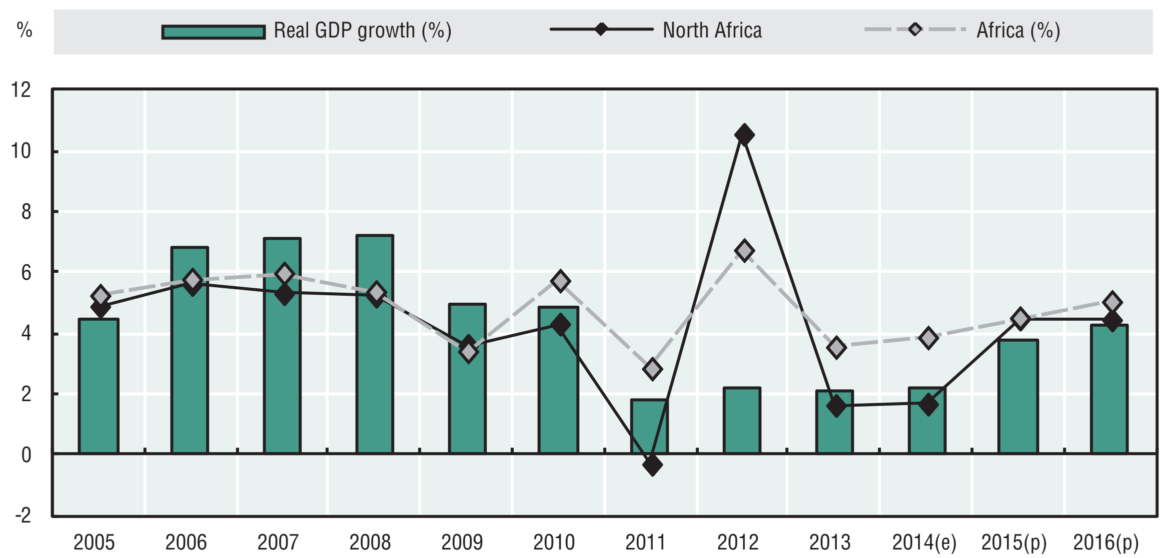
Overview

The economic outlook since the July 2014 Presidential election looks optimistic. GDP growth in the fourth quarter of the 2013/14 fiscal year (FY) was 3.7% compared to 1.5% a year earlier. GDP is expected to grow by 3.8% in FY 2014/15 and 4.3% the following year, compared to 2.2% in 2013/14. This continuing growth will be reinforced by prospects of political stability, initiation of the Suez Canal expansion and improved business sentiment resulting from major reforms. Yet economic recovery remains fragile due to: *i)* high inflation rate estimated at 10.1% in FY 2013/14; *ii)* a budget balance still projected to show a deficit of 11% of GDP in FY 2014/15; *iii)* the country's high outstanding public debt to GDP ratio, up to 97% in June 2014 from 94% a year earlier; and *iv)* a rising unemployment rate reaching 13.3% in 2013 from 9% in June 2010. The economic recovery will depend on continued reform efforts. The parliamentary elections have been delayed but the government is committed to complete this last step of the political roadmap.

Growth is being driven by the manufacturing sector, despite energy shortages and changes to the energy-subsidy scheme. The key development challenges facing the government will be: reducing high inflation, bringing down youth unemployment, improving energy management, dealing with a structural fiscal deficit and resolving other public debt issues that have not been successfully tackled despite an increase of the fiscal revenue from a widened tax base and subsidy reforms. Meanwhile, it is imperative to ensure that subsidy reforms do not hurt the lower-income segments of the population but are better targeted to ensure greater social justice.

Challenges at the macroeconomic level are also likely to affect spatial inclusion. Economic and social development is highly concentrated in Cairo and Alexandria, as well as in the Canal governorates (Ismailia, Port Said and Suez), which are the main business and residential hubs. Rural Upper Egypt, however, is deprived. The government is taking steps to integrate remote areas like the Sinai Peninsula, while promoting investment and poverty alleviation in the Nile Delta and Upper Egypt through projects such as the development of the Golden Triangle in Upper Egypt. Internal migration is low in Egypt and is directed towards the Canal governorates and Cairo. The former are likely to remain attractive for internal migration; however, with the implementation of the Suez Canal Area Development Project, there are likely to be poles of growth around the expansion of existing ports and new industrial zones. In addition to the existing organic clusters mainly in Lower Egypt, the government is aiming at creating new non-organic clusters following the Smart Village model in Cairo.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p)

Table 1. **Macroeconomic development**

	2012/2013	2013/2014(e)	2014/2015(p)	2015/2016(p)
Real GDP growth	2.1	2.2	3.8	4.3
Real GDP per capita growth	0.5	0.6	2.2	2.8
CPI inflation	6.9	10.1	10.4	10.1
Budget balance % GDP	-13.7	-12.8	-11.0	-8.5
Current account % GDP	-2.4	-0.8	-3.4	-4.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Egypt has emerged from the uncertainty of the past four years with the arrival of the new, democratically elected government of President Abdel Fattah El-Sisi. Improved business confidence has led to increased aid and investment inflows. According to the Central Bank of Egypt (CBE), net FDI rose by 9.8% reaching USD 4.12 billion in 2013/14, while investment and remittances were worth USD 18.52 billion over the same period. Official transfers increased by 57.6% in the last financial year, compared to 2012/13. The previous technocratic government can also take some credit for this improvement.

GDP growth was 3.7% in the fourth quarter of the FY 2013/14, up from 1.5% for the same quarter the previous year. Growth has been mainly driven by a recovery in manufacturing (16% of GDP in FY 2013/14) that contributed 1.32%. Other growing industries are telecommunications, logistics, retail and construction. This would be expected as a reaction to political and economic instability, when most investment tends to go towards basic and defensive industries and necessities. Meanwhile, the foreign exchange shortages and political unrest have adversely affected the tourism and oil and gas sectors.

This growth can also be attributed to changes in the business outlook and government reforms. The main income growth drivers have been investment, encouraged by a stimulus package, and public consumption. The second stimulus package, worth EGP 33.9 billion (USD 4.87 billion), predominantly came from aid pledged by the United Arab Emirates. This package was centred on quick wins and financing social programmes.

In the last two quarters of the last FY the economy experienced a turnaround in investment, as support from the Gulf Co-operation Council (GCC) countries and domestic investors produced a boom. Growth was also supported by the resilience in public and private consumption, fuelled mainly by remittances. Private consumption grew by almost 7% while public consumption grew by 5.1%, compared to the same period last year. A positive indicator was the change in Egypt's credit rating by Moody's international rating agency from "negative" to "stable", as a result of the stabilised political and security situation. External financial support, predominantly from GCC member states, continues to bolster external liquidity, supporting the budget and lowering the government's financing costs.

The government is trying to widen the tax base, to make the tax structure more progressive to help the poor and to reduce the fiscal deficit. This led a series of measures including the enactment of a long-awaited property-tax scheme that drew mixed reviews and some resistance. Part of the measure's unpopularity was due to the limited public information available during the bill's design, which alienated some of the stakeholders, and the unique structure of home ownership in Egypt where there is a tendency for multiple homes per family and real estate is used as an investment vehicle.

Another measure was the introduction of a 10% capital-gains and dividends tax alongside a temporary additional 5% income tax for a 3-year period on firms and individuals with annual incomes above EGP 1 million. Finally, the government raised the sales tax on tobacco, cigarettes and alcoholic beverages to 50% on cigarettes, 150% on wine and 200% on beer.

Reforming fuel subsidies was one of the least popular and hence, boldest reforms undertaken by the current administration. Other reforms were aimed at providing incentives to firms to invest in energy-efficient technologies; reducing privileges granted to capital-intensive industries; rationalising inequality in distribution and importation of petroleum products; and improving the operational and cash balances of the Egyptian General Petroleum Corporation. Sizeable increases in prices of almost all fuel products were designed to underpin these objectives. Finally, the government extended the natural gas grid to lagging regions, as part of a move towards better spatial inclusion.

Reforms to the bread and rationing system were also introduced, including changing the subsidy from flour to the finished product in an effort to counter corruption and inefficiencies in the subsidised flour market. Simultaneously, the government sought to encourage households to reduce wasteful consumption by using a smart-card reward system that allows savings to be used to purchase other subsidised items, while introducing greater efficiency into the network of 650 wholesalers and 210 retailer outlets controlled by the state-owned Egyptian Food Industries Holding Company.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2008/2009	2013/2014(e)
Agriculture, forestry, fishing & hunting	13.6	14.5
of which fishing	…	…
Mining and quarrying	14.9	17.3
of which oil	14.5	16.9
Manufacturing	16.6	16.4
Electricity, gas and water	1.6	1.6
Construction	4.4	4.7
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	14.9	13.2
of which hotels and restaurants	3.5	2.2
Transport, storage and communication	10.2	8.5
Finance, real estate and business services	9.9	9.5
Public administration and defence	9.9	10.6
Other services	4.0	3.8
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities

Macroeconomic policy

Intense reform activity characterised 2014 as the government adopted a wide range of difficult policy measures to counter the major challenges facing the economy following the difficult post-revolution years.

Fiscal policy

The new government has adopted an expansionary fiscal policy to encourage economic growth through incentives to promote productive investment, while rationalising both the subsidy policy and the revenue collection mechanism to widen the tax base and reduce the budget deficit to 11% by the end of 2014/15. The target is to shift expenditure away from ineffective subsidies to employment-generating projects and public consumption and investment. At the same time, bold reforms are being undertaken in subsidy management, taxation and public-sector wages. As part of this policy stance, in June 2014 energy subsidies were cut by around 40%.

After large budget shortfalls in FY 2011/12 and 2012/13, the fiscal deficit narrowed to reach 12.8% of GDP in 2013/14, compared to 13.7% the previous year. This is due to exceptional financial assistance from the GCC countries and the drawing down of government deposits at the CBE. Yet these are non-sustainable flows that pose a risk of increasing the fiscal deficit in the long run.

To enhance fiscal revenues, the government has increased taxes on cigarettes and alcohol by around 50% and 200%, respectively; raised income taxes by 5% on those earning more than EGP 1 million per year; introduced a new 10% capital-gains tax on stock-market transactions, dividends cash distributions and profits resulting from investment in foreign securities.

In response to social pressures for more focus on lower income households, a presidential decree amended Real Estate law No. 196/2008 to extend tax exemption to units owned by people with middle or low incomes. The amendment also exempts the owners of units used in non-housing purposes from taxes if the net annual rental value is less than EGP 1 200. The minister of finance declared that about a quarter of real-estate tax revenues will be allocated to governorates to support project implementation, while another quarter will be used for the development of slum areas. The remaining 50% will be earmarked for education, health and insurance systems and development projects in the governorates.

The Ministry of Finance's FY 2014/15 budget policy emphasises the need for greater transparency in the budget process through discussion and information sharing with interested institutions. The authorities have been able to use the IT infrastructure to improve access to pensions, subsidised bread, rations and fuel subsidies. An integrated network and smart-card system provides better targeting, monitoring, tracking and allocation of subsidies than hitherto. Moreover, the government's internal financing system has been automated, and an entire e-payment framework is in place, although roll-out is still gradual across the different accounting units. On the downside, budgeting remains centralised. Governorate-level management does not have freedom over its taxation, its revenue streams, or its own finances.

Table 3. **Public finances (percentage of GDP at current prices)**

	2005/2006	2010/2011	2011/2012	2012/2013	2013/2014(e)	2014/2015(p)	2015/2016(p)
Total revenue and grants	**24.5**	**19.3**	**19.3**	**20.0**	**22.7**	**21.2**	**20.8**
Tax revenue	15.2	13.8	12.9	13.9	13.6	12.9	12.2
Oil revenues	0.6	0.2	0.2	0.4	0.4	0.3	0.2
Total expenditure and net lending (a)	**33.6**	**29.1**	**29.9**	**33.7**	**35.4**	**32.2**	**29.3**
Current expenditure	30.2	26.4	27.6	31.3	31.1	29.6	28.3
Excluding interest	24.2	20.2	21.0	22.9	22.4	21.7	20.9
Wages and salaries	7.6	7.0	7.8	8.2	7.5	6.9	6.3
Interest	6.0	6.2	6.6	8.4	8.7	7.9	7.4
Capital expenditure	3.4	2.9	2.3	2.3	2.2	2.2	2.0
Primary balance	**-3.2**	**-3.6**	**-4.0**	**-5.3**	**-4.1**	**-3.1**	**-1.1**
Overall balance	**-9.2**	**-9.8**	**-10.6**	**-13.7**	**-12.8**	**-11.0**	**-8.5**

Note : a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations

Monetary policy

Controlling inflation remains a key challenge; having grown from 6.9% in 2012/13 to 10.1% in FY 2013/14 it is projected to reach 10.4% during 2014/15, mostly because of rising food prices from higher fuel costs and the reduction in fuel subsidies, as well as supply shortages due to poor logistics and storage capacities, and a decline in imports due to low reserves that has put pressure on domestic production. The rising prices have impacted lower income households more than the richer segments of the population.

The CBE has been trying to strike a balance between curbing inflation and stimulating the economy. As of September 2014, the CBE decided to keep its overnight deposit rate, overnight lending rate, and the rate of the its main operations unchanged. This is the fourth time since January 2014 that the central bank has maintained its rates to control inflation, after 3 cuts in 2013 and an increase of 100 basis points in July 2014.

The Egyptian pound and the CBE's reserves have been supported by inflows of capital from the GCC countries; however short-term pressures remain. The balance of payments recorded a surplus in FY 2013/14 of almost USD 1.5 billion. From June 2014, the exchange rate stabilised at around 7.14 EGP/USD; however starting in January 2015, the CBE has allowed the currency to depreciate to reach close to 7.6 EGP/USD by March 2015 with the aim of equalising the market and parallel black rate.

Economic co-operation, regional integration and trade

Net exports in FY 2013/14 made a negative contribution to GDP. The ratio of merchandise exports to merchandise imports declined from 46.8% in FY 2012/13 to 43.7% in 2013/14. The net service balance decreased by 80.6% USD 0.98 billion mainly due to a 20.7% fall in service receipts.

The services net trade balance is estimated at 0% of GDP and expected to continue at similar levels for the coming two years.

Regional trade with African countries remains low despite membership of COMESA. The main obstacles limiting regional trade are problems in transport and logistics, trade finance, business knowledge and trade promotion. The port facilities need investment and handling procedures need to be modernised as part of the rectification of poor transport infrastructure. The creation of the Egypt Agency of Partnership for Development is likely to help increase trade and investment with African countries. The trade balance remains negative, with imports consistently exceeding exports, as many of the raw materials for manufacturing sector are imported and Egypt is the largest importer of wheat in the world. While the service balance was positive the end result is a negative current-account balance (see Table 4).

Net FDI inflows reached USD 4.12 billion in FY 2013/14 compared to USD 3.8 billion in the previous financial year. The March 2015 Egypt Economic Development Conference was designed to boost FDI flows by repositioning the economy and regaining foreign and local investor confidence. The conference was also designed to enlist the support and commitment of investors and development partners for the financing of selected investment projects under the PPP model.

Table 4. **Current account (percentage of GDP at current prices)**

	2005/2006	2010/2011	2011/2012	2012/2013	2013/2014(e)	2014/2015(p)	2015/2016(p)
Trade balance	-11.1	-11.7	-13.1	-12.0	-11.7	-11.1	-10.4
Exports of goods (f.o.b.)	17.2	11.7	9.6	10.6	9.8	7.8	6.3
Imports of goods (f.o.b.)	28.3	23.4	22.8	22.6	21.5	19.0	16.6
Services	7.1	6.0	4.6	4.9	3.0	0.0	0.0
Factor income	0.5	-2.6	-2.5	-2.9	-2.7	-3.4	-3.7
Current transfers	5.2	5.7	7.1	7.6	10.5	11.2	9.8
Current account balance	**1.6**	**-2.6**	**-3.9**	**-2.4**	**-0.8**	**-3.4**	**-4.3**

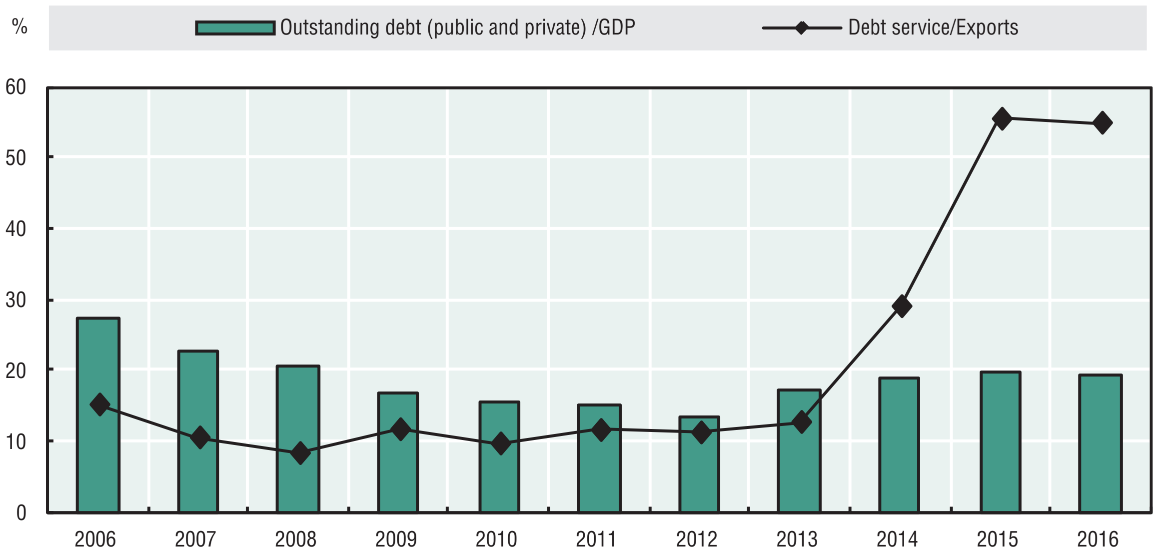
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The ratio of gross public debt to GDP increased to 97% in June 2014, compared to 94% a year previously. The debt increase is mainly due to the use of domestic short-term debt to finance the deficit. Public debt management continues to be undertaken by the Ministry of Finance where a specialised unit sets policies and handles relationships with the primary dealers.

Egypt is not a frequent bond issuer; the last internationally traded bond was issued in 2010 and had low liquidity. There is also low liquidity in the local debt-instrument market because banks tend to buy and hold treasury bonds and bills. By June 2014, external debt rose to USD 46.1 billion (16.4% of GDP) from USD 43.2 billion (17.3% of GDP) over the same period in the previous year. Medium- and long-term debt constitutes 92.1% of the total external debt. Moreover, 63.1% of all foreign debt is public, while the monetary authorities, banks and other sectors represent the other 36.9% of the total.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV)

Economic and political governance

Private sector

The political and economic transition has impacted the business environment and structural challenges continue to impinge on private-sector activity and investments. Instability has resulted in a "wait-and-see" attitude by investors and a reluctance to invest. Hence, the new government is very keen to improve the business environment and has approved a new unified investment law that should simplify the business environment, and standardise incentive schemes. It will also facilitate market entry and exit procedures, in addition to expediting litigation and dispute resolution in a manner that preserves the rights of the state and does not inflict harm on serious investors. The objective is to create an investment-friendly environment, including for Suez Canal investment opportunities. It remains essential that the CBE provide the banks with sufficient support and incentives to enable them to provide enhanced access to banking facilities for different individuals and business sectors.

With the aim of promoting entrepreneurship and development in the governorates, the government has also formed a holding company, "Ayady for Youth Employment" set to commence activities during the third quarter of FY 2014/15. Its plans centre around the establishment of investment companies in each of the governorates to finance and partner with local entrepreneurs with the aim of developing the main regional product and services for export.

In March 2014, the Ministry of Investment launched the Egyptian Regulatory Reform and Development Activity (ERRADA) to reform the business climate in Egypt. Through this initiative, all business- and investment-related regulations have been reviewed and will be made available to the public and to business investors.

Financial sector

Egypt's banking system is relatively stable, particularly given the general economic and political uncertainties. Financial intermediation, however, remains low and has decreased since FY 2012/13. The loans-to-total-deposits ratio decreased to 41.1% in June 2014 compared to 46.3% in June 2013.

Credit growth within 2014 was low (around 7.1% month on month), mainly because of the growth in government credit. However, overall credit to the government averages around 7% of the total (USD 4.1 billion), which allows ample opportunities for the private sector to access credit and bolster investment.

The government has also automated the customs-payment mechanisms; corporates can now install a CPS (Customs Payment System) on their computers and pay customs duties in real time for instant clearance of merchandise and zero demurrage costs or delays. This has been well received by the business community, yet requires support from the banking system for a smoother and expedited roll-out.

There are some 2.5 million SMEs, representing 75% of the total employed workforce. Despite banking reforms, access to finance is still restricting the business environment for small and medium entrepreneurs. Banks have been sceptical of SME lending due to low returns and the affiliated high risk.

Only 10% of Egyptians have an account at a formal financial institution which shows a very low level of financial inclusion. In 2013, a mobile payment gateway was launched to enable financial inclusion through mobile phones. With the launch of the mobile payment gateway and the ensuing mobile wallet solutions, more than 80 million mobile users in Egypt now have access to financial services and can make bill payments, transfer funds and withdraw cash.

The new and first microfinance law, issued in November 2014, regulates microcredit provided by non-bank micro-financiers, such as companies and non-governmental organisations, placing them under the authority of the Egyptian Financial Services Authority, while banks will continue to answer to the CBE.

Mortgage schemes were recently set up to support low- to medium-income households' access to adequate housing. The lack of affordable apartments had forced many young people, in particular, to seek informal housing that lacks basic services and is often located in unplanned or unsafe zones.

Public sector management, institutions and reforms

Greater transparency, communication, responsiveness and civil engagement characterised 2014. For example, one of the 2011 revolution demands was a greater say for young people in political life and policy making. The Ministry of Planning has involved a group of young business, legal and economic consultants to work on specific projects on a voluntary basis.

Reforms extended to the creation of a Ministry for Urban Renewal and Development, which deals with the chronic problem of slums. Other measures include the incorporation of an Energy Planning Authority, and the issue of a Sovereign Guarantee Law, whereby the Ministry of Finance guarantees the Egyptian Electric Holding Company in case of default. The government also introduced a new Renewable Energy Law which regulates the renewable energy segment and provides incentives to investors.

In November 2010, Egypt launched the MasterCard Prepaid programme for government payroll and pension payments concerning 10 million public employees. At the end of 2014, almost 2 million of these cards were in use in Egypt.

A new investment law was approved by the president aimed at unifying and standardising investment regimes such as free economic zones and special investment zones and creating a one-stop shop for investors. The government has announced that this new law will seek to address the shortcomings of the current legislation on effective incentives, exits, bankruptcy and industrial and economic zones.

Natural resource management and environment

Egypt is a large consumer of energy by virtue of its population, industrial mix and lifestyle. In consequence, the government is trying to ensure that energy is sustainable and affordable. Demand has been growing at more than 6% annually. The availability of energy, specifically electricity, will be an important challenge for the future. Investments of around USD 70 billion are to be implemented by 2022, of which a third will be specifically directed towards renewable energy.

In 2014, the government increased electricity tariffs for residents and for commercial use by 25%; issued a new feed-in-tariff for electricity produced by the private sector from renewables (wind and solar); simplified the tariff structure through consolidating the number of user brackets; incorporated an Energy Planning Authority; and introduced a new Renewable Energy Law (to be ratified in early 2015), which regulates the renewable energy segment and provides incentives to investors. However, given that environmental compliance comes at a cost to companies, there has to be greater emphasis on waste to energy solutions and other environmentally friendly initiatives that would have monetary rewards to the companies that undertake them.

Political context

In 2014, Egypt emerged from the political uncertainty that had tarnished the country's outlook for the past three years. Following mass protests against the Islamist government, General Abdel Fattah El-Sisi, former head of the Egyptian Armed Forces and First Deputy Prime Minister, was elected as President. The political reform process would have received a boost with a newly elected parliament in March and April. However, the Supreme Court ruled that the electoral boundaries contained in electoral law were unconstitutional, thus postponing parliamentary elections to a later date in 2015.

The call for an Islamic revolution from Islamic parties on 26 November 2014, met a muted response. In fact, demonstrations gradually went down in terms of frequency and number of participants throughout 2014, partially due to the Article 8 of the 2013 "protest law". This requires anyone wanting to organise a public meeting, march or protest to notify a minimum of three working days prior to the event and in writing the police station in whose jurisdiction the meeting or starting point of a march lies.

The military has been fighting Jihadist groups in Sinai since the ousting of former president Morsi and army check points have been bombed several times causing casualties in North Sinai. Several police officers were killed during the year either by being shot or while diffusing bombs found on the streets mainly in Cairo.

Social context and human development

Building human resources

The top five ranking governorates on the Human Development Index (HDI) are Port Said, Suez, Alexandria, Damietta and Ismailia, with scores ranging from 0.78 to 0.75. The worst HDI scores belong to Suhag, Qena, Assiut, Menia, and Fayoum ranging from 0.71 to 0.69. The best five governorates are either coastal or are located around the Suez Canal, while the worst five are located in the Nile Delta and in Upper Egypt. Nevertheless, the government's attention is still drawn towards the more developed governorates that get the bigger share of development projects.

The national strategy for education issued by the Ministry of Education in 2014 highlighted a trend towards the dual system in Technical Secondary Schools (TSSs) and an increase in the number and variety of schools and faculties in universities. The strategy suggests motivating teachers through a salary increases and training. Egypt has achieved universal primary education, reduced child mortality rates, improved maternal health and combated HIV/AIDS and other major diseases. While access has improved, the quality of social services remains a challenge. According to the *Global Competitiveness Report* 2014-2015, Egypt is ranked 1/144 in 2013 for HIV prevalence as a percentage of the adult population, compared to 11th in 2012. In addition, it is also ranked first in Malaria cases per 100 000 people, business impact on malaria and business impact on HIV/AIDS in 2013. According to the World Health Organization (WHO), total expenditure on health per capita was USD 323 in 2012. Total expenditure on health as was EGP 26.1 billion in 2013 and is budgeted to increase to EGP 42.4 billion by 2014/15. The adult mortality rate (probability of dying between 15 and 60 years of age) was 120 per 1 000 for men and 196 for women.

Poverty reduction, social protection and labour

The new government has shown interest in expanding the social-protection system to include the most deprived segments of the population. The Ministry of Social Solidarity is to make targeted cash pensions for poor families conditional on their children's school attendance in 2015. This will apply exclusively to governorates with the highest poverty rates, mostly concentrated in Upper Egypt. The current government plans on introducing a revised and upgraded universal health insurance that will also be piloted in Upper Egypt, and later expanded to cover the whole country.

In 2013 26.3% of the population lived below the poverty line. The economic downturn during the last four years has significantly affected the labour market and unemployment has risen to 13.3% from 9% in June 2010. More alarmingly, 70% of the 3.7 million unemployed are between the ages of 15 and 29. This means that the country has been unable to generate new jobs for these young people, despite their lower wage expectations. Unemployment is as high as 25% for women compared to only 10% in men. Donor organisations have been working with the government, consulting firms and the private sector on initiatives that support women in the workplace and empower them to make different career choices.

The long awaited microfinance law was passed in November 2014, regulating and boosting access to credit for the poor. It relates to microcredit provided by non-bank institutions, such as companies and non-governmental organisations (NGOs), placing them under the authority of the Egyptian Financial Supervisory Authority (EFSA), while banks will remain under the CBE. The law is intended to make microfinance more attractive to investors, financiers, companies and NGOs.

Gender equality

Article 11 of the constitution obliges the state to achieve gender equality regarding civilian, political, economic, social and cultural rights. It also urges the state to take the measures necessary to ensure women's fair representation in parliament and calls for an end to discriminating against women. The article obliges the state to protect women against all forms of violence and to provide mothers and children with adequate care.

In the labour market, women are strongly discriminated against with only 26% of them in the labour force. According to the 2014 Global Gender Gap report, Egypt ranked 12th out of 142 countries for wage equality for similar work. The score for female workers in informal employment excluding agriculture is 23 (100 = equality). Net employment ratios for secondary education graduate boys and girls are almost equal at 66% and 64%, respectively. Although the government does not have a clear published strategy to achieve gender equality and women's empowerment, donors and specialised NGOs are active in the field. Programmes directed at the economic integration of women through providing credit and financial literacy, as well as self-defence and character development, are among the widest reaching. Given that financial inclusion is a strategic objective for the government, donors are focusing on microfinance for women in Upper Egypt where severe poverty prevails.

Thematic analysis: Regional development and spatial inclusion

Despite the presence of a local administration law giving governorates sovereignty over their affairs, during the Mubarak regime it was not implemented and decisions affecting the governorates were taken by the central government. Cairo and Alexandria, followed by the Suez Canal governorates (Ismailia, Port Said and Suez), are the main business and residential hubs. An estimated 47% of Egypt's economic and social establishments are in the Cairo and Alexandria governorates, which host 25% of the labour force. With a 1.6% population growth rate, which is on the decline, and with 2.81 live births per woman, Egypt is a densely populated country. Upper Egypt, where poverty prevails, is deprived. The rural population composes 56.6% of the total.

Internal migration rates remain low due to poor education levels and the resulting non-competitive skill set; labour that is tied up in agriculture, either as in paid employment or unpaid family workers; and rural households' ability to raise a portion of their own food offsetting the impact of soaring food prices and reducing the incentive to migrate. Internal migrants are statistically more likely to find employment and they earn higher wages than non-migrants at educational levels rising from TSSs.

Lower Egypt is the preferred destination for migrants (64%), followed by Cairo (17%). Governorates with high migration inflow rates tend to be of low population density and have below average unemployment rates, which explain their attractiveness. Port Said, Suez, Red Sea and Ismailia rank the highest among the governorates in terms of net immigration.

According to the *Global Competitiveness Report* 2014-2015, Egypt's rank improved from 41st out of 144 countries in 2009 to 38th in 2014 for cluster development. The improvement is due to recent shift of focus of policy towards supporting existing clusters and establishing new ones. Clusters have been established in Egypt for a long time and there are major existing organic clusters, such as the Damietta Furniture Cluster, the Sha'a El Te'aban District Marble and Granite Cluster, the Sharm El Sheikh Tourism Cluster, the El-Mahalla El-Kubra Textile Cluster and the Robiky Leather Manufacturing Cluster. One of the oldest traditional clusters is the furniture manufacturing industry in Damietta where Egypt has managed to upgrade a local industry and integrate it into global value chains. The Smart Village in Cairo is also another important operational technology non-organic cluster and Business Park that has proved to be successful. It offers a host of connective services from business support to athletic facilities, which distinguishes it from traditional cluster models.

Social inclusion in Egypt is not without tension, most of which can be traced to religious and political polarisation. The Islamic parties have been more dominant in Upper Egypt and in low-income districts of Cairo. Moreover, attempts of reintegrating the Bedouins of Sinai into society have not proven successful, especially in the context of the continuing armed conflict in North Sinai between the military and Jihadist groups. The conflict disadvantages the Bedouin because of interruptions to transport infrastructures and the risks posed by frequent bombings.

The Suez Canal Area Development Project seeks to transform the Suez Canal area into an international business hub. Although the final master plans of the project have not yet been published, it is known that it will include road and rail tunnels under the canal, enlarging existing ports, creating new industrial areas and revising the free-zone concept already existing in Port Said. The project aims to attract investment and provide more employment opportunities to reduce migration to Cairo. Among the key sectors that will be prioritised in the project is ICT, which is expected to create jobs. One of the objectives is to capitalise on existing quality education and living conditions in the area which hosts the best ICT technical school in Egypt.

The government has been investing in improving accessibility to clean water, which has led to the expansion of drinking water networks in urban areas from 89% to 100% and in rural area from 39% to 93%. However these connection figures are not representative of the quality of water, which has a direct impact on societal wellbeing, specifically on health. Moreover, the irregularity of water supply also a source of popular frustration and water cut-offs are common occurrences. Villages in Upper Egypt suffer most from water cuts and lack of access, while most of the slum areas in Cairo do not have access to tap water and are supplied through mobile tanks that come with irregular frequency.

The shortage of affordable housing particularly disadvantages young people. The problem is mainly evident in high population-density governorates like Cairo, Alexandria, Assiut, and Menya. Most real estate expansion is in Cairo and Alexandria but is geared towards high-end housing. There is also a lack of adequate mortgage financing schemes with low-interest loans for low-income households. The Suez Canal governorates have relatively low percentages of unplanned and/or unsafe slum areas, compared to the rest of the country.

The Ministry of Urban Renewal and Informal Settlements is currently focusing its efforts on developing interventions for unsafe areas through facilitating community dialogue and public participation, as well as supporting the provision of services in collaboration with relevant localities. There are two major initiatives. The first is the Suez Canal Area Development Project that aims at creating new urban communities around the Suez Canal. This should lead to an expansion of middle- and low-income housing supported by new mortgage facilities in a new housing model that could subsequently be extended to the national level. The second initiative is the development of the new Capital city which will include about 350 000 housing units and 10 000 hotel rooms.