



# USAID/EGYPT

## PRIVATE SECTOR LANDSCAPE ASSESSMENT

**October 2020**

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## Final Report

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# ACRONYMS AND ABBREVIATIONS

<b>AfDB</b>	-	African Development Bank
<b>AI</b>	-	artificial intelligence
<b>AUC</b>	-	American University in Cairo
<b>BEE</b>	-	business-enabling environment
<b>BEST</b>	-	Building Economic Sustainability through Tourism Project (USAID)
<b>BDS</b>	-	business development service
<b>BMOs</b>	-	business membership organizations
<b>BTM</b>	-	Bishara Textile and Garment Manufacturing Company
<b>BWE</b>	-	Business Women of Egypt
<b>CBE</b>	-	Central Bank of Egypt
<b>CDCS</b>	-	Country Development Cooperation Strategy
<b>CFS</b>	-	Consolidated Freight Services
<b>CIRA</b>	-	Cairo for Investment and Real Estate Development
<b>CPC</b>	-	Cairo Poultry Company
<b>CSR</b>	-	corporate social responsibility
<b>DFC</b>	-	Development Finance Corporation
<b>EAEF</b>	-	Egyptian-American Enterprise Fund
<b>EBRD</b>	-	European Bank for Reconstruction and Development
<b>EdTech</b>	-	educational technology
<b>EECAA</b>	-	Egyptian Economic Court Automation Activity
<b>EECE</b>	-	Engineering Export Council
<b>EGP</b>	-	Egyptian pound
<b>ERAS</b>	-	Egypt Rural Agribusiness Strengthening
<b>ETF</b>	-	Egyptian Tourism Federation
<b>E-TRP</b>	-	Egypt-Tourism Reform Program
<b>FAO</b>	-	Food and Agriculture Organization of the United Nations
<b>FAS</b>	-	Food Security and Agribusiness Support (USAID)
<b>FinBi</b>	-	Finance and Banking Consultants International
<b>FEI</b>	-	Federation of Egyptian Industries
<b>FP/RH</b>	-	family planning and reproductive health
<b>FRA</b>	-	Financial Regulatory Authority

<b>FTF</b>	-	Feed the Future
<b>GAFI</b>	-	General Authority for Investment
<b>GB Academy</b>	-	Ghabbour Auto Academy
<b>GDA</b>	-	Global Development Alliance
<b>GDP</b>	-	gross domestic product
<b>GILO</b>	-	Girls' Improved Learning Outcomes (USAID)
<b>GoE</b>	-	Government of Egypt
<b>GSTC</b>	-	Global Sustainable Tourism Council
<b>ICT</b>	-	information and communications and technology
<b>IDA</b>	-	Industrial Development Authority
<b>IFC</b>	-	International Finance Corporation
<b>IFPRI</b>	-	International Food Policy Research Institute
<b>IMC</b>	-	International Modernization Centre
<b>IMCT</b>	-	Integrated Management of Cultural Tourism
<b>IMF</b>	-	International Monetary Fund
<b>ITIDA</b>	-	Information Technology Industry Development Agency
<b>KII</b>	-	key informant interview
<b>LEAP III</b>	-	Learning, Evaluation, and Analysis Project (USAID)
<b>M&amp;E</b>	-	monitoring and evaluation
<b>MENA</b>	-	Middle East and North Africa
<b>MFIs</b>	-	microfinance institutions
<b>MNCs</b>	-	multinational corporations
<b>MCIT</b>	-	Ministry of Communications and Information Technology
<b>MoETE</b>	-	Ministry of Education and Technical Education
<b>MoHE</b>	-	Ministry of Higher Education
<b>MoTA</b>	-	Ministry of Tourism and Antiquities
<b>MSMEDA</b>	-	Micro, Small and Medium Enterprises Development Agency
<b>MSMEs</b>	-	micro-, small-, and medium-sized enterprises
<b>NBFIs</b>	-	non-banking financial institutions
<b>NGOs</b>	-	non-governmental organization
<b>NUCA</b>	-	New Urban Communities Authority
<b>PCBs</b>	-	printed circuit boards
<b>PE</b>	-	private equity
<b>PPD</b>	-	public-private dialogue

<b>PPP</b>	-	public-private partnership
<b>PSE</b>	-	private sector engagement
<b>PSLA</b>	-	Private Sector Landscape Assessment
<b>R&amp;D</b>	-	Research and development
<b>RFP</b>	-	request for proposal
<b>RMG</b>	-	ready-made garments
<b>RVCs</b>	-	regional value chains
<b>SDS</b>	-	Sustainable Development Strategy
<b>SEED</b>	-	Strengthening Entrepreneurship and Enterprise Development (USAID)
<b>SEFPP</b>	-	Strengthening Egypt's Family Planning Program (USAID)
<b>SEZ</b>	-	special economic zones
<b>STEM</b>	-	science, technology, engineering, and mathematics
<b>TILO</b>	-	Technology for Improved Learning Outcomes (USAID)
<b>TVET</b>	-	technical and vocational education and training
<b>USAID</b>	-	United States Agency for International Development
<b>VC</b>	-	venture capital
<b>VSLAs</b>	-	village savings and loan associations
<b>WISE</b>	-	Workforce Improvement and Skills Enhancement (WISE)



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*Photo credit: World Bank Photo Collection: Middle East & North Africa. 2015. "City Shots of Old Cairo." Flickr.*

# EXECUTIVE SUMMARY

## INTRODUCTION AND CONTEXT

Egypt's private sector is highly developed, employing approximately 70 percent of the country's labor force. A dynamic and young population, large market size, and access to important foreign markets drive Egypt's enormous economic potential. Despite this progress, significant obstacles dampen the country's ability to recognize its potential for economic growth. Most micro-, small-, and medium-sized enterprises (MSMEs) operate informally, and they contribute less than 30 percent to gross domestic product (GDP). The country has a complex and burdensome legal and regulatory system. Egypt's growing population and high rates of unemployment pose additional hurdles.

The current COVID-19 crisis has superimposed related challenges and uncertainty over Egypt's persistent development challenges. Though the Government of Egypt has taken proactive measures to mitigate the economic fallout of the crisis, the economic achievements Egypt has realized since launching its bold economic reform program risk backsliding. Short-term effects of the crisis include reductions in tourism, income from the Suez Canal, and remittances coming from the Egyptian diaspora. The long-term effects of the current crisis are yet to be fully understood.

Private sector engagement (PSE) is especially important in this time of crisis, as market-led development as envisioned by the USAID PSE Policy can only occur if the private sector emerges stronger and ready to invest in the Egyptian economy.

USAID/Egypt has engaged successfully with the private sector for many years. In the past 15 years, USAID/Egypt has leveraged more than \$50 million in cash and in-kind contributions through partnerships with Coca-Cola, General Motors, GlaxoSmithKline, IBM, Heinz, Hewlett Packard, Houghton Mifflin, HSBC, Intel, Microsoft, Oracle, and many others. USAID and implementing partners have already worked closely with more than 200 local and international companies in agribusiness, workforce development, enterprise development, tourism, higher education, and voluntary family planning (USAID/Egypt, 2019a).

## PSLA METHODOLOGY AND APPROACH

Given this context, this Private Sector Landscape Assessment (PSLA) aims to gather data to help the Egypt Mission understand specific private sector-related opportunities and synergies and to inform the Mission's 2020 Country Development Cooperation Strategy (CDCS) process. The assessment seeks to add to the Mission's existing private sector stakeholder database, expand its understanding of private sector goals and challenges, begin relationship building with new contacts, and identify appropriate actors for potential short- and long-term partnerships.

The assessment team began the PSLA with a desk review and in-person consultations with USAID/Egypt staff in March 2020. Research included current trends and opportunities in Egypt and a review of relevant external publications and internal Mission documents. As part of this effort, the team also used the private sector database that the Mission already had and leveraged local expertise and networks to identify more than 200 new contacts for local, regional, and multinational firms and investors in key sectors whose business interests align with USAID's development objectives.

The evolving COVID-19 pandemic prohibited the in-person interviews that form the typical foundation for PSLA data collection. Accordingly, the Learning, Evaluation, and Analysis Project III (LEAP III) modified the PSLA format to collect data remotely via an online survey and key informant interviews (KIs). Our approach recognized both the practicalities of remote data collection (i.e., the need to standardize questions better and the need to reduce the number of questions to make it manageable for interviewees) and improvement opportunities for some areas in the PSLA process (i.e., achieving a more nuanced understanding of motivations, power dynamics, risk factors, and relationships among private sector actors and across entry points). Although we partially achieved this better understanding, structured, remotely conducted interviews also meant that the data collected were often more descriptive than analytical. As Section 5 notes, an iterative approach may be needed to further narrow down identified opportunities into actionable activities for the Mission, particularly as they relate to any updates in Mission priorities deriving from the CDCS process.

The team scheduled and conducted 48 KIs with stakeholders that USAID identified as a high priority and that represented various business/organization sizes, sectors, and geographic areas of operation. The team analyzed the following eight sectors: 1) agriculture and food processing; 2) business consulting services; 3) education, including vocational education and workforce development; 4) financial services; 5) health care; 6) legal services; 7) manufacturing; and finally, 8) tourism. For each sector, we look at private sector challenges and interests and aligned interests and engagement potential with USAID. Then, we present concrete opportunities for USAID to collaborate with specific private sector actors to address key development challenges. In defining the value proposition, these collaboration models map not only to the development rationale for the proposed interventions (i.e., decreased youth unemployment) but also the business case (i.e., higher productivity through access to skilled labor).

## SUMMARY OF PSLA FINDINGS

- **The business-enabling environment (BEE) in Egypt is a persistent development challenge that cuts across all sectors.** Respondents consistently cited outdated and unnecessary regulations and excessive bureaucracy as significant barriers to entry and major impediments to growth and expansions across sectors. Therefore, improvement of the BEE must be a priority and represents the greatest potential for unleashing the private sector's true potential to grow the Egyptian economy.
- **Integrating MSMEs into lead-firm supply, service, and support networks is an overarching business objective.** To accelerate integration, MSMEs will need increased access to finance and business development services. Lead firms can co-finance and support this access, but this should be done as a comprehensive support initiative in collaboration with development partners like USAID, which have the experience and influence needed to coordinate and connect their efforts with a wider range of development partners. If not comprehensive, the current incremental measures taken by lead firms will continue to fail.
- **Egypt needs more investment in training and technical and vocational education to upgrade workforce skills in line with shifting job opportunities in all sectors.** Technology is changing rapidly and with it the necessary workforce skills, especially for skilled and semi-skilled labor. The COVID-19 crisis has amplified this challenge with production disruptions, added safety protocols, and health-related absences. Therefore, incremental improvements, especially in public education institutions, will no longer suffice. USAID and its development partners must instead focus on increasing coordination and co-investment

between employers and private technical and vocational education and training (TVET) and other employment-focused training programs to better align workforce skills with changing job opportunities.

- **The entire Egyptian economy needs a digital transformation, including in telehealth and in digital learning platforms, manufacturing, and government administration.** Given the challenges related to COVID-19, there has never been a better time to accelerate this process. USAID works directly with both public and private sectors and is therefore well positioned to support and coordinate its efforts across all economic sectors. Over the last few years and especially over the last several months, innovation has greatly increased the options and decreased the price of digital solutions. USAID can therefore play more of an enabling and scaling rather than developing and testing role.
- **Youth and women represent the greatest untapped human capital resource in Egypt and across the MENA region.** Support programs must focus on improving youth and women's capacity and agency to increase their inclusion and ability to succeed and contribute to growth in the Egyptian economy. Partnerships among private TVET networks, employer training initiatives, and other education organizations should actively engage youth and women to improve their education for employment initiatives, focusing on job placement and retention as the most important metrics of success.
- **Response to megatrends, like climate change and population growth, must be aggressive, comprehensive, and persistent, and include a large increase in investment in private sector-led research and development (R&D).** At best, investments in climate change adaptation and mitigation strategies and strategies for coping with rapid urbanization have been incremental over the past few decades. The GoE, consistent with most governments in the region, hesitates to invest the necessary resources. USAID and its development partners will have to take a bold approach to incentivize the private sector to take the lead.

## SUMMARY OF COLLABORATION MODELS

Tables 1–8 highlight priorities and engagement opportunities to further shape the Mission's private sector strategy for Egypt. Section 5, Mapping Strategic Ways to Engage the Private Sector, expands on these.

### AGRIBUSINESS AND FOOD PROCESSING

TABLE 1: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE AGRICULTURE AND FOOD SECURITY SECTOR	
Collaboration model	Engagement opportunity
1. Strengthen local supply chains with support for expanding lead firm investments in outgrower and other MSME support networks.	USAID could help lead firms that are investing in outgrower and/or MSME support networks gain access to capital and targeted technical assistance to. This proven approach facilitates the growth of small farmers and non-farm enterprises by directly connecting them to markets and the support needed to access those markets. This approach could also have a large

	<p>impact in countries such as Egypt, where strong lead firms operate alongside disorganized and/or under supported MSMEs in accessing export and local markets with high and increasing quality and safety standards. As mentioned previously, establishing an agribusiness hub is a good example of a comprehensive support network. Various other support models are also viable and should be designed according to the needs of both the lead firm and the network of MSMEs it works with.</p>
<p>2. Integrate a mentorship activity into USAID agricultural support programs.</p>	<p>USAID could implement mentorship programs to help MSMEs increase their efficiency and productivity levels and take on more value-added activities within the value chains they work in. For example, mentorship programs could be between buyers and suppliers with current working relationships, between established and up-and-coming firms that work in the same sector, or among smaller farmers who work together through outgrower networks. Encouraging mentorship while integrating MSMEs into formalized supply chains will accelerate the integration process and develop the needed skills for sustained integration.</p>
<p>3. Support investments into digitizing agricultural supply chains, distribution, and sales networks.</p>	<p>USAID could engage lead firms interested in investing in digitizing their agricultural supply chains and distribution and sales networks. Digitizing supply chains is especially important within the agriculture and food processing sector, given the potential to make relationships with MSMEs that work within and along their supply chains more efficient. Such an initiative could support lead firms willing to co-invest in digital solutions alongside the MSMEs they work with. By doing so, USAID would enable both the digitalization and the integration of MSMEs into more formalized supply chains, which are mutually reinforcing priorities.</p>
<p>4. Facilitate market linkages and efficient transactions by improving a central database of suppliers and producers.</p>	<p>USAID could assist the GoE in improving the reliability and accuracy of its database of local suppliers and producers and support programs for those that are registered in the database. Public-private dialogue (PPD) can support technical assistance to meet buyers' needs. A partner such as the Federation of Business Industries could organize the PPD via its Chamber of Food Industries. Some obvious complications relate to such a database, including informal MSMEs' reluctance to be included, which is why simultaneously improving support programs for those that are registered would be important. The GoE has worked to improve its database, including issuing smart cards to curb corruption associated with distributing subsidies. The challenges facing MSMEs and the GoE in the current COVID-19 crisis make this the perfect time to advance swift and comprehensive measures such as these.</p>
<p>5. Improve the GoE's monitoring and regulatory capacity to ensure that local production abides by domestic and international food safety and health standards.</p>	<p>USAID could support improving the GoE's monitoring and regulatory capacity to ensure that local production abides by domestic and international food safety and health standards. Such support could include digitizing processes and procedures to increase transparency and decrease complexity. Digitizing agricultural supply chains (Collaboration Model 3) and improving the GoE database and support programs for local suppliers and producers (Collaboration Model 4) should happen in lockstep with the</p>

	<p>digitization of related GoE processes and procedures. As a result, companies will more easily and efficiently report compliance information and the GoE will be able to streamline support programs for MSMEs. Though progress has been slow, “Digital Transformations” have long been a stated goal of the GoE and other governments in the MENA region and around the world, as has improving monitoring and regulatory capacity. Recent increases in regional and global demand for Egyptian production, along with increases in related standards and regulations and new COVID-19-related challenges, have increased the pressure to move forward with these mutually reinforcing initiatives.</p>
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## BUSINESS CONSULTING SERVICES

TABLE 2: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE BUSINESS DEVELOPMENT SERVICES SECTOR	
Collaboration model	Engagement opportunity
6. Support business consulting/development services.	<p>In addition to expanding USAID’s existing efforts to support sector-focused business development service (BDS) centers to provide technical assistance to MSMEs, the study has identified two collaboration models to support business consulting firms:</p> <ol style="list-style-type: none"> <li>1. Providing training/knowledge transfer opportunities for local consultants through direct training or through pairing with international consulting firms on technical advisory projects awarded by USAID. Local consulting firms are interested in receiving training on expert hazard analysis and critical control points in the field in both donor-centric areas (e.g., monitoring and evaluation or M&amp;E, technical assistance delivery, and management systems) and more commercial aspects, such as market intelligence, digital marketing, productivity enhancements, and optimization.</li> <li>2. Enabling smaller and less established consulting firms to penetrate the market through a pay-for-results cost-sharing mechanism.</li> </ol>

## EDUCATION (INCLUDING VOCATIONAL EDUCATION AND WORKFORCE DEVELOPMENT)

TABLE 3: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE EDUCATION SECTOR	
Collaboration model	Engagement opportunity
7. Support in-house workforce development programs.	Expand the pool and stability of a skilled labor force across industries by supporting in-house workforce development programs, developing and

	endorsing R&D initiatives by lead firms to serve their respective sectors, and expanding partnerships with TVET institutes.
8. Partner with information and communications and technology (ICT) companies on educational reform projects.	<p>The COVID-19-related challenges in providing education have generated a massive global influx of investment and innovation into providing e-learning services. U.S. technology firms are leading this innovation and have aggressively sought partnerships with governments to provide these services. The Ministry of Education and Technical Education (MoETE) recently released its plan for continuous in-service teacher professional development, which aims to create an online platform for all training content. The plan not only responds to COVID-19 realities but will also help MoETE achieve training at scale and save substantial logistical costs.</p> <p>Starting with U.S. firms, USAID, in partnership with the cognizant ministries, could engage technology companies to address e-learning gaps. In doing so, USAID can proactively bridge those gaps in line with the MoETE's vision for the sector and support tech companies through advocacy, co-investment in R&amp;D, and resource support, thus rapidly increasing inclusion for underserved populations and accelerating the digital transformation of Egypt's entire education system.</p>

## FINANCIAL SERVICES

**TABLE 4: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE FINANCIAL SERVICES SECTOR**

<b>Collaboration model</b>	<b>Engagement opportunity</b>
9. Increase access to finance for MSMEs by partnering with local financial institutions and BDS centers.	USAID could identify current and recent lead firm partners with a well-established network of MSME suppliers and/or service providers and help them accelerate MSME integration in line with Collaboration Models 1 and 3. Then USAID could connect financing partners to finance MSME growth in line with the opportunities and backed by the regularity of transactions and support that are associated with integration.
10. Broaden the range of NBFIs.	Financial institutions are notoriously risk averse; slow to change; and slower to taking on new clients, products, and services. However, when compelled by disruption, proof of concept, and new entrants into their markets, change can be rapid, and competition can be fierce to protect and expand market share. For example, relatively new and successful products and services in Egypt, such as leasing, microfinance, and electronic payments, have grown rapidly. However, the spectrum of needed products and services remains unaddressed and underpenetrated—especially for MSMEs. USAID could accelerate the pace of change by supporting NBFIs, focusing on expanding access to Fintech, crowdfunding, and angel investment. Amid the COVID-19 challenge and its effects on the Egyptian economy, digital innovation is accelerating. Digital innovation and consolidation of NBFIs (more than 800 microfinance institutions [MFIs]



	currently operate in Egypt) will create a powerful force for change, as the NBFIs can better disrupt and challenge the market dominance of more traditional financial institutions in Egypt.
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## HEALTH CARE

**TABLE 5: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE HEALTH SECTOR**

<b>Collaboration model</b>	<b>Engagement opportunity</b>
11. Partner with Egyptian health care providers, particularly healthtech, with a specific interest in family planning and reproductive health (FP/RH) issues.	The USAID PSE Visioning Sessions in December 2019 note and the PSLA team confirms, based on lessons learned from the Family Planning through the Private Sector activity, that an opportunity exists to partner with private sector health care firms to provide much needed training and capacity building in exchange for greater support for voluntary FP/RH.

## MANUFACTURING

**TABLE 6: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE MANUFACTURING SECTOR**

<b>Collaboration model</b>	<b>Engagement opportunity</b>
12. Co-invest with business membership organizations (BMOs) and leading private sector players in manufacturing to enable MSMEs in the feeding industries to scale up and compete domestically.	USAID could identify current and recent lead firm partners that have a well-established network of MSME suppliers and/or service providers and support them in accelerating MSME integration in line with Collaboration Models 1 and 3 above, then connect financing partners to finance MSME growth backed by the regularity of transactions and support that are associated with integration. To pull MSMEs up into the financial markets, there must be a disruption that forces financial institutions into pursuing this market segment. This disruption will be triggered by both MSME integration and expanding access to alternative financing options from NBFIs, and it will be accelerated through the digitization of supply chains and the continued rise of digital financial services (Fintech). BDS can also be used through pay for performance contracts to support MSMEs in preparing and applying for finance and complying with the related terms and conditions.
13. Partner with the Ministry of Trade and Industry to support industrial clusters for feeder industries.	Another way to strengthen the manufacturing industry is to support the development of industrial clusters in sectors with high market demand, growth, and export potential. Given the potential for cluster-based development, the Government of Egypt has made cluster-based industrialization a key pillar of Egypt's sustainable development strategy to 2030. Promoting business clusters in manufacturing would significantly

	enhance sector productivity, promote forward and backward linkages, localize value addition, and realize the sector's job creation potential.
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## TOURISM

**TABLE 7: SUMMARY OF COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES FOR THE TOURISM SECTOR**

<b>Collaboration model</b>	<b>Engagement opportunity</b>
14. Develop the capacity of tour operations, boost management systems, and increase the adoption of digital solutions.	<p>USAID could engage major hotels, mass tourism operators, and digital booking platforms to enable MSMEs to provide more personalized experiences to tourists in line with shifting trends in the tourism industry. Major hotel chains like Marriott are making big investments in booking platforms that provide local experiences for their guests, which are often referred to as cultural, eco, experiential, and more broadly alternative tourism options. This strategy aims to be a differentiating factor over competing mass tourism options. Digital booking platforms including TripAdvisor and Airbnb also continue to expand their market share in alternative tourism by providing a convenient and secure booking option. Unfortunately, most traditional MSME operators lack the capacity to take advantage of these trends.</p>
15. Develop a tourism partnership fund.	<p>In terms of funding for tourism MSMEs, private banks indicate little interest and no existing commercial financial options/instruments provide feasible terms and cater to the needs and conditions of small and medium operators and the seasonal nature of the tourism industry. Accordingly, contacts interviewed were interested in or expecting from USAID either grants or subsidized funding to support small projects or initiatives.</p> <p>The USAID/Jordan Building Economic Sustainability through Tourism Project (BEST) is a best practice activity in the region that provides some lessons. BEST provides grants and technical assistance for product and market development, tourism industry competitiveness, public-private partnerships, and job creation. USAID could support a similar fund to provide finance, grants, and technical assistance to tourism companies in Egypt to revive and realign their products and marketing. Key goals would include improving Egypt's competitiveness amid shifts in the global tourism industry, upgrading workforce capacity, and increasing public-private partnerships to protect Egypt's tourism resources. Such a fund could also finance and support the capacity development of MSMEs as outlined in Collaboration Model 14.</p> <p>Given the need to revive Egypt's tourism sector post-COVID, this initiative would be especially timely and could also help to diversify the tourism industry in Egypt to include cultural and eco-tourism options. Partners in</p>

	the fund could include major hotels, mass tourism operators, digital booking platforms, a wider range of lead firms in Egypt, and other multinational corporations (MNCs) such as the Chaudhary Group, which has expressed interest in investing in Egypt's tourism sector.
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## CROSS-CUTTING THEMES

TABLE 8: SUMMARY OF CROSS-CUTTING COLLABORATION MODELS AND ENGAGEMENT OPPORTUNITIES	
Collaboration model	Engagement opportunity
I6. Support PPD across the Egyptian economy to address enabling environment barriers.	PPD directly engages public and private sector counterparts in an outcome-focused dialogue. PPD works best when it directly affects businesses. When participants communicate both the process and the results to the community at large, including the public and private sectors, and civil society, whether regionally and nationally, then PPD can become a trusted avenue for achieving results. Given the prevalence of enabling environment constraints across the Egyptian economy, PPDs offer a mechanism to constructively engage with the GoE on reform.

# I. INTRODUCTION

## I.1 SETTING THE CONTEXT: THE PRIVATE SECTOR ENGAGEMENT LANDSCAPE IN EGYPT

Egypt's private sector is highly developed, employing approximately 70 percent of Egypt's labor force (Carnegie Middle East Center, 2013). Micro-, small-, and medium-sized enterprises (MSMEs) make up the vast majority of the private sector (Arab African Advisers, 2017). After the economic crisis that followed back-to-back revolutions in 2011 and 2013, the country's leaders took steps to rebuild the economy, promote private enterprises, and improve the business climate. The Government of Egypt (GoE) launched a reform program in 2015 designed to enhance the business-enabling environment (BEE) through legal reform, liberalize the foreign exchange market, stimulate inclusive growth, and improve governance and transparency (Global Partnership for Effective Development Co-operation, 2018). The International Monetary Fund (IMF) signed a \$12 billion loan agreement with Egypt in 2016 to finance structural reforms that would enhance private sector functionality, noting the country's "dynamic and young population, large market size, favorable geographic location and access to important foreign markets" as characteristics of its potential (IMF, 2016). Egypt also has a growing untapped potential for e-commerce (Arab African Advisers, 2017).

Despite this progress, significant obstacles dampen the country's ability to recognize its potential for economic growth. Most MSMEs operate informally, and their contribution to gross domestic product (GDP) is less than 30 percent. They struggle to access finance due to a challenging institutional, legal, and regulatory environment and limited business advisory services. They thus have limited ability to absorb costs associated with growth. Egypt has a complex and discriminatory tax system, and business registration and licensing pose continued challenges. Only about 50 percent of companies deal with banks (Hala El-Said et al., 2014), and those that do experience excessive bank requirements and high interest rates. Banks also require high collateral, and these requirements often exclude female entrepreneurs. Egypt's growing population and high rates of unemployment pose additional hurdles.

Lastly, institutionalized mechanisms to manage labor-management relations are limited: the GoE institutionalized the Egyptian Trade Union Federation as the sole union body in 2017, preventing the establishment of other independent trade unions (Global Partnership for Effective Development Co-operation, 2018).

The current COVID-19 crisis has superimposed related challenges and uncertainty over Egypt's persistent development challenges. Though the GoE has proactively mitigated the economic fallout of the crisis, the economic achievements Egypt has realized since launching its bold economic reform program risk backsliding (IMF, 2019, 2020). Short-term effects of the crisis include reductions in tourism, income from the Suez Canal, and remittances from the Egyptian diaspora (Breisinger et al., 2020). The long-term effects of the current crisis are not yet fully understood (Adbel-Halim, 2020).

In this period of uncertainty, many organizations will fail, others will survive, and some will thrive. Market leaders will look to maintain and strengthen their positions by expanding market share, venturing into new markets, and acquiring competition. Market challengers will look to gain market

share in the voids left by failing companies and differentiate themselves in response to shifting and new market trends. If they survive, small organizations will look for opportunities for rapid growth in a changing market environment. As they navigate these challenges and opportunities, market leaders and challengers will rely on cash reserves, commercial finance, and political connections to gain access to available support programs. Small organizations will have to look for alternative financing options as access to finance tightens amid uncertainty and will seek support programs where available and accessible.

Private sector engagement (PSE) becomes especially important in this time of crisis, as market-led development as envisioned by the USAID PSE Policy can only happen if the private sector emerges stronger and ready to invest in the Egyptian economy. Therefore, the GoE, USAID, and its development partners must adjust development resources and programming and provide technical assistance and financial support during the crisis (especially for MSMEs) to help rebuild the Egyptian economy after the pandemic (Galal Ismail, 2020; United Nations, 2020).

## **1.2 BUILDING ON USAID/EGYPT'S STRONG PRIVATE SECTOR ENGAGEMENT WORK IN THE CONTEXT OF THE NEW COUNTRY DEVELOPMENT COOPERATION STRATEGY**

USAID/Egypt has engaged successfully with the private sector for many years: “In the past 15 years, USAID/Egypt has leveraged more than \$50 million in cash and in-kind contributions through partnerships with Coca-Cola, General Motors, GlaxoSmithKline, IBM, Heinz, Hewlett Packard, Houghton Mifflin, HSBC, Intel, Microsoft, Oracle, and many others. Through these partnerships, USAID/Egypt has increased enrollment in TVET [technical and vocational education and training]; improved rural water resource quality; increased income for smallholder farmers; and improved access to credit for micro- and small enterprises” (USAID/Egypt, 2019c).

USAID and implementing partners have already worked closely with more than 200 local and international companies in agribusiness, workforce development, enterprise development, tourism, higher education, and family planning (USAID/Egypt, 2019a). PSE has included global development alliances (GDAs); public-private partnerships (PPPs); and efforts such as training, roundtable events, and corporate social responsibility (CSR) collaborations (USAID/Egypt, 2018). Examples of this work include Strengthening Entrepreneurship and Enterprise Development (SEED), Feed the Future (FTF) Food Security and Agribusiness Support (FAS), Workforce Improvement and Skills Enhancement (WISE), and Egypt Rural Agribusiness Strengthening (ERAS) activities. Through this work, USAID/Egypt has learned the valuable lesson that engaging the partner early is crucial for success (USAID/Egypt, 2019b).

## **1.3 OBJECTIVES OF THIS PRIVATE SECTOR LANDSCAPE ASSESSMENT**

This Private Sector Landscape Assessment (PSLA) aims to gather data to help the Mission understand specific private sector–related opportunities and synergies and to inform the Mission’s Country Development Cooperation Strategy (CDCS). The assessment seeks to add to the Mission’s existing private sector stakeholder database, expand its understanding of private sector goals and challenges,

begin relationship building with new contacts, and identify appropriate actors for potential short- and long-term partnerships.

## 2. PSLA METHODOLOGY AND APPROACH

The USAID PSE Policy calls for strategic alignment of private sector and USAID interests to reach development objectives, which requires a deeper understanding of the private sector perspective. A PSLA is a useful tool in gaining this perspective. In undertaking this assessment, the USAID-funded Learning, Evaluation, and Analysis Project (LEAP III) used existing USAID PSLA guidance, but adjusted the methodology to meet COVID-19 requirements and adapt to limitations on in-person meetings. Using its extensive PSE experience, the team took a nuanced approach to meeting with profit and non-profit institutions and inquiring about business growth strategies versus traditional program expansion. The team also considered the power dynamics and quality of relationships within and along supply/service/support chains and why those power dynamics are the way they are, the effects of COVID-19 on operations, and the appetite for expanding uptake of digital technologies.

### 2.1 APPROACH

#### LITERATURE REVIEW AND IN-PERSON CONSULTATIONS

The assessment team began the PSLA with a desk review and in-person consultations with USAID/Egypt staff. Research covered current trends and opportunities in Egypt and reviewed relevant external publications and internal Mission documents. As part of this effort, the team also used the Mission's existing private sector database and drew from local expertise and networks to identify more than 2,000 contacts for local, regional, and multinational firms and investors in key sectors whose business interests align with USAID's development objectives.

The assessment team traveled to Cairo to consult in person with Mission leadership, Program Office members, the PSE Working Group, office directors and deputies, and many of the technical teams. The goal was to contextualize and focus the PSLA scope, including which sectors and companies' interviewees to draw from.

#### PRIVATE SECTOR SELECTION CRITERIA

In collaboration with USAID/Egypt and local experts, the team compiled a database of private sector actors across several key sectors. The team targeted the following sectors, aiming to capture geographic representation across Egypt: education (15), health (4), services (7), information and communications and technology or ICT (9), agriculture (41), tourism (8), logistics (4), banking and financing (19), manufacturing (17), and energy (3). In addition to private sector actors, the team also included business membership organizations (23) and international donor partners (8).

#### COVID-19 DISRUPTION AND PIVOT TO REMOTE DATA COLLECTION

The evolving COVID-19 pandemic prohibited in-person interviews, which form the typical foundation for PSLA data collection. In response, Integra modified the PSLA format to collect data remotely via an online survey and key informant interviews (KIs). Our approach recognized both the practicalities of remote data collection (i.e., the need for fewer, more standardized questions to make it manageable for



interviewees) and the opportunity for improvement in some areas in the PSLA process (*i.e.*, gaining a more nuanced understanding of motivations, power dynamics, risk factors, and relationships among private sector actors and across entry points).

Accordingly, the team developed a strategic line of questions that modified the key PSLA questions from USAID’s “How to Conduct a PLSA” and used the five questions from the new USAID PSE Policy as a lens. This allowed us to provide USAID/Egypt with improved insights and specific recommendations to aid in decision-making and with a road map for gaining further insight as COVID-19-related restrictions subside. Annex I includes the KII interview guide.

The remote data collection process occurred in two phases:

- **Online survey:** The team sent an online survey to 134 private sector stakeholders, selected from the compiled database of private sector actors in Egypt. A team of experts developed the online survey questionnaire, using SurveyMonkey, to capture baseline, contextual, and nuanced information. The survey was offered in both Arabic and English. Annex II summarizes the responses.
- **Remote KIIs:** Concurrently, the team scheduled and conducted KIIs with stakeholders whom USAID identified as a high priority and who represent various business/organization sizes, sectors, and geographic areas of operation. The team conducted 48 interviews virtually (either through Zoom, Google Meet, or the phone depending on interviewee preference).

#### PSE Policy Key Questions

1. Can the private sector solve this problem by itself?
2. Could there be a market-based approach to addressing this challenge?
3. What are the roles and interests of the private sector in addressing this challenge?
4. Are there factors constraining the private sector from involvement and investment?
5. Is there a role for USAID to help alleviate or eliminate these constraints?

## DATA ANALYSIS

Two local experts conducted the KIIs remotely, in English or Arabic. They took copious notes during each KII. An external data analyst then used these notes to conduct thematic analysis guided by a codebook and using NVivo 12 software. Based on this coding, the team divided its analysis into the following eight sectors: 1) agribusiness and food processing; 2) business consulting services; 3) education, including vocational education and workforce development; 4) financial services; 5) health care; 6) legal services; 7) manufacturing; and finally 8) tourism. This report presents each sector through five areas of inquiry: sector overview, private sector challenges and interests, and aligned interests and engagement potential with USAID. Then, we present concrete opportunities for USAID to collaborate with specific private sector actors to address key development challenges. In defining the value proposition, these collaboration models map not only to the development rationale for the proposed interventions (*i.e.*, decreased youth unemployment) but also to the business case (*i.e.*, higher productivity through access to skilled labor.)

## LIMITATIONS

The team anticipated that the online survey would provide baseline and contextual information that we could probe further in the KIIs, but the response rate was lower than anticipated (just under 20 percent). Thus, the survey results provided contextual information and descriptive statistics, but could

not be used for further statistical analyses. Many stakeholders who did not participate in the survey indicated they did so because they did not have enough time to participate. In future assessments following this approach, assessment teams will need to shorten the survey to no more than 10–15 questions to improve the response rate.

## 3. SECTORAL ANALYSIS

The section provides a sector-by-sector analysis of findings from the KIs and online survey, including the following sectors: 1) agriculture and food processing; 2) business consulting services; 3) education, including vocational education and workforce development; 4) financial services; 5) health care; 6) legal services; 7) manufacturing; and finally 8) tourism. Table 9 outlines the five areas of inquiry for each sector, and Section 5, Mapping Strategic Ways to Engage the Private Sector summarizes the high-level findings across sectors.

TABLE 9: SECTORAL ANALYSIS	
Overview	High-level details of the sector's status
Private sector challenges	Specific challenges outlined
Private sector interests	Specific interests outlined
Aligned interests and engagement potential	Areas of overlap between USAID priorities/programming and private sector interests
Opportunities	Specific areas for USAID intervention

### 3.1 AGRIBUSINESS AND FOOD PROCESSING

#### OVERVIEW

The team conducted KIs with seven leading private sector organizations in the agriculture and food processing sector. Though not comprehensive, these medium to large Egyptian organizations participate in various activities that are representative of sector-spanning production, processing, and retail, with operations in both Upper and Lower Egypt. They are also involved in several value chains, including horticulture, poultry, and confectionary products. They include publicly traded and privately held companies and a producer association that targets both local and export markets. The KIs with these organizations provided insight into persistent and new operational challenges in the sector and business interests within a changing economic environment.

COVID-19 is clearly an immediate and pressing challenge, with shifting and decreasing demand for products and increases in production costs. However, their responses to the KI questions indicate that these organizations were successful enough before the pandemic to survive and be optimistic about positioning themselves for growth in a post-COVID Egypt. This includes plans for acquiring competitors that are not faring as well.

Though the agriculture and food processing sector of Egypt has proven resilient compared with other sectors during the current COVID-19 crisis, significant shifts are likely in the post-COVID operating environment. These shifts will be felt throughout the value chain and could include

- Increased reliance of processors on large local suppliers and imports and use of vertical integration to source raw materials, making it even more difficult for MSMEs to operate within and along their supply chains.

- Decreased competition resulting from consolidation within the sector through acquisitions of companies that are failing to survive the current COVID-19 crisis, which could lead to higher prices and fewer choices of products for consumers.
- Growing influence of larger companies with the Government as they continue to grow through acquisitions, further raising barriers to entry and lowering the pressure for the reforms needed to improve the BEE for MSMEs.

Though these shifts in the operating environment for the sector are potential development challenges, they also present opportunities. Large local suppliers and vertically integrated production operations, for example, can be supported to expand the use of outgrower networks and the inclusion of MSMEs for value addition and other services within and along their supply chains (discussed more later).

### PRIVATE SECTOR CHALLENGES

As noted previously, though the agriculture and food processing sector is resilient compared with other sectors, the COVID-19 crisis remains a pressing and immediate challenge. The increased level of uncertainty it produces is now superimposed over recurring and persistent challenges.

**Longer-term investment projects lack access to capital.** The current uncertain operating environment has amplified this challenge (World Bank, 2020). Longer-term capital is needed throughout the value chain to increase production (e.g., land reclamation), improve processing capacity (e.g., upgrading facilities), expand distribution networks (e.g., cold storage), and enable access to new markets (e.g., meeting standards for export markets).

**A shortage exists in the supply of semi-skilled and skilled labor with a high turnover rate of available workers.** Semi-skilled labor has an especially high turnover rate, as these workers move between the formal and informal economy. Recent disruptions in export markets due to COVID-19 make forecasting demand and the labor needed to fulfill orders difficult, adding to the cost of labor. Increased health and safety measures and related disruptions in production have also raised labor costs.

**Inconsistent quantity and quality of raw materials coming from small producers is another major challenge.** A reliable database and support system for local production is also lacking. Production disruptions and resource constraints amid COVID-19 further complicate this challenge. The health crisis is likely to affect small producers disproportionately as their already vulnerable economic situation is compounded by anticipated reductions in production and limited access to inputs and markets (United Nations Egypt, 2020).

**Access to market information and support in identifying and taking advantage of market opportunities (local, regional, and global) are lacking.** Matchmaking between producers and buyers, including support for attending trade fairs, are important activities for expanding access to markets. These activities traditionally occur through face-to-face meetings, which are now difficult to conduct, given COVID-19. For example, the Sahara Expo 2020—one of the largest of its kind in Egypt—has been rescheduled for 2021 (Sahara, 2020). Therefore, addressing this challenge will require access to market information and meeting forums using digital platforms.

**Inadequate monitoring and regulatory capacity to ensure that local production complies with domestic and international food safety and health standards places a burden on companies.** This burden takes the form of the cost and the liability of ensuring compliance within their own supply chains, particularly for those exporting fresh produce (Faour-Klingbeil and Todd, 2018). The

current transport disruptions, economic uncertainty, and heightened health and safety sensitivities underscore the need to improve these systems.

**Availability of labs and testing is inadequate.** A major need exists for investment in labs for fresh produce exports (and for inputs to processed food), which is particularly important for testing for pesticide residual content, as this can lead to rejections from the EU and other markets. A top horticulture producer noted, for example, that the United Arab Emirates refused to take peppers from Egypt and that shipments to the EU have been stopped. The Ministry of Agriculture runs only one lab, and its waiting list is for 2,500 samples per day. Testing of strawberries and peppers is delayed for weeks, increasing cost and reducing quality.<sup>1</sup>

**Other regulatory challenges include** highly bureaucratic and complex trade procedures, trade barriers, transport and logistics, the tax collection system, the land allocation and pricing process, the licensing and permitting process, and the lack of coordination among government agencies.

### PRIVATE SECTOR INTERESTS

Though the current operating environment of the agriculture and food processing sector is highly uncertain, growth opportunities also exist as the local and global economy continues to adjust to the current COVID-19 crisis. Individual companies will take advantage of growth opportunities in the gaps left by companies that fail to survive the crisis. They will also take advantage of shifts in demand and new opportunities associated with the post-COVID economy, such as fulfilling online food orders. Accelerating the digitization of the entire agricultural sector is a possibility—a process that the GoE, in partnership with the Food and Agriculture Organization of the United Nations (FAO), has supported (FAO, 2019). Investing in modernizing production, processing, and distribution networks to improve the resiliency of Egyptian food systems and better align with international standards represents another opportunity. These investments will also better position Egypt to take advantage of post-pandemic regional and global demand for its agricultural products.

The organizations interviewed in the KIs expressed various business interests in the current operating environment. These interests can be broadly organized into three categories:

1. **Market expansion** through acquisitions and investments in expanding current operations, including penetrating rural markets and increasing market share in fragmented and underpenetrated urban markets.
2. **Facility upgrades** to align them better with international standards and changing market trends, including upgrading processing facilities and expanding local, regional, and global distribution networks to satisfy unmet demand.
3. **Transformational projects** to take advantage of new opportunities in a post-COVID economy, including investing in organic farming operations, land reclamation, and community farming projects.

Pursuing these interests will require access to capital, expertise, and support from a BEE that is conducive to growth. In addition to the aforementioned business interests, the process of formalizing

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<sup>1</sup> The U.S. Department of Agriculture TAIB project (implemented by Land O Lakes) is working on implementing the new food safety law, which should improve this barrier.

agriculture supply chains in Egypt is ongoing and of continued interest to large international agribusiness and food processing companies as a longer-term development objective. Specific initiatives related to this overarching business interest include partnerships with lead firms to improve access to finance, inputs, and extension services for small farmers to improve their productivity, especially for high-value horticulture. Upgrading processing facilities and distribution systems is another priority, including the cold chain for horticulture. Many of these efforts focus on Upper Egypt because of the region's great productive potential, yet it lags behind Lower Egypt in its current productive capacity. USAID has a long history of supporting this overarching business interest through its programs and partnership initiatives.

## ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

Aligning business interests with USAID's development objectives for Egypt's agriculture and food processing sector has significant potential. To realize this potential, continued engagement with and support for leading companies to encourage longer-term, inclusive growth strategies will be necessary. Otherwise, pursuit of these business interests could also undermine USAID's development achievements to date, especially if they involve cutting or crowding out MSMEs. In line with USAID's PSE Policy, support for the agriculture and food processing sector could include helping to improve the BEE, increase access to private capital, provide technical assistance, and provide access to information and analysis.

USAID/Egypt's 2020 PSE Action Plan suggested replicating partnerships with supermarket retailers, such as that with Carrefour. The plan also addressed further development of Upper Egypt's cold chain as a priority, which is related to improving access to consistent quantity and quality of horticulture production. The new USAID ERAS activity has also successfully developed potentially replicable partnerships, including with PepsiCo to improve access to potatoes for its subsidiary, Chipsy.

The overarching business interest for all these partnerships is formalizing agricultural supply chains in Egypt. In addition to improving productivity, processing, and distribution networks, meeting international standards for food safety is important. The current COVID-19 crisis presents considerable challenges to many of these initiatives, given disruptions in production and the lack of ability to conduct face-to-face meetings, as explained previously. The crisis also presents an opportunity to accelerate key initiatives, such as digitizing agriculture supply chains and fast-tracking policy reform.

## OPPORTUNITIES

- **Support large local suppliers and vertically integrated agribusiness operations to help expand the use of outgrower and other MSME support networks, such as including MSMEs for value addition and other services within and along their supply chains.** Given the persistent challenge of sourcing quality raw materials from MSMEs in Egypt's agricultural sector, many companies have expanded their productive capacity through large, vertically integrated farming operations. USAID could expand support for outgrower and other MSME support networks anchored to larger operations. Doing so would expand the private sector-driven MSME support networks that have limited capacity to market their own production. The traditional donor approach to supporting these networks is through subsidizing technical assistance, access to finance, and development and expansion of management platforms (with a focus on digitization). Though effective in the short term, this subsidized support often falls off with the subsidy. Instead, USAID could find partners that have already invested and/or are willing to first invest their own resources and assist them in developing a plan to refine the use of their resources to improve and expand support networks, including opportunities for MSMEs to engage in more value-added activities. Once developed,

USAID could offer a pay-for-results contract to accelerate implementation of support plans. A good example of a comprehensive support network is establishing an agribusiness hub as a centrally located facility to help provide certified inputs and access to aggregation, storage, processing, distribution, extension, and marketing services.

- **Increase access to capital for all sizes of organizations to pursue short-, medium-, and longer-term investment opportunities, including alternative sources of capital (e.g., impact investors).** Uncertainty in the current operating environment will hinder access to finance in Egypt, especially for MSMEs. Building on prior success in working with lead firms to support MSMEs operating within and along their supply chains, USAID could partner with impact investors to increase lines of credit to MSMEs backed by buyer contracts with lead firms.
- **Expand the pool and stability of a skilled labor force in the agriculture and food processing sector by supporting in-house workforce development programs and partnerships with TVET providers.** For example, USAID could help the Center of Excellence for Agriculture and/or similar higher education institutions in Egypt increase dialogue with lead firms in the sector around skills and research needs and innovative approaches to agricultural development. In addition to dialogue, USAID could aid lead firms by co-funding specific research initiatives and internship opportunities for students.
- **Support the private sector in digitizing supply chains, distribution, and sales networks and provide technical assistance to the GoE to improve support programs (e.g., agricultural extension services) and the reliability and accuracy of its local producer database.** Digitizing supply chains is especially important in the agriculture and food processing sector, given the potential to improve efficiencies in engaging and supporting MSMEs that work within and along their supply chains. Digitization is also important for improving traceability and complying with local and international food safety and quality standards. Heightened food safety sensitivities due to the COVID-19 crisis make this an ideal time to accelerate these initiatives. USAID could include a digitization focus, giving lead firms an opportunity to co-invest in solutions alongside the MSMEs they work with. A more immediate challenge is to establish laboratories for faster testing. One BMO expressed interest in working with larger firms to invest in labs, transport, and logistics and post-harvest handling.
- **Improve the Government's monitoring and regulatory capacity to ensure that local production abides by domestic and international food safety and health standards and digitize processes and procedures to increase transparency and decrease complexity.** Digitizing agricultural supply chains must happen concurrently with digitizing related GoE processes and procedures. This will make it easier and more efficient for companies to report compliance information and for the GoE to streamline support programs for MSMEs.
- **Invest in analysis, support the development of services, and provide on-demand technical assistance related to improving access to market information and identifying and taking advantage of market opportunities (local, regional, and global).** USAID could contribute analysis and support in developing services related to working with MSMEs to help its partners in the agricultural and food processing sector. Companies mostly lack the capacity to concentrate on these activities, and/or their staff focus too much on quarterly success metrics to look beyond a one-year time horizon. USAID could develop an on-demand technical support program that could provide services co-funded by interested firms to engage experts for this purpose, including from local education institutions.



## 3.2 BUSINESS CONSULTING SERVICES

### OVERVIEW

Despite being one of Africa's more established management consulting markets, Egypt's management consulting industry remains relatively underdeveloped, with significant untapped potential (Consultancy-me.com, 2018). The consultancy market in Egypt is mostly fragmented, and most local firms are small to medium sized (with an average of 15–20 employees per firm). Although new entrants have increased, few local firms can compete with global or regional consulting firms over substantive government contracts or projects for multinational firms and larger, more established local companies.

Despite the well-documented need for business consulting services by MSMEs across different industries in the private sector, several obstacles prevent the local consulting industry from satisfying this need and fulfilling its potential. These obstacles include MSME reluctance to invest in a service that does not produce tangible results and the lack of awareness of the benefits of these business development services to family businesses.

Nevertheless, the demand for business advisory services has recently risen considerably among MSMEs in Egypt, mainly as new generations take over family businesses and recognize the need to upgrade and restructure to remain competitive and grow in a challenging environment. The nascent entrepreneurial market is another potential source of new business opportunities, as more startups seek consultancy services to develop their business strategies/models and assess their potential markets.

Recognizing its importance in developing Egypt's MSME sector, the public sector and development/donor organizations have launched several initiatives to increase MSMEs' access to business development services by private consultants (Stratexis, 2019). These initiatives include a funding program by the International Modernization Centre (IMC), to which MSMEs could apply to subsidize the cost of consulting or business advisory services. The European Bank for Reconstruction and Development (EBRD) has an MSME advisory and subsidized funding program that supports MSMEs by connecting them with local consultants for business or industry expertise on many issues, depending on the client's needs and sector (EBRD, n.d.). EBRD partners with donors to share consulting service costs with the MSME client. Examples of projects implemented under the program include introducing new product lines, expanding to new markets, qualifying for new certifications, cutting clients' energy usage and energy costs, or revamping their human resources strategy (EBRD, n.d.). USAID has also supported the sector by providing technical assistance, capacity building, ICT equipment, and furniture to various organizations to establish business development service (BDS) centers and incubators to provide consulting and mentoring services to MSMEs and startups.

COVID-19 will significantly affect the consulting industry worldwide in 2020. Initial forecasts estimate the consulting market globally to contract by 19 percent and in the Middle East by 18 percent. This will reduce the size of the market, which was about \$3.6 billion in 2019 by \$600 million (Source Global Research, 2020). The exposure of individual firms and their ability to adapt will vary based on the services they provide, their size, and the industries they serve. Larger consulting firms are likely to perform better than medium- and small-sized ones, as they have more diversified portfolios, including longer-term projects, which clients (public sector and large corporations) are more reluctant to cancel. They also have more resources to invest in technology and deliver their services more efficiently.

In the short run, private sector companies, particularly MSMEs, are expected to prioritize retaining staff, develop plans to reconfigure their businesses in the short term, and ensure long-run business continuity. Accordingly, COVID-19 restructuring projects are likely to replace demand for mainstream business consulting focused on change-related work and operational improvement (Source Global Research,

2020). Indeed, this has been the case in Egypt, where struggling MSMEs and family businesses have approached local consulting firms to support their restructuring efforts. International consulting firms and larger local providers will continue to work on existing long-term projects and new digital transformation opportunities with public and private sector clients for the foreseeable future. Smaller local consulting firms, however, will need to develop innovative strategies to penetrate the MSME market, where the need for business development services is great but the resources to pay for them are limited.

The team conducted KIs with members of the business consulting sector, including a small boutique consulting firm focusing on MSMEs, family businesses, and startups and a private joint stock company that delivers financial and economic consultancy, technical assistance, training, engineering consulting, and project management services.

### PRIVATE SECTOR CHALLENGES

**The business consulting services market is a nascent market with significant potential given the growing need for business advisory services in the private sector.** However, as established in the overview section, the sector is quite fragmented and has yet to mature. Less than a handful of the existing business consulting firms can compete with international or regional firms for large government contracts or projects with multinational corporations. Unlike their international counterparts, most Egyptian firms must build their expertise in different sectors, as they lack knowledge management systems or competency centers. Another area local firms lag in is access to the latest data analytics tools, which global firms are integrating into their services. Finally, the larger cost base of international firms allows them to offer more competitive pricing.

**Lack of awareness of the benefits of business advisory services among MSMEs and family businesses in general is another constraint local consulting firms face in Egypt.** This is particularly the case when the first generation controls the company and is wary of introducing changes to its business model and operational framework. In many cases, they are also reluctant to invest in service that does not produce tangible or immediate results. However, attitudes among MSME and family businesses in Egypt have recently shifted toward accepting the need to evolve and adapt to the changing economic landscape. This shift coincides with the rise of second and third generations taking charge of businesses established in the 1970s and 1980s, raising demand for consulting services to revamp outdated production lines and methods, upgrade management and operational systems, and meet international quality standards to access new markets.

**The pandemic has strongly affected the consulting sectors, mainly the smaller local consulting firms that have seen more than a fair share of their projects being placed on hold or potentially cancelled.** These smaller firms also face a daunting challenge developing new business opportunities, as much of their client base is currently prioritizing cost-cutting measures and developing contingency plans to ensure business continuity.

### PRIVATE SECTOR INTERESTS

**One of the main intervention areas for local consulting firms is engaging with new generations taking control of family businesses.** COVID-19 has significantly affected the MSME sector in Egypt, threatening the survival of many businesses due to productivity disruptions, cash flow and liquidity challenges, and inability to retain staff. Accordingly, in the beginning of the pandemic, demand for consulting services decreased and when MSMEs did approach consulting firms, it was for crisis-related restructuring purposes rather than for the consulting firms' usual services, e.g., operational improvements and strategy. One firm, for instance, has worked closely with several MSMEs on cost

restructuring (to address liquidity and cash flow problems), retention models (to maintain workforce), and other areas like developing contingency plans to ensure business continuity in light of disruptions to domestic and export business.

**Demand for digitalization is also rising in the MSME sector.** MSMEs were beginning to realize the need to digitalize to increase productivity through e-commerce, optimize production lines, and upgrade management systems before COVID-19 struck. However, the pandemic has made digitalization critical.

**Consulting firms also expressed strong interest in expanding into the microfinance sector,** where potential for growth is significant and demand for consulting services is high for both microfinance institutions, or MFIs (e.g., advising them on developing innovative products for MSMEs), and for recipients to develop their business acumen (e.g., support in developing business plans and feasibility studies). Consulting firms also see increasing interest in business advisory services from startups in the tech sector, particularly the fintech sector, which is attracting investment and receiving regulatory support from the Government.

### ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

An integral component of USAID's Mission to accelerate inclusive economic growth in Egypt is promoting MSME growth and competitiveness by improving their access to high-quality public and private services. COVID-19 and its significant detrimental impact on MSMEs across various sectors strengthen the need to allocate financial and technical support from public and private sources. Over the past several years, USAID/Egypt's SEED activity has sought to establish partnerships with non-governmental organizations (NGOs), private firms, and public institutions to help MSMEs build capacity. Through these partnerships, USAID/Egypt has increased MSMEs' access to business development services, finance, information, and other forms of technical and financial support. Significant potential exists for engaging private local consulting firms as partners in USAID's efforts to develop and strengthen the MSME sector in Egypt. One form of potential collaboration is through partnering with private consulting firms to provide technical advisory services and management consultancy services to MSMEs in selected sectors. Through such partnerships, USAID can capitalize on the business acumen and/or industry expertise of specialized consulting firms to increase MSMEs' resilience and competitiveness. Another potential form of collaboration is to match local consulting firms with relevant public authorities to advise them on the legal and regulatory reforms required to improve the business-enabling environment for MSMEs.

### OPPORTUNITIES

- **Cost-sharing of business consulting services for MSMEs with financial restraints.** USAID could adopt a pay-for-results mechanism, under which it would co-invest in technical advisory services by local consulting firms for MSMEs and pay an incentive fee for achieving the project's predetermined targets.<sup>2</sup> The benefits of this mechanism are twofold: it would help address MSMEs' skepticism of the value of consulting services and it would spur improvement among business consulting service providers.
- **Help for local consulting firms to gain exposure to international best practices in the management consulting field** (specifically in areas such as data analytics and knowledge management systems) through funding and facilitating networking opportunities for these firms

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<sup>2</sup> Examples include financial facilitation (payment would be received upon obtaining financing), market linkages (measured in sales contracts), tangible productivity enhancements, and completion of certifications.

to engage with their global counterparts through international forums and roadshows. USAID could also pair local consulting firms with international consultants to provide technical advisory services in areas where local expertise is lacking.

- **Training and development for local consultancy firms to develop their capacity in areas such as monitoring and evaluation (M&E), technical assistance delivery, and management systems.** Furthermore, demand exists for developing the expertise of consulting firms in other, less donor-centric areas, such as market intelligence, digital marketing, productivity enhancements, preparation for certifications, e-commerce platforms, and optimization.

### 3.3 EDUCATION (INCLUDING VOCATIONAL EDUCATION AND WORKFORCE DEVELOPMENT)

#### OVERVIEW

The Egyptian Government's education strategy in Vision 2030 centers on the premise that the educational system has yet to deliver the quality required to address the country's labor market needs and respond to evolving social and economic conditions (PwC, 2019c). Under this vision, the Ministry of Education and Technical Education (MoETE) developed the Education 2.0 reform, which aims to modernize the education system through incremental, targeted, and systemic changes to bring learning back to the classroom, move away from rote learning, and equip students with 21st-Century skills. A key feature of the EDU 2.0 reform agenda is heavy reliance on ICT by shifting to technology-based learning through digital platforms for learning, teaching, performance evaluation, assessment, and data collection. MoETE has also developed a strategy, Technical Education 2.0, to transform its technical education system to produce high-quality graduates with the technical and soft skills required by the market.

Over the years, USAID has built a strong partnership with the Egyptian Government through initiatives targeting innovative teacher training, curriculum development, and policy reform to improve Egyptian youth's access to quality basic and higher education. During the COVID-19 crisis, USAID supported the MoETE and the Ministry of Higher Education (MoHE) in their response to educational disruptions (e.g., supporting some university faculties' pivot to e-learning and delivering home education and hygiene kits to remote, underserved communities). USAID launched a new activity in June 2020, Teach for Tomorrow, to provide technical assistance to the MoETE's teacher professional development initiatives under the Education 2.0 reform (Enterprise, 2020b).

The private sector constitutes only 10 percent of total enrolment in Egypt's K–12 education system and 6 percent of the higher education system (CAPMAS, 2018). Private education school fees are “beyond the reach of all but the wealthiest families,” while the unaffordability or geographic inaccessibility of private school options limits most Egyptian households (Krafft *et al.*, 2017). To better understand the interests of the various players in the private education sector, the challenges they face, and the opportunities for USAID to engage with the sector either by expanding its existing programs or by venturing into new areas of collaboration, the LEAP III team conducted KIIIs with five companies in the sector. The five companies range in size and represent institutions that contribute to different dimensions of the private education market.

#### PRIVATE SECTOR CHALLENGES

The main challenges facing the private education sector pre-COVID were the lack of coordination with regulatory authorities, lack of access to finance, and shortage of high-quality teaching and administrative staff (all discussed as follows). Whereas integrating educational technology (EdTech) solutions and adopting e-learning platforms was an objective for education providers in both public and private domains before the pandemic, COVID-19 has accelerated these plans, leading to a discrepancy in the adaptability of players based on their size and resources.

**Bureaucracy has emerged as one of the most critical challenges in the private education sector.** Providers struggle to receive approval for any activity (e.g., establishing new schools and faculties, issuing new licenses, and approving new budgets) at any step of the process due to the plethora of laws and regulations governing the industry and the lack of transparency. Bureaucracy also creates significant barriers to entry for new providers and impedes expansion plans for K–12 schools and universities. Despite private education providers' efforts to engage in dialogue with the authorities over necessary reforms, existing channels of communication are not effective in coordinating between private sector providers and regulatory authorities.<sup>3</sup>

**Two other persistent challenges facing private education providers are access to finance and the supply of highly trained teachers and administrative staff.** Barring a few exceptions, most private education providers have historically self-financed their operations and expansion plans because commercial banks are reluctant to lend to education providers, leading to prohibitively high interest rates charged by the local banks for potential loans. In a few cases, private equity (PE) funds and development financial institutions have invested (debt/equity) in private schools/universities. However, most schools are family owned and are thus generally reluctant to dilute their ownership or control. Regarding the shortage of qualified teachers and administrators, some education providers have attempted to address this challenge by providing in-house training programs, while others have offered higher remuneration packages to compete for top talent. These responses, however, are neither feasible options for providers with limited budgets and resources nor sustainable solutions for the sector as a whole.

**Finally, the pandemic has accelerated digital transformation plans for schools and universities, forcing them to shift to e-learning systems abruptly.** Schools and universities have a great need for support in terms of affordable ICT solutions and training programs for teachers and students, particularly less established institutions and those based in frontier regions.

## PRIVATE SECTOR INTEREST

The KIIls revealed three key areas of interest: penetrating the education market in frontier regions where demand for private education is growing, accelerating digital transformation plans in the aftermath of COVID-19, and investing in TVET institutions to bridge the labor market skills gap.

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<sup>3</sup> The bodies/channels include associations for private schools' owners and the Supreme Council for Private Universities.

**In recent years, the number of private sector providers in the K–12 and higher education institutions has grown in more frontier regions.**<sup>4</sup> One large educational provider, which has penetrated the private education market in Upper Egypt and the Delta, indicates that the demand for private education has increased in many less developed and frontier governorates because fewer middle-class families in these regions are moving to the major urban cities, as was the trend historically. However, a growth in supply has not matched increased demand, as private sector presence in the sector remains concentrated in Greater Cairo and Alexandria. Hence, the potential for growth in private K–12 and higher education providers outside of the major cities is significant.<sup>5</sup>

**The COVID crisis and its implications have accelerated plans of K–12 schools and universities to integrate EdTech solutions and adopt e-learning platforms as part of their curricula.** This situation has led to significant growth in demand from public and private education institutions for technology-based learning solutions<sup>6</sup> provided by multinational and local ICT companies to develop or upgrade the necessary framework for remote learning and ensure accessibility and inclusion for all their students and teachers. However, the level of preparedness has varied among education providers in the private sector, with smaller players and those based in frontier areas struggling more than their more established counterparts in more developed regions. Accordingly, less established private education providers need support in the form of grants and capacity building to transition to more blended learning models.

Over the past few years, Egypt's entrepreneurship ecosystem has developed in several dimensions, including access to finance, through growth in venture capital funds investing in technology startups; Government support via the establishment of an agency to support MSMEs and entrepreneurship, the Micro, Small and Medium Enterprise Development Agency (MSMEDA); the issuance of decrees to facilitate investments and address licensing issues; and institutions (including universities) providing entrepreneurship support programs, e.g., startup incubators and accelerators. One priority to improve the ecosystem is increasing access to entrepreneurship education by integrating entrepreneurial content into curricula in schools and higher education institutions (Ismail *et al.*, 2017). KIIIs revealed a strong interest among higher education institutions, in particular, to establish new or expand existing entrepreneurship support programs and introduce new faculties/specializations focusing on entrepreneurship skills.

Egypt's labor market dynamics imply a significant need to expand and improve the quality of TVET provided under the Ministries of Education and Trade and Industry. At current growth rates, an estimated 295,000 additional places in secondary TVET will be needed by 2022 (PwC, 2019). Despite the growing need for qualified technicians and labor, the private sector operates only 11 percent of the existing 2,472 vocational schools (MoETE, 2020). The only industry in which the private sector is the lead provider of vocational training is the tourism sector (PwC, 2019; MoETE, 2020). Private sector institutes in the industrial and commercial specializations account for only 0.4 percent and 11.6 percent

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<sup>4</sup> Examples in the K–12 sector include the expansion of private sector schools into Upper Egypt and the Delta, and in the higher education sector private universities have opened in Upper Egypt.

<sup>5</sup> In an interview, one large educational company's Chief Executive Officer added that while private sector presence in the education sector in the Greater Cairo and Alexandria governorates ranges between 12–20 percent, it only accounts for 3–5 percent of the education sector in most other governorates. Another statistic provided by the Egyptian Center for Economic Studies reveals that the ratio of public to private schools in rural areas is 25:1 compared with a 2:1 ratio in urban areas. See ECES (2020a).

<sup>6</sup> These include collaboration platforms, cloud services and developing interactive curriculums.

of the technical and vocational institutes serving these fields. There are no private TVET providers for agricultural training (PwC, 2019c; MoETE, 2020). To address the shortage of qualified labor across sectors and the mismatch between the academic education current job market candidates receive and the skills needed by the market, private sector players have launched initiatives to develop the workforce in their respective industries by developing in-house training programs to serve both their own needs and those of the sector or engaging with/sponsoring higher education institutions (technical/vocational institutions or public universities) to develop market-relevant curricula and coursework and provide internship opportunities to students.

## ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

KIIs revealed several areas of aligned interest between USAID and the private sector. Industry players are interested in engaging USAID in designing market-relevant curricula, coursework, and internships for students in institutions of higher education. Education players may also seek support from USAID for facilitating dialogue between private sector providers and regulatory authorities by collaborating with existing initiatives, e.g., the AmCham Education Committee.

On the digital transformation front, ICT corporate sponsors are interested in engaging with USAID on education sector reform projects, which aligns with USAID sector priorities, given its existing track record in supporting digitalization initiatives. In the Early Grade Learning activity, a government-to-government activity supporting the Ministry of Education's reform agenda, the Mission is developing both traditional and digital teaching materials. USAID supports the Government of Egypt's science, technology, engineering, and mathematics (STEM) high school model of education, and in the 2006 School LINK GDA with Microsoft and Vodafone, USAID provided new schools with ICT centers that introduced computer-based learning. In the 2007 Technology for Improved Learning Outcomes (TILO) project, USAID worked with Microsoft, Intel, and Oracle to provide training, hardware and software, and licensing to improve the use of technology in schools across nine governorates. Under the United States–Egypt Science and Technology Joint Fund, USAID links and engages scientists whose work addresses development challenges, such as innovations in lab-to-market technologies for agriculture that may be suitable for commercialization.

The COVID-19 pandemic has elevated the importance of distance education and blended learning in Egypt and accelerated the Ministry's plans for technology education. Recently the MoETE released its plan for in-service teacher continuous professional development, which aims to deliver all teacher training through an online platform. USAID's new Teach for Tomorrow activity is well positioned to support the Ministry in these efforts, making USAID the leading donor in the online teacher training space.

Finally, KIIs with private companies across the various sectors this study covers also identified firms and development organizations with experience and interest in supporting education development projects through CSR initiatives (in case of corporations) or their programs (development partners), some of which have expressed interest in collaborating with USAID on expanding these initiatives and leveraging USAID experience and strong presence in this field.

## OPPORTUNITIES



- To address the bureaucratic challenges, USAID can use its convening power to bring together Ministries of Education and the private sector in stakeholder consultations and policy dialogue. It can also support establishing a framework for private-public policy dialogue or strengthening the entities/bodies that can play the facilitator role. Existing private associations and forums for dialogue between private providers and regulatory authorities have so far been ineffective. Still, some leading private sector players have taken new initiatives, e.g., CIRA and the American University in Cairo (AUC), which are co-leading a private education committee under AmCham that USAID can support.
- USAID projects to support developing entrepreneurship centers in private universities through the SEED activity were considered a significant success (e.g., the case of Heliopolis University) and could be replicated in other private universities (particularly the smaller ones or those based in frontier regions, e.g., Deraya University), as demand for entrepreneurship studies is growing in the higher education market.<sup>7</sup>
- KILs captured several initiatives by industry players to sponsor higher educational institutions (TVETs and universities), providing access to market-relevant curricula, modern teaching resources and methods, and internship opportunities in their firms. These initiatives are all opportunities for USAID to expand its WISE activity by developing new partnerships to address a critical need in developing the labor market in Egypt. Examples include 1) the El-Araby Group for electrical appliances, which established El-Araby Technical School, the first applied technology school in Egypt, in collaboration with the MoETE in 2018; 2) GB Auto, which has sponsored three vocational institutes to serve the automotive industry in collaboration with the Ministry of Trade and Industry; 3) Bishara Textile and Garment Manufacturing Company (BTM), which developed an industrial technical institute, the “Amal Bishara High School,” which provides a dual education model (theoretical and practical training). The school trains 75 students a year, 50 percent of whom are usually employed by BTM and the rest can work in other companies in the textile sector; 4) the Cairo Poultry Company (CPC), which has sponsored a department in a public university specializing in the poultry sector; and finally 5) Apache Energy, which has expressed strong interest in proceeding with discussions with USAID on developing a TVET institute to serve the oil and gas sector in Egypt.
- ICT companies are interested in engaging in educational reform projects like those it collaborated with USAID on in the past, e.g., TILO and Girls’ Improved Learning Outcomes (GILO). However, interview feedback on the effectiveness of the previous engagements highlighted the need for a more structured partnership with USAID in future projects. This entails discussing potential projects at the project design phase, and not on an *ad hoc* basis, as was the case in the past. One ICT company indicated that discussions at the project design stage would allow it to capitalize on its market and sector knowledge to advise on the kind of technology to prioritize and the scope/size of projects required for a more substantial impact on the sector. On a separate note, though not explicitly mentioned in the interview, scope exists for collaborating with Microsoft on expanding the outreach of its current programs supporting K–12 schools and universities in their digital transformation process.

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<sup>7</sup> In the interview, Heliopolis University also expressed interest in a second round of the SEED project to focus on the startups that graduate from the incubators through technical assistance and grants to ensure they become commercially viable and can have the desired social impact.

- KILs with companies across industries and development partners expressed significant interest in engaging with USAID on educational development projects. Examples of corporations that expressed interest in collaborating through CSR initiatives include Apache Energy, which mentioned partnering with USAID/Egypt on its community schools project for girls in underprivileged regions; Dell EMC, which is interested in engaging with USAID and its local partner NGOs to expand the outreach of its education programs supporting public schools and universities in areas including digitalization/EdTech and entrepreneurship; and Noble Energy, which mentioned resuming discussions over collaborating with USAID on its initiative to fund scholarships for youth in Sinai to attend El-Areesh University after talks were halted due to COVID.
- Examples of interest from development partners include 1) Sawiris Foundation for Social Development, which suggested proceeding with discussions held with USAID/Egypt over potential collaboration in the education sector. The Sawiris Foundation currently partners with the USAID Scholars Activity to provide six scholarships for higher education students with disabilities. Other areas with potential for cooperation include enhancing education inclusion for students with disabilities, capacity building support for students before the higher education stage, and providing technological support for public schools by providing equipment and teacher training on ICT skills. 2) The MoHE recently approached the African Development Bank (AfDB) to provide technical assistance for establishing three new technological universities. USAID already has plans to establish university centers for career development at these three universities. Given USAID's experience in developing centers of excellence in public universities, the AfDB believes scope exists for integrating similar centers in new technological universities planned. According to the AfDB, scope also exists for establishing links between the STEM schools sponsored by USAID and the technological universities.

## 3.4 FINANCIAL SERVICES

### OVERVIEW

Financial services touch all aspects of economic and social activity. Accordingly, financial services' availability, diversity, and accessibility have a significant bearing on growth and development. Egypt's financial services sector is considered one of the oldest and most developed in the Middle East and Africa. The banking sector, in particular, has exhibited strong resilience in the face of multiple crises, including the 2008 global financial crisis, political unrest in 2011, the 2016 currency devaluation, and most recently, during the COVID-19 pandemic. The cost of this resiliency, however, is a highly underbanked population and low credit penetration. Nearly 50 percent of bank lending goes to the GoE. The country is home to 39 banks, with more than 2,800 branches across Egypt (AFI, 2018), yet only 32 percent of the eligible population have a bank account and only 10 percent of women have access to financial services (World Bank Group, 2018). Financial service providers have largely directed formal financing to large corporations, with only 12 percent of firms receiving formal access to finance (PwC, 2019a). Despite representing 40 percent of the economy, more than 85 percent of MSMEs rely on informal sources of financing, and 40 percent of transactions are in cash.

The GoE's Sustainable Development Strategy (SDS), Egypt's Vision 2030, highlighted financial inclusion as a critical national priority. Access to financial services formalizes economic activity, leading to increased tax revenues, decreased unemployment, reduced poverty, lower levels of corruption, and improved

economic growth rates. Recognizing that widespread access to financial services drives economic growth, the Central Bank of Egypt (CBE) emphasizes financial inclusion as a strategic objective, together with its responsibility to ensure banking sector stability. The CBE has strongly demonstrated its commitment with policies using a wide range of financial inclusion tools, including mobile wallets, merchant mobile payment QR codes, increased allocation of bank lending to MSMEs, cardless ATMs, international money transfers, village savings and loan associations (VSLAs), support for the Fintech ecosystem, and digital transformation of traditional sectors, such as fast-moving consumer goods. These tools, however, remain in nascent stages of utilization by the banking and non-banking financial services sectors.

Within the banking sector, Egypt has 16 banks offering digital and mobile services. Non-banking financial institutions (NBFIs) comprise 3,900 Egypt National Post Office branches, 873 licensed MFIs, and 848 NGOs. In addition, as of the end of 2017, Egypt had 140 brokerage companies, 37 insurance companies, 226 leasing companies, and 13 mortgage companies. Each of these groups has a larger role to fulfill in addressing an underserved market in alignment with the 2030 Vision.

The growth of the financial services sector, and particularly in NBFIs, indicates the sheer size of the underserved market and the wide spectrum of potential opportunities. Publicly listed entities in the sector exhibited resilient growth. Some have even soared despite the pandemic, such as the electronic payments network Fawry, which recently crossed the \$1 billion market cap mark. Indeed, KIs conducted with NBFIs confirmed that although new entrants regularly enter the sector, their market share continues to grow, as the entire market is growing. The needs outstrip the availability of financial products, leaving ample room for innovation to improve accessibility and affordability.

Microfinance is one of the fastest growing verticals in NBFIs; one company reported growing its loan portfolio from \$31 million to \$190 million in the last five years. However, the growth of microfinance indicates the underutilization and promising potential of ancillary tools, such as microinsurance, mobile payments, and personal saving and investment platforms. Similarly, MSME leasing and factoring entities have successfully packaged and priced risk, yet the roadmap for additional services such as trade finance and working capital facilities for MSMEs remains attractive with respect to market demand and economic impact on the value chain.

The KIs conducted in the sector included 1a leading microfinance institution with more than 230 branches in Egypt; a non-banking financial services arm of EFG-Hermes covering mortgages, leasing, factoring, microfinance, and fintech; a microfinance institution with more than 20 percent market share in Egypt; and an angel investing platform that invests in and provides technical support to seed-stage startups.

## PRIVATE SECTOR CHALLENGES

**The absence of a suitably qualified workforce.** All KIs revealed that talent was by and large the biggest challenge. Although the banking industry is known to recruit, train, and promote talent from within, NBFIs struggle with attracting C-suite executives, recruiting and retaining middle management, and enhancing employee work ethic. The growing demand for tech talent that can lead and execute on digital transformation, which is unarguably the sector's future, amplifies the challenge.

**A lack of regulatory transparency.** In interviews, regulatory risk was the most cited concern relative to increased investment in the sector. Although the banking sector is highly regulated with

respect to the risk it poses to economic stability, NBFIs largely operate with vague regulations—they are regulated via the Financial Regulatory Authority instead of the Central Bank. Because they often launch new or innovative financial products, this vague regulation could be a problem. A common approach of leading market players is to seek forgiveness after the fact rather than wait for the regulator’s blessing. Accelerating technological innovation further amplifies the vagueness of regulation, allowing emerging markets to leapfrog and bypass the historic underdevelopment of the financial sector. Regulators are challenged to keep up with the pace of innovation and protect the soundness of the financial system.

**Poor financial literacy.** Money and education levels are the key to accessing financial services. Without money, no need for a bank account exists, and without awareness of banking services, no demand for such services exists. Although NBFIs, and particularly the microfinance institutions interviewed, have branched out significantly throughout the country, their marketing efforts are limited to advertising and word of mouth. The sector faces a greater challenge in reaching and educating the end consumer on the benefits of their services.

### PRIVATE SECTOR INTERESTS

The KIIIs repeatedly revealed that the private sector’s primary objective in financial services is to grow the market and capture greater market share. Given the size of the unbanked population and the limited range of products, resulting in restricted access to finance, players are exploring strategies for four primary drivers:

**Financial services providers are interested in capitalizing on Egypt’s high mobile phone and Internet penetration to reach customers seamlessly and efficiently at significantly reduced costs.** The CBE largely supports this transformation to increase availability, quality, and access to financial services. Opportunities for financial institutions to engage with Fintechs for back-end services also exist.

**Growing competition in the market is driving the need for differentiation and innovation.** Conversations with Palladium revealed that banks see the need for new products but have no idea how to create them. They are used to collateral-based underwriting and struggle with different approaches. Companies acknowledge that the market is wide open to new entrants and thus focus on defining and strengthening their core customer base. New product development aims to attract and retain customers with services that address their unique needs.

**Cross-country integration: Remittances and expanding services regionally remain a challenge, yet present an attractive opportunity for scale, trade, and cross-border transfers.**

### ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

The entrepreneurship ecosystem has enormous potential for solving market gaps in addressing financial services and offers the promise of addressing youth employment issues. Access to finance is cited as the biggest hurdle for startups. Although accelerators, angel investors, and venture capitalists have emerged, their investment efforts are largely fragmented and disconnected from the banking sector. USAID efforts to give rise to existing startup incubators (such as Flat6 Labs) and support entrepreneurship through SEED are widely recognized. However, USAID cannot invest for direct equity positions, limiting the scope of tools to be deployed with respect to access to finance. USAID

could, however, explore equity investment options through the Development Finance Corporation (DFC). In addition, USAID could expand support to venture capitalists and accelerators to identify and vet investment opportunities and mitigate investment risk, including access to additional capital and risk mitigation support from the DFC. This expanded access to capital would be an important milestone in granting Egyptian startups access to international capital markets and global investment networks. Furthermore, an opportunity exists to connect investment entities with USAID partners in respective sectors to encourage specialized investment entities (such as health care funds, agriculture funds, and the like), which will develop deeper learning, lower risk, and improved investment outcomes.

## OPPORTUNITIES

1. **Foster dialogue between regulatory entities (the CBE and the Financial Regulatory Authority or FRA) and the private sector to streamline responsive regulatory frameworks** that align with advancement and innovation in providing financial services. USAID has the unique opportunity to act as an educated listener to the private sector's ambitions and provide a constructive environment for frequent dialogue between the private sector and the regulator for timely education, transparency, and advocacy.
2. **Boost compliance with CBE mandates for reasonable financing for MSMEs.** Commercial banks are aware of CBE mandates for low interest rate loans to MSMEs, but they lack a strategy for complying with them. Loan officers need training to serve MSMEs and guidance on how to cost effectively evaluate risk among MSMEs. USAID could partner with banks to boost compliance with the CBE mandates and facilitate financing for MSMEs at reasonable interest rates. This could also work with business development service providers to help MSMEs obtain financing on a success-fee basis. This also helps the financial institutions by providing a pipeline of finance-ready MSMEs.
3. **Support improved digital access and data analytics.** Financial service providers are now acutely aware of the power of data in shaping the sector's future. Although leading NBFIs have started investing in a data analytics infrastructure that enables them to provide improved and differentiated products that better address their unique customers' needs, the field is underdeveloped in Egypt. A need exists to train talent and attract data scientists and enhance the use of data in strategic decision-making and product development.
4. **Broaden the range of NBFi services.** Competition is fierce in services that have proven successful, such as leasing, microfinance, and electronic payments. However, the full spectrum of needed services remains unaddressed and underpenetrated. USAID has an opportunity to work with existing financial service providers in identifying new opportunities based on market needs and international best practice, structuring products, and de-risking them for the private sector's investment. De-risking can take the form of guarantees or establishing a customer base.
5. **Build financial awareness:** Financial literacy is a core obstacle to access to finance services. Without knowledge of available financial services, the unbanked cannot seek access to appropriate products that address their unique needs. USAID programs geared toward educating households on how to manage resources, save, and invest and the benefits and implications of borrowing are vitally important to mitigate the risk of exploitation and a vicious cycle of financial dependence. Digital lending and mobile payments compound the need for improved financial awareness. Although technology removes the obstacles of geographically

reaching consumers with tailored products that address their needs, technological illiteracy and resistance to changing habits hinder the enabling effect of this financial transformation, which could lift populations out of poverty. Similarly, MSME education on managing resources and working capital to internally assess their lending capacity, manage risk, and identify the appropriate products enables healthier provision of financial services. MSMEs' digital transformation in their value chains unlocks opportunities for improved access to financial services. USAID has an opportunity to partner with NBFIs on different levels of financial education and a focus on digital financial products.

## 3.5 HEALTH CARE

### OVERVIEW

Egypt's health care system is complex, with many public entities managing, financing, and providing health care. The Government is the primary provider of basic health care (primary, preventative, and curative) accounting for 80 percent of bed capacity with 5,000 health facilities, 80,000 beds, and more than 50 percent of the health workforce. It is also the largest institutional provider of inpatient health care, with 1,048 inpatient facilities accounting for an additional 80,000 beds. Government-owned facilities are usually the only choice available to low-income groups, who make up most of the population. However, huge demand and challenges including escalating costs, financial shortages, inefficient use of available resources, and ineffective management hamper these facilities. This has led to a lack of public confidence, with people increasingly turning to the private sector where they pay higher fees for the perception of better services.

The country has one of the largest health care markets in MENA and has become highly regarded, thus becoming a hub for regional medical tourism particularly in cosmetic procedures, renal dialysis, and chemotherapy. The private sector currently plays an important role in delivering health care services along the value chain including hospitals, clinics, general practitioners, specialists, dentists, psychiatrists, laboratories, pharmacists, pharmaceutical manufacturing and distribution, and the like. Competition in the private sector is intensifying as the sector grows. The private sector has 2,024 inpatient facilities with 22,647 beds, which make up 16 percent of Egypt's total bed capacity. The World Health Organization reports 61,855 pharmacies in the country, 97 percent of which are run by the private sector (USAID, 2016). Some of the reasons for growing private services are better equipment, rapid population growth, and relatively low levels of funding for the public facilities.

Egypt has a population of more than 100 million, yet private spending continues to dominate its health care expenditure, accounting for 62 percent of the market, while insurance is less than 1 percent. At an average of \$157 per capita, health spending in Egypt is mid-range compared with other low-middle-income Arab countries. Like other emerging economies, demand for health care services accelerates along with economic growth, a rising middle class, demographic and lifestyle factors (urbanization, aging, smoking, diet, and the like), increased awareness, and the increased range of treatments.

Physicians represent the most powerful professional group in the health sector. Doctors can work in the public and private sector simultaneously. Although the Ministry of Health and Population employs 53 percent of the doctor workforce, the Health Insurance Organization another 11 percent, and the universities 14 percent, most physicians have multiple jobs. The elite are well-established and qualified

senior physicians, many of whom are faculty members in the major medical schools or shareholders in modern private hospitals and polyclinics. One factor that may inhibit growth of the health care sector is the shortage of qualified skilled staff, including doctors, needed to serve the market. The number of doctors per thousand people in Egypt is 0.8 per thousand population, compared with Jordan (3.4), Saudi Arabia (2.6), and Tunisia (1.3). Supply is much higher in Cairo, however, where health care professionals are most concentrated.

In response to these shortages, Egypt has seen a wave of new health care startups trying to disrupt the industry and offer lower-cost services in innovative ways to the Egyptian people. Already embracing digital change, the COVID-19 pandemic has also given the industry a timely boost and the outlook for the healthtech sector is positive (International Finance, 2020).

For this PSLA, the assessment team spoke with three health care companies: a pharmaceutical company dedicated to providing high-quality, low-cost contraceptives and training of service providers; a chain of primary care clinics across Egypt targeting affordable health care for middle class families, and a company that manages and administers customized corporate health care plans. Various other Egypt-based startups, such as Chefaa, Vezeeta, and D-Kimia, are also among the leading health care tech startups seeking to revolutionize the industry that may be of interest to USAID.

#### PRIVATE SECTOR CHALLENGES

**Regulatory constraints:** As in other sectors, the most cited challenge for the private sector was an unclear regulatory environment, particularly as it pertains to licensing and the regulator's long-term strategy. The private sector sees a strong value in collaborating with regulatory bodies in developing and understanding the strategic vision for health care in Egypt. This is particularly pertinent as the sector moves toward digital offerings.

**The talent challenge:** The already short supply of physicians and the challenge of retaining other skilled medical labor are critically curtailing the health care sector's ability to provide quality care. Despite the supply of medical school graduates, employment opportunities in the Gulf area and the West have hampered talent retainment in the country. The talent shortage extends to managerial, nursing, and supplementary infrastructure staff. Fresh graduates of medical schools struggle to penetrate the sector because of the high cost of establishing a private sector clinic. Meanwhile, established professionals controls opportunities with private providers, resulting in an uneven playing field. Career growth in the public sector is also slow. Thus, talented physicians who lack access prefer to pursue opportunities abroad.

**Training and education of medical staff:** Advancements in the medical field are not widely shared and applied in Egypt's health care sector. Although Egypt has an opportunity to leapfrog and, in certain specializations, is more advanced than other countries in the region, research centers and resources cluster in urban centers. Continued learning and education opportunities are not frequently accessible, leading to the continued practice of outdated procedures.

**Lagging technological advancement:** First, as with innovations in other sectors, COVID-19 accelerated the adoption of telehealth. Whereas the regulatory framework for teleconsultations remains vague, consumer and physician acceptance of technological solutions aimed at increasing access and efficiency has been growing. Wider adoption will need increased awareness and marketing efforts



to educate the populations most in need of such services, such as people living in remote villages. Second, the public sector is inadequately equipped with the infrastructure to improve communication with the global medical community. The sector struggles to encourage and enable exposure to best practices and training on advanced procedures and equipment. Finally, a critical need exists for building the infrastructure for electronic medical records, integrating with other providers in a fragmented sector, and digitizing processes for improved access and affordability.

### PRIVATE SECTOR INTERESTS

**Training for medical and managerial staff:** Private providers greatly need advisors and partnerships with medical educational institutions for continued learning and training for physicians and managerial and medical staff.

**Capacity building for integrating technology solutions:** The sector recognizes the merits of technology and its inevitable adoption throughout the patient journey. However, the shortage of high-caliber staff with technology and health care expertise remains an obstacle for building scalable solutions.

**Geographic expansion within Egypt and regional collaborations in MENA:** Private sector providers that have grown significantly in Cairo and/or Alexandria are looking to expand into other regions, such as the Delta and Upper Egypt, where demand for their services is great. However, establishing communication channels with the medical community in other governorates and penetrating their markets are difficult. Egyptian providers also see an opportunity to leverage their expertise and expand into MENA, but struggle to find partners with which to enter new markets.

### ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

USAID/Egypt has deep experience working in the health sector and with the private sector in particular. In line with the GoE's commitment to population growth, USAID's Health Team has focused on two primary areas to support: 1) family planning and reproductive health (FP/RH) and 2) water and sanitation services. Moving forward, its programmatic focus will be on improving the quality and access of FP/RH services for Egyptians of reproductive age. The Global Health team has a long record of working with the private sector. The Family Planning through the Private Sector activity is a strong example of successful PSE that created a shared value and opportunity with businesses to improve the quality of worker well-being training and information. Through this training, peer counselors introduce FP/RH messaging.

Under the Strengthening Egypt's Family Planning Program (SEFPP) activity, for example, the private sector and the Ministry of Health and Population's family planning sector have established links. SEFPP uses Memorandum of Understanding (MOUs) undersigned by the medical and pharmaceutical syndicates to develop PPPs between the Ministry of Health and private sector practitioners in the family planning sector. These partnerships aim to introduce more sustainable solutions to challenges in the family planning sector by increasing demand for family planning services and enhancing the quality of services to improve contraceptive use and reduce fertility over time. One of the main priorities under this program is training professionals to provide family planning services according to standards and recommended best practices. The objective behind this service is to achieve important results such as 1) ensuring that private sector practitioners (physicians and pharmacists) that provide family planning services are well



trained on the latest contraceptive methods; 2) strengthening the relationship among the Ministry of Health and Population, syndicates, and private sector providers; and (iii) providing private sector providers with continuous medical education.

One company, DKT, most closely aligns with these goals. DKT has launched several awareness campaigns to provide sexual health education and promote family planning. These campaigns include 1) a campaign to raise awareness in the male population of the importance of using condoms through its condom brand's website and Facebook page; and 2) an extensive program to spread awareness about emergency pills (EC) through a campaign called "Be Sure, Be Confident," which promotes the message through a bilingual website for its EC product (contra plan II) in tandem with a social media campaign that informs women about the availability of this option. In addition to these campaigns, DKT creates youth-friendly radio, television, and social media advertisements to reach young people who might otherwise not have access to sexual health information. DKT, however, has held several meetings with USAID in the past, but meaningful collaboration did not materialize.

## OPPORTUNITIES

- **Partner with Egyptian health care providers, particularly healthtech, with a specific interest in FP/RH issues:** As noted in the USAID PSE Visioning Sessions in December 2020 and confirmed by the PSLA team, an opportunity exists to partner with private sector health care firms to provide much needed training and capacity building in exchange for greater support for FP/RH. Given the constraints of conducting a multi-sector PSLA, the team could only identify one company that was explicitly interested in FP/RH interventions. Others were open to capacity building and training support from USAID, which could include an FP/RH element, but FP/RH was not raised as a priority. A range of healthtech providers are also emerging that are unfamiliar with partnering with development partners. To assess private sector interest, USAID should conduct a phone survey of the top 100 health care firms to 1) identify interested firms, 2) understand motivation for partnership, and 3) document possible partnership types.

## 3.6 LEGAL SERVICES

### OVERVIEW

Traditional family-run firms dominate Egypt's legal sector. However, the industry has recently been showing signs of maturity, as an increasing number of international players are entering the market in partnership with local firms. In the past few years, new market entrants have averaged two to three firms annually, and the influx of global firms has raised the level of competition in the sector in terms of pricing and quality of services (Enterprise, 2019). Since 2011, law firms in Egypt have had to serve their private sector clients in an ever-changing political and legislative landscape and a challenging economic environment. Moreover, volatile markets and flows of both foreign direct investment and domestic investments over the past decade have forced law firms to become more agile and readjust their interests and priorities based on the booming sectors in each phase (LEAP III, 2020, KII). In 2015, for example, a boom in the renewable energy sector led firms to engage with clients/projects in the industry actively. Shortly after, law firms' interest shifted to the education sector, which received a significant increase in investments from international and domestic private education providers. The latest trend has seen law firms focusing on penetrating the tech sector to work with startups and venture capitalists (VCs), particularly in the fintech sector, where demand for legal services is rising.

Other challenges that emerged from the KIs included finding and recruiting highly qualified lawyers from the domestic market. The most critical challenge has been dealing with public authorities. Inefficiency of domestic courts; lack of transparency over the enforcement of awards; continual changes in regulations; and red tape with respect to permits, licenses, and other administrative procedures all pose significant obstacles for law firms in delivering their services to private sector players and doing business in general.

Before the pandemic, law firms in Egypt were already grappling with the issues of keeping pace with the digitalization drive in the private and public realms and ensuring they can provide more agile and efficient services to their domestic and regional clients. Some firms had already announced plans to invest heavily in artificial intelligence (AI) to be on the “cutting edge of the legal industry” by improving their technological capabilities and virtual delivery of services (The Legal 500, 2020d). The COVID-19 pandemic magnified this challenge, forcing law firms to accelerate their digitalization plans as they seek ICT solutions that would enable them to access and process highly classified documents, interact with clients, and submit documents to courts and governmental bodies remotely and securely. Few firms were fully digitalized before the pandemic, leaving even Tier I firms struggling to adapt in the aftermath (LEAP III, 2020, KI). Hence, demand for legal technology solutions featuring AI capabilities has increased as Egyptian law firms look to adopt new business models and restructure their existing operations in the post-COVID era (The Legal 500, 2020b).

The legal sector expects to play a significant role in supporting private companies to adjust to the impacts of the pandemic on their operations and on the economy as a whole. As illustrated across the various sectors covered in this study, private companies face significant financial challenges due to COVID-19-related disruptions, and law firms expect a rise in bankruptcy and liquidation cases (The Legal 500, 2020a). The legal sector also expects more labor and employment disputes triggered by measures companies have taken to cope with their financial struggles in the upcoming year (The Legal 500, 2020c). Furthermore, law firms expect to be engaged in restructuring efforts for companies in sectors that were significantly affected by the pandemic (e.g., oil and gas, aviation) and to continue expanding their operations on the transactional side by focusing on industries that proved to be highly resilient in the face of the pandemic, e.g., information technology, telecommunications, health, and education (The Legal 500, 2020c).

The two KIs conducted in this sector included a prominent and market-leading full services firm and a medium-sized law firm with extensive experience in working on legal reform projects with donor organizations.

### PRIVATE SECTOR CHALLENGES

On the dispute resolution side, the main challenges revolve around the legal system’s efficiency in handling cases and enforcing awards.

**Litigation procedures are quite cumbersome and lengthy.** The procedural timetable usually depends on several elements, including the nature of the case, the number of parties, the court’s case backlog, the parties’ requests, and the procedural circumstance. The lack of transparency over the steps required and the ample room for procrastination (by requesting delays) by all parties lead to an inefficient and prolonged litigation process.

**Execution of court judgments is a rather complicated process and increasingly time-consuming due to the legal procedures that need to be fulfilled.** Procedural challenges to enforcement are a common cause of delays and a prolonged process. Furthermore, one of the main challenges facing claimants seeking to enforce awards in investment disputes is the absence of a credit-

checking service to determine whether the potential defendants have assets/property and how the court can find these assets in case they need to seize them for compensation purposes. This challenge restricts local courts' ability to enforce awards (LEAP III, 2020, KII).

**The use of experts in legal proceedings is another area in which local courts are particularly deficient.** Experts used in trials must be licensed by the Ministry of Justice, and the majority are employees of the state. Moreover, expert opinions are delivered in written reports, and if there is a long backlog, it can take months for the court to receive one, further prolonging the procedures. Most important, in many cases, the quality of expert opinions is questionable, as the training received by the Ministry and its level of expertise does not equip them to deal with complex cases and those of a certain magnitude (quantum). This is an area in which the expertise of the private legal sector is greatly needed (LEAP III, 2020, KII).

**Continual rule changes at short notice, without public announcement, and the absence of a unified approach across different circuits means that law firms need to do a lot of legwork to know what regulations apply in each court before filing.** For larger, more established firms, dedicating resources around the country is feasible to ensure any transactions or filings abide by the latest legal and regulatory requirements. However, for smaller firms that cannot afford these resources, this uncertainty represents a significant challenge.

**Despite making some progress in improving the business environment through new regulations (e.g., simplified industrial licensing and the enactment of bankruptcy law), the investment climate still needs substantive reform to address heavy, complex, and opaque regulatory frameworks.** According to the KIIs, red tape and bureaucracy challenges concerning approvals, licensing, and permits increase the costs of doing business (affecting a firm's profitability) and pose a challenge when dealing with client expectations and offering competitive rates. An example is the lack of transparency and the time-consuming process of dealing with state institutions like public notary offices and commercial registry offices (where registering a real estate property can take six months). With respect to new projects, the lack of coordination among the various entities that companies need to receive approvals from, e.g., the General Authority for Investment (GAFI), the Industrial Development Authority (IDA), the Egyptian Authority for Environmental Affairs, and the like also results in a non-transparent, time-consuming, and costly process for law firms and private sector companies.

**Law firms also struggle to find qualified lawyers in the Egyptian market, due to the lack of high-quality legal education and insufficient professional training for lawyers.** The law college is a lower-ranking college and hence has lower admission requirements for admission. It often attracts students who failed to enroll in their first-choice colleges that require higher grades, e.g., engineering, medicine, and economics. The lack of quality control extends to the syndicate and to the Egyptian bar association, which have minimal admission requirements (LEAP III, 2020, KII). Becoming a lawyer in Egypt requires only a bachelor's degree in law and registration fees at the bar association, which is unlike more competitive environments in other countries.

## PRIVATE SECTOR INTERESTS

**Domestic and regional expansion:** Law firms continually explore opportunities to expand their outreach to cities with a high demand for legal services and a low representation of law firms, e.g., the Delta region, Sinai, and Upper Egypt. Egyptian law firms are also increasingly expanding into the MENA region, where a significant need exists for legal services (particularly in North Africa).

**Tech sector penetration:** The KIIs indicate a strong interest among law firms in penetrating the tech sector and working with startups and VCs (particularly in the growing Fintech sector where demand for

legal and consulting services is rising). However, when dealing with startups, limited financial resources is a constraint, particularly for entrepreneurs at an early stage. To address this challenge, law firms are developing a services package that ensures that the needs of startups at an early phase are met at a competitive price, without overcommitting the firm's resources.

**Legal sector reform projects:** KIs also indicate that private sector firms are keen to collaborate and engage with the Government and international development institutions on legal sector reform projects to address previously discussed challenges. One law firm is currently in discussions with the contractor that was awarded the Egyptian Economic Court Automation Activity (EECAA). It believes digitizing economic courts will help reduce the inefficiency of the litigation process. Another has also actively engaged with a wide range of donor institutions advising on legal reform projects, including USAID projects on privatization and judicial reform projects.

**Digitalization and AI solutions to adapt to the post-COVID-19 era:** The leading private legal firms in Egypt are actively pursuing the adoption of legal-tech solutions (featuring AI capabilities) to keep pace with developments in the industry worldwide, tackle the growing competition, and reduce the turnaround time of legal cases. This interest intensified significantly during the pandemic. The abrupt shift to remote working arrangements left many firms in the sector struggling to adapt, and hence demand for digitalization of legal practices such as document management, e-billing, contract management, practice and case management, and more, has increased.

#### ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

Reforming the domestic legal system is a major priority for private law firms in Egypt, as doing so would help unlock the significant potential for growth in the private legal service market. Accordingly, business interests are directly aligned with USAID/Egypt's efforts to build the public judiciary system's capacity. This includes projects like the EECAA, which aims to improve the efficiency of economic courts and enhance the quality of services provided through automation and training on best practices in the international legal field. However, as discussed in further detail in the following opportunities section, the benefits of capacity building and technical assistance projects in the public legal sector will only be fully realized when the inefficient and outdated regulatory frameworks currently in place are reformed. This is an area with significant potential for USAID engagement with both private and public stakeholders in the sector.

The KIs also revealed a strong interest from the private sector in engaging and partnering with donor organizations on broader reforms to the business enabling environment by increasing the accountability, efficiency, and transparency of relevant public institutions—all of which are key priorities under USAID's democracy and governance program in Egypt.

#### OPPORTUNITIES

- **Taking a leading role in developing public-private dialogue (PPD) between private sector law firms and public authorities about the required reforms in the legal system.** Absent existing channels or bodies that provide an effective outlet for advocating for and regularly discussing the reforms needed, law firms have resorted to participating in workshops organized by public institutions for consultations over legislative and regulatory reforms and/or lobbying through business associations. For example, one law firm has actively engaged in workshops conducted by bodies like GAFI on how to improve the BEE in Egypt and by other regulatory bodies (e.g., the FRA) when they hold consultations over new legislation. Another has resorted to lobbying through associations like the AmCham and the Junior Business Association to advocate for legislative and regulatory reforms.

- **Supporting practical learning opportunities for law students.** USAID could contribute to providing legal students with practical training opportunities and employment services with grants to expand the outreach of programs like the moot court competitions and summer training programs organized by private law firms. For example, one law firm sponsors moot courts that allow university students to gain practical skills they do not receive in their academic experience (e.g., writing memos, pleading, etc.). Winners of the competition (two or three students) are offered employment opportunities at this law firm or are sponsored to study or gain work experience in the United States, Hong Kong, and Austria. It also organizes and delivers a summer training program that university students across Egypt can apply for.<sup>8</sup> Students enrolled are given the opportunity to work on real cases and are considered as potential recruits.
- **Reforming the legal system.** A dire need exists for more initiatives from donor organizations, like USAID, that focus on developing the legal sector through capacity development, training/technical assistance to courts and public offices (e.g., notary offices and commercial registry), and digitization initiatives. However, a major prerequisite for these efforts to produce the desired results is the introduction of systematic and structural reforms to the legal framework in Egypt. According to the KIIs conducted, addressing the structural deficiencies of the domestic legal system, which include outdated and inefficient regulations, requires introducing three layers of reforms: 1) developing the capacity of regulatory authorities to introduce reforms; 2) developing new business-enabling laws to ensure transparency and more efficient processes; and 3) streamlining and unifying regulations at the local administrative levels to ensure consistency across the different circuits, municipalities and the like (LEAP III, 2020, KII).

## 3.7 MANUFACTURING

### OVERVIEW

The manufacturing industry is a key driver of Egypt's economic growth and development plans. It contributes significantly to the country's GDP (16.2 percent in 2018/2019). Manufactured goods made up 57 percent of Egypt's total exports in 2018, and the industry's share of employment reached 12.4 percent in the third quarter of 2019 (ECES, 2020b). The Government has outlined plans to develop the industry and increase its competitiveness in both the SDS, Egypt's Vision 2030, and the Industry and Trade Development Strategy (2016–2020). Both strategies have set ambitious targets to grow the sector, including increasing the contribution of manufacturing as a percentage of GDP to 18 percent (PwC, 2019b).

The industry, however, faces several significant obstacles to achieving the aforementioned goals. One of the main challenges is the unfavorable business environment for MSMEs in the manufacturing sector. In particular, MSMEs lack access to finance, markets, and technologies and have weak links with domestic and global value chains.<sup>9</sup> Consequently, most manufacturers rely heavily on imports for their production inputs. The sector also suffers from workforce issues due to a shortage of skilled labor and a high

<sup>8</sup> It has some protocols in place with public universities.

<sup>9</sup> MSMEs are an integral component of Egypt's manufacturing landscape as the industry accounts for 51 percent of all MSMEs in the country. See PwC (2019b) and Ministry of Trade and Industry, Industry and Trade Development Strategy (2016–2020).

turnover rate of low-skilled labor. Other persistent challenges include regulatory impediments that represent barriers to entry and constrain manufacturers' ability to expand domestically and into export markets.

COVID-19 has affected the manufacturing sector more than most other sectors due to the external and internal shocks caused by the crisis. Externally, the COVID-19 outbreak disrupted global supply chains, directly affecting the availability of production inputs for manufacturing (ECES, 2020b). The pandemic hit Egypt's main trading partners (including the European Union, the United States, Italy, Spain, China, Turkey, Saudi Arabia, and the United Arab Emirates) hard; they experienced severe disruptions in their industrial and manufacturing activity, which had negative impacts on two-way trade (AmCham, 2020).

On the export side, forecasts indicate that Egypt's export proceeds may decline by 25 percent throughout 2020 (AmCham, 2020a). Similarly, Egypt's import levels have been strongly affected, as overseas suppliers (e.g., China) focus on domestic markets. Considering that Egypt's manufacturing industry relies heavily on imported primary and intermediate production inputs, which together constituted almost 44 percent of total Egyptian imports in 2019 (ECES, 2020b), the shortage of inputs has significantly reduced factories' production capacity. Internally, manufacturing companies have suffered from liquidity problems due to production and consumption disruptions on the one hand and financial obligations to their employees and the Government on the other (ECES, 2020b).

The LEAP III team conducted KIs with four representatives from a wide range of manufacturing sectors, ranging from large exporters to feeding companies.<sup>10</sup>

## PRIVATE SECTOR CHALLENGES

The challenges that emerged from the KIs were consistent with those outlined in the literature cited previously. The companies interviewed echoed the need to enhance MSMEs' competitiveness, improve workforce quality and firms' ability to retain low-skilled labor, address regulatory constraints, and manage the disruptions caused by COVID. Additional challenges that emerged included unfair competition from the informal sector and the need for further state support to facilitate investments in the industry and develop the firms' export capacity.

**A critical challenge various manufacturing sectors face is the underdeveloped nature of the input supplier industries, which forces manufacturers to import most of their parts and components.** MSMEs lack access to finance, markets, and technology, making it difficult for them to compete with imports. Furthermore, the existing legislation and regulations governing the sector impose relatively low local content requirements on domestic manufacturers.<sup>11</sup> As a result, importing the inputs is cheaper than investing in local MSMEs to produce them. The industry's dependence on imports of primary and intermediate inputs means that production is highly vulnerable to external factors.

**The sector faces a shortage of high-quality and trained workers and a high turnover rate (particularly among blue-collar labor, which finds the informal sector more attractive).**

The industry has implemented several initiatives to either develop in-house training programs or sponsor TVET institutions, which were mentioned in the education section. To deal with labor turnover

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<sup>10</sup> MSMEs specializing in manufacturing and supplying components/production inputs.

<sup>11</sup> In an interview, one company referred to Law No. 21 of 1958 on organizing and encouraging industry in Egypt, which applies to all industrial facilities, as an example of legislation that needs to be amended to facilitate the integration of MSMEs into the domestic value chain.



issues, companies have resorted to outsourcing most of their blue-collar labor or increasing shift hours to reduce the quantity of labor needed.<sup>12</sup>

**Private sector players in the manufacturing sectors experience BEE challenges that are a significant obstacle to growth of the industry as a whole.** The lack of long-term visibility on economic policies (fiscal and monetary) and regulations create uncertainty and affect the long-term plans of players in the sector.<sup>13</sup> Red tape compounds these constraints, further restricting the growth potential of smaller players in the sector and acting as a barrier to entry for new players (this is discussed further in the following cross-cutting theme section). The unregulated nature of the informal markets negatively affects the profitability of manufacturers in several sectors, as it leads to unfair competition with informal sector players that are neither taxed nor comply with industry/health and safety standards. Two companies interviewed are examples of companies that have been negatively affected by the lack of monitoring and regulation of the informal sector.<sup>14</sup>

**Furthermore, inadequate financial (subsidies and incentives) and logistical support from the Government affects the competitiveness of local manufacturers in the domestic markets, as well as their capacity to export to the global market.** The Federation of Egyptian Industries and AmCham have served as platforms for dialogue with the Government (effective communication channels); however, the authorities require significant capacity building support to tackle the necessary reforms.

The COVID-19 outbreak has exacerbated the described challenges and has significantly disrupted business operations on both the domestic and external market fronts (see the subsequent cross-cutting section).

## PRIVATE SECTOR INTERESTS

**A main objective of the larger manufacturing companies is to become vertically integrated companies, to reduce their reliance on imports for high-quality and reliable production inputs and expand their distribution network and after-sales services.** By strengthening their forward and backward linkages, they aim to increase their market share and competitiveness in both domestic and global markets.

However, as noted in the KIs, this strategy is not a substitute for strengthening MSMEs in the manufacturing industry to facilitate their integration into domestic and global value chains. Certain companies have advocated for legislative and policy reforms in discussions with regulatory authorities (including the Prime Minister and relevant ministries). Suggested reforms include introducing incentives for MSMEs operating in high-tech industries and increasing the minimum requirement for local components that domestic manufacturers must use to encourage them to reduce their imports and invest in the feeding industries.

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<sup>12</sup> These two companies adopted initiatives to deal with high low-skilled labor turnover rates.

<sup>13</sup> For example, according to one company, the recently proposed value-added tax amendments included an unanticipated and significant increase in the taxes imposed on the food processing sector, which will have to be passed on to the consumer.

<sup>14</sup> According to one company, the Government does regulate and monitor the auto parts sector well. Traders that import products that are either counterfeit or do not comply with Government quality and safety standards easily penetrate the market. In its interview, this company also noted that food processing companies face unfair competition with informal sector players that are neither taxed nor comply with industry standards (quality and hygiene) and hence can offer products at much lower prices.

**To address chronic challenges regarding workforce quality in the manufacturing industry, several companies have expanded their in-house training programs to satisfy their needs for high-quality labor and serve their respective sectors.** One company included in this assessment is an example of a company that has invested heavily in developing its workforce. It has established a standalone in-house program to train skilled labor on the latest technological methods and on compliance with local and international quality standards. Its training center is a role model for industry-led training across Egypt's manufacturing sector. There is another example of a company that has developed a full-fledged training institution to provide technical and business skills training to its employees. Its Academy also serves companies across the automotive sector and collaborates with universities.

Furthermore, both companies have engaged with the MoETE and/or the Ministry of Trade and Industry to develop new technical schools or sponsor existing ones to support the Government in revamping its TVET system. Other manufacturing sector initiatives that were not covered in the KIIs include the ElSewedy Group (the leading integrated cables and electrical products manufacturer in the Middle East), which is also sponsoring technical academies that provide three-year secondary-level programs under the auspices of the MoETE and serve several sectors by training students in energy components, industrial electronics, mechanics maintenance and repair, logistics, steel, plastic, and ICT (ElSewedy Technical Academy, n.d).

**To compete with imports and penetrate new markets, manufacturing companies continually seek to invest in research and development (R&D) to upgrade their production lines and methods.** Interest in undergoing management-level digital transformation to improve the efficiency and agility of business operations and boost profitability is also growing. However, small- to medium-sized companies need technical and financial support from the Government or development partners to enable them to upgrade their production methods/lines and digitalize their management systems. For example, one company expressed the need for technical assistance through consultants to enable it to upgrade its outdated facilities and production methods. Smaller players also cited the need for financial and technical support to update their management systems, existing facilities, and production methods to enable them to penetrate new markets.

**In dealing with the COVID-19 crisis, most manufacturing companies have prioritized business continuity by developing contingency plans and focusing on retaining most of their staff.** With respect to adopting digital solutions, larger companies generally revealed an increased reliance on their e-commerce platforms to conduct business transactions. However, smaller companies that rely more on physical transactions had to experiment with new and innovative digital solutions to work around their inability to reach suppliers and clients through traditional, mainly in-person, channels. For example, to address the drop in wholesale orders from traders, one company resorted to developing a mobile application. After realizing that most of its client base cannot navigate its website, it decided to create a more user-friendly mobile phone application to enable them to place their orders.

#### **ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL**

Several manufacturing-related private sector interests that emerged in the KIIs align with USAID's current activities under the Trade and Investment Program and should be considered for the



prospective TRADE project (pending award).<sup>15</sup> Indeed, USAID efforts related to trade, enterprise, and workforce development to improve the BEE and enhance businesses' competitiveness are needed to develop and enhance Egypt's manufacturing sectors. Furthermore, the prioritization of MSME growth and development by USAID under this program is a welcomed approach, in light of the challenges they face in the manufacturing industry (as discussed previously). Areas of mutual interest between the private sector and USAID include

- **Workforce development:** USAID activities (in collaboration with the Ministry of Trade and Industry) that support private sector players across various manufacturing sectors by enhancing their labor productivity through in-house training and improving human resource strategies that reduce staff turnover are in great demand. The need for technical assistance on workforce-related issues is particularly high in the home textile and garment manufacturing sectors. Private manufacturing companies are increasingly interested in engaging with the MoETE to revamp technical and vocational schools and supply the labor market with graduates equipped with the required skills. Moreover, in light of Government plans to establish 100 technical schools in partnership with private businesses by 2030 (Enterprise, 2020a), substantial scope exists for extending USAID's efforts to connect leading private sector players with the MoETE to address the shortage of highly skilled labor with market-relevant skills. Interviewees found USAID engagements with manufacturers to train and retain their workforces and upgrade production methods and lines through WISE projects to be successful and expressed demand for such projects. However, in some cases, feedback indicated that the projects need to last longer or take place over several phases so that staff can be trained to deliver these programs internally for new recruits and sustain the impact of these programs (LEAP III, 2020, KII).
- **Enterprise development:** As established previously, promoting the growth and competitiveness of MSMEs by improving their access to finance, markets, technology, and business development services is urgently needed. USAID's efforts to encourage formalizing private enterprises and to link these enterprises with established firms to facilitate their integration into domestic value chains can address informal sector-related challenges. USAID's collaboration with the Federation of Egyptian Industries (FEI) to support its capacity to provide business development services to MSMEs was successful and has proven to be sustainable, considering that the center has continued to operate long after USAID grant funds dried up. The FEI welcomes further support from USAID for its efforts to advocate for the previously discussed regulatory reforms that would unlock opportunities for growth in the manufacturing sector. Technical assistance in the form of capacity building is also needed at the level of the ministries and bodies undergoing the reforms.
- **Access to finance:** Despite CBE initiatives to encourage and promote MSME funding by local banks and the commitments announced by development financial institutions, funding for MSMEs in the manufacturing industry remains insufficient. The Egyptian-American Enterprise Fund (EAEF) is a potential source of investment capital and loans to MSMEs in this industry.

## OPPORTUNITIES

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<sup>15</sup> The KIIs covered most of the manufacturing sectors USAID prioritized under the prospective TRADE project, which includes food processing, engineering, home textiles, ready-made garments, and building materials and chemicals

- **Developing local supply chains in the engineering sectors (e.g., electrical supplies, house appliances, automotive, machinery, and equipment) represents a significant opportunity for co-investment.** USAID could collaborate with various stakeholders to enable MSMEs in the feeding industries to scale up and compete domestically (first and then regionally) by providing access to finance, modern technologies, business development services, technical training, and best business practices. Potential USAID partners in this area include business management organizations (BMOs), such as the Engineering Export Council (EECE), that are interested in developing local supplier capacity to produce components that lead firms need but are not currently available in the local market and creating multi-million-dollar markets for components in the process. Products that could be developed locally (to substitute imports) include printed circuit boards (PCBs), casters and gaskets for refrigerators and freezers, gas valves, LEDs, compressors, small motors for appliances, and the like.
- **USAID can also support the leading players across the various sectors with the capacity and interest to invest in developing local supply chains.** Several leading manufacturing firms in the engineering sectors, e.g., El-Araby Group, ElSewedy, and FRESH, have expressed interest in supporting the EECE initiative (discussed previously). These market-leading firms have the resources to conduct testing and provide the exact specifications on the components needed (e.g., electromagnetic labs).
- **USAID could engage with the Ministry of Trade and Industry to strengthen local supply chains by supporting the Ministry's plan to develop industrial clusters for supplier industries, which is an integral component of its growth strategy for the manufacturing industry.** In the RMG sector, USAID has an opportunity to enable local players to take advantage of the European fast fashion markets by supporting the development of local suppliers of components (e.g., zippers) and services (e.g., printing, dyeing, design, etc.; see Table 10).
- **USAID could also engage with the Ministry of Trade and Industry in exploring the potential of regional value chains (RVCs), supporting them in areas such as trade facilitation (developing logistics and transport infrastructure to promote regional trade) and institutional reform (to remove trade barriers), and developing local players' capacity and competitiveness in sectors with high export potential (e.g., textiles and chemical products).** COVID-19's disruption of global value chains has further exposed Egypt's dependency on international markets for production inputs and strengthened the case for promoting integration into RVCs and enhancing intraregional trade. The benefits of developing and integrating into RVCs include creating economies of scale and mitigating the risk of high dependence on the global market.
- **To increase the competitiveness of the textile sector in Egypt, investments in upgrading machinery and workforce development are needed.<sup>16</sup>** Currently, local players cannot take advantage of the national brand of Egyptian cotton due to the costs entailed and struggle to import cotton due to the high duties imposed.

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<sup>16</sup> RMG manufacturers have expressed their interest in collaborating with USAID to upgrade their outdated machinery and production methods. Another area in which they would welcome USAID support is expanding and improving the quality of their technical institute, particularly in teacher training.

- **USAID could help increase manufacturing companies' productivity by partnering with ICT companies for technical assistance to develop their capacity for digital transformation and financial support to subsidize the cost of these solutions.**
- **USAID could provide companies with access and exposure to international markets through business-to-business connections** (e.g., funding trade missions or sponsoring companies to attend international exhibitions).
- **The process of certification, including ISO-17025 certified labs, HACCP, and EurepGAP, is a challenge across several industries that USAID could help with.** Certification is necessary to access expanding regional and global markets, especially European markets. In Egypt, certification is often a reactive process in response to regulation. A more proactive approach could include technical assistance to MSMEs to identify and comply with the most relevant certifications.

TABLE 10: LOCAL SUPPLIER DEVELOPMENT IN THE RMG SECTOR

LEAP III PARTNER PALLADIUM PROVIDED THE FOLLOWING ADDITIONAL OPPORTUNITIES, BASED ON KIIS IN 2018

**ITH** is a small garment factory that targets small chain retailers in local and export markets. As of 2018, it employed around 200 workers and estimated that it could double this employment by tripling production. It has the factory space for this expansion but needs additional machinery and support in making market linkages. Such an expansion would allow the factory to expand local sourcing. Though importing fabric, zippers, and accessories is easier, ITH is interested in supporting the development of local suppliers. Low quality is the main challenge with sourcing locally. Another challenge is limited access to semi-skilled labor for the factory.

**El Kotb** is a specialty textiles company specializing in medical and automotive textiles and sportswear. It targets local and export markets and employed more than 200 employees as of 2018 when operating at 100 percent capacity. The company would like to invest in additional land and machinery, which would allow it to double annual sales and employment. The company sees an opportunity to source yarn locally but would want a feasibility study done before considering supporting such an initiative. It could also benefit from market linkage support. The company's main challenges include a lack of support from the GoE and workforce development.

**Fadel Giza Spinning** is a vertically integrated RMG with six factories and established access to fast-growing markets in the Middle East and Africa. Its main challenges all relate to the BEE.

**HGM Fashions** is a sportswear manufacturer that is certified to supply to Walmart and is looking to grow its U.S. market share. It sees an opportunity to transfer information and market requirements to local suppliers to meet its input requirements.

## 3.8 TOURISM

### OVERVIEW

Tourism is a critical sector for employment and economic growth in Egypt. In 2019, it contributed between 9.3 and 15 percent of Egypt's total GDP and accounted for 9.7 percent of employment

(WTTC, 2020). Tourism revenues rose by \$2.7 billion to reach \$12.6 billion in 2019 and were estimated to increase to 29.7 billion by 2024 (Egypt Today, 2019; Egypt Independent, 2020). Prime Minister Mostafa Madbouly called it the “fastest growing economic sector in Egypt” (Journal of the American Chamber of Commerce in Egypt, 2019).

The success of the tourism sector is due to several important GoE efforts. In 2018, the Ministry of Tourism and Antiquities (MoTA) released the Egypt-Tourism Reform Program (E-TRP). This program committed the Government to legislative reforms in areas such as digital tourism, increased marketing and promotion, incentive programs for local operators, and increased adoption of international standards such as food safety and inspections, among others. Its goal is to have “at least one person in every Egyptian household working directly or indirectly in the tourism sector” (American Chamber of Commerce in Egypt, 2018). MoTA began working with the United Nations World Tourism Organization to upgrade hotel classification criteria. It is also working with the International Finance Corporation (IFC) on investment opportunities to enhance the North Coast and Al-Alamein region through a hotel development fund (Hospitality News: Middle East, 2019). With MoTA’s support, the International Sphinx Airport opened in 2019 and the Grand Egyptian Museum was scheduled to open in 2020, providing thousands of jobs and increasing travel to Giza.

The COVID-19 pandemic has been an enormous setback for the tourism sector. According to the International Food Policy Research Institute (IFPRI), COVID-19-related restrictions on international travel are likely to result in a 90 percent decline in the total tourism sector in 2020. International flights are limited, neighboring countries are on lockdown, visitors are hesitant to gather in large crowds, and companies must adhere to strict safety guidelines and limit their capacity. Many companies are relying on domestic tourism and government subsidies to keep their operations running (ANBA, 2020).

A mass tourism model dominates the market for tourism in Egypt, catering to larger delegations of foreign tourists with competitive prices to stay in resorts and tour the traditional touristic sites. Accordingly, leading tour operators and tourism companies are less interested in attracting individual tourists for cultural or ecotourism opportunities and more interested in organizing flights and tours for large delegations, which represent more lucrative business opportunities. The pandemic may provide opportunities to rethink typical hotel and historical tourism and empower local communities and sustainable travel (ANBA, 2020).

#### PRIVATE SECTOR CHALLENGES

**Access to finance is a main challenge for Egyptian tourism companies.** Tourism operators often rely on investments from friends and family circles, as banks are reluctant to finance alternative touristic projects due to perceived high risk. This field of tourism is also not currently on the agenda of venture capitalists and angel investors.

**Bureaucratic constraints are another primary challenge for tourism companies. Receiving approvals for touristic projects in heritage sites, conservations, or in remote areas is usually challenging on several different fronts.** Until recently, oversight and management of cultural assets fell within the jurisdiction of a standalone Ministry of Antiquities. Depending on the nature of a given cultural asset, however, other government bodies (such as the Ministries of Tourism, Culture, Housing, or Endowments or local governorates) are also key custodians. Establishing a combined Ministry of Tourism and Antiquities in December 2019 streamlined approvals, but challenges remain. Conflicting policies among the different bodies, with overlapping responsibilities, lead to the loss or destruction of unique cultural assets, especially urban cultural heritage, and deters private investments. ECO Nubia, for example, has identified several conservation areas for potential projects

and has approached the Ministry of Environment, which currently has no regulations in place to approve such projects. Despite previously indicating that it will adopt regulations to allow for eco-friendly and responsible firms to operate in conservation sites, the timeline for such regulations is unclear. In addition, ecotourism is not recognized as a separate category by the MoTA. Hence, ecolodges are rated using the same criteria applied to commercial hotels and resorts, which, in effect, means they receive lower ratings.

One KII with a tourism BMO—launched to supplement what those operating in the industry perceive as insufficient efforts by the Government to promote cultural tourism in Upper Egypt and introduce more innovative methods to market and promote cultural tourism—echoed this lack of cooperation from the MoTA. Officials claim that the Committee’s activities conflict with the Ministry’s work. Positive talks have taken place with the new Minister of Tourism, however, and the plan is to integrate the Committee’s work into the Ministry’s work strategy to complement one another’s efforts in promoting cultural tourism in the region.

**A security-related issue is the current requirement by the Ministry of the Interior for tour operators to track and report the movements of foreign tourists for security purposes.** This requirement further discourages these companies from promoting small-scale tourism activities, as tracking delegations and their movements on group tours is much easier than tracking individuals staying in ecolodges and participating in smaller, more customized tours.

**The sector also faces a shortage of supply for qualified labor.** According to a representative from the Holiday Inn at an AmCham event, this is an increasingly difficult challenge (The Journal of the American Chamber of Commerce, 2019). This challenge was echoed by a tourism BMO in Upper Egypt. This BMO provides training opportunities to upgrade the skills and quality of the workforce in the cultural tourism sector in Upper Egypt, but it is not enough. Retaining staff is also a challenge facing tourism operators in remote areas, as growing families tend to return to major cities for better education opportunities for their children.

**The sector also faces challenges related to infrastructure and sustainable sources of electricity, water, and food** in the more remote tourism destinations. Red Sea Diving Safari is a leading ecotourism and diving destination in the Southern Red Sea region, operating in three villages along the southern Red Sea coastline: Wadi Lahami Village, Marsa Nakari Village, and Marsa Shagra Village. The villages consist of ecolodges and restaurants, and the main activities offered are diving and kitesurfing. Marsa Allam is still a relatively underdeveloped region, however, and lacks basic infrastructure services. Water supply from desalination plants is costly and so is depending on generators for electricity. In addition, reliance on sourcing food supplies through suppliers from other cities is costly and unsustainable, especially during times of crisis (e.g., floods, revolutions, or pandemics). The company decided to allocate a plot of its land to build a farm on which it would cultivate fruits and vegetables and raise livestock. (The farms have not only allowed the company to source its own needs, but it has also become a main supplier for several tourism operators in the region.)

**Finally, as stated previously, COVID-19 poses significant challenges throughout the sector.** According to one travel and tourism company, only 10 percent of the hotels owned are operating. The pandemic posed “not a slowdown but a shutdown,” and the company was “at the bottom of the business cycle.” One company reported that pre-COVID-19 it was generally fully booked during the high seasons and had an impressive tourist return rate of 34 percent. Two of the three villages have

remained operational, as they continued to host small numbers of local tourists as the resort introduced precautionary measures (including testing, sterilization, and a quarantine facility in one of the villages). Nevertheless, the company still had losses in the region of 17 million Egyptian pounds (EGP), depleting their reserves and contingency funds and leaving its liquidity situation in a precarious state. It is counting on the expected arrivals during the high season (starting in October) to replenish its reserves and boost its liquidity, but remains wary of potential developments in Europe, due to fears of a second wave. Its contingency plan is to apply for the CBE funding initiative to finance the payment of salaries and wages of the employees of the tourism sector.<sup>17</sup>

## PRIVATE SECTOR INTEREST

**Increase marketing and improve online presence to attract a new and larger customer base.** One eco-tourism country is targeting a niche market that it tapped into after launching its first ecolodge. It represents a new category of ecolodges in Egypt that attract clients interested in staying in heritage sites and looking for accommodation that is neither too basic and simple nor too expensive and luxurious (the two existing categories of ecolodges in Egypt). Because their financial performance has exceeded its owners' expectations based on the initial projections for the project, the founder has conducted a feasibility project for expanding in Egypt and the region to develop a network of ecolodges in natural and cultural heritage areas. The founder shared the study with potential investors that have shown interest in the project. Given the growing demand for sustainable and ecologically friendly tourism globally, this company plans to increase its presence on popular online travel platforms and promote its ecolodge on social media platforms.

Additionally, interest is growing in shifting to green tourism by applying for green certifications, conducting energy audits, and installing renewable energy. Recreational tourism operators, including four- and five-star hotels/resorts, recognize that these certifications are becoming an important marketing tool to land deals with tour operators in Europe. The Ministry of Tourism has developed a green certification program (The Green Star Hotel program),<sup>18</sup> which provides environmental ratings for hotels. The Global Sustainable Tourism Council (GSTC) officially recognized the Green Star Hotel Program giving it international credibility.<sup>19</sup> Two of the leading private sector tourism players, Orascom and Travco, own 60 of the 90 hotels certified so far. Following the success of the Green Star Hotel program, a demand exists for an internationally recognized accreditation program for ecotourism operators (by the GSTC as well) to gain international credibility and increase their competitiveness with operators in neighboring or similar destinations.

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<sup>17</sup> In addition to allocating 50 billion EGP to finance companies and touristic establishments that wish to renovate their hotels and transportation fleets, the CBE allocated EGP 3 billion of the aforementioned amount to finance the salaries and wages of the sector's employees for three months and basic operating and maintenance expenses. The companies are given up to two years, including a one-year grace period, to repay banks partaking in this initiative at a 5 percent diminishing interest rate.

<sup>18</sup> From the Green Star Hotel website, <https://www.greenstarhotel.org/how-to-become-certified/green-star-rating>: "The Green Star Hotel is a national green certification and capacity-building program managed by the Egyptian Hotel Association under the patronage of the Egyptian Ministry of Tourism. The GSH program offers an opportunity for hotels operating in Egypt to be internationally recognized for raising their environmental performance and social standards while reducing their operational costs. A team of certified local and international experts guide interested hotels through a sequence of training and information support sessions leading to field audits to ensure compliance with the program standards prior to granting the GSH certification."

<sup>19</sup> GSTC-recognized means that a sustainable tourism standard has been reviewed by GSTC technical experts and the GSTC Accreditation Panel to ensure they are considered equivalent to the GSTC criteria.

**Identify new sites to expand operations and establish new ecolodges.** Extensive experience in the field of ecotourism through previous operations allowed the founders of one eco-tourism company to identify two new cultural heritage sites to establish new ecolodges. One is in the west bank of Luxor (Upper Egypt), and the other is in Saint Catherine (a city in Southern Sinai). This company had initiated discussions with the Ministry of Antiquities over the site in Luxor before postponing them due to COVID.

**Find sustainable sources for necessary supplies.** Another large ecotourism operator has focused on finding more sustainable sources for electricity, water, and food supply to grow its business and increase its profitability. For example, for electricity supply, this operator initially relied on diesel-powered generators throughout most of the day, which was a burden in terms of costs and environmental impact. In 2010, the company decided to switch to a more sustainable source of energy by investing in solar panels to reduce their reliance on generators significantly. By charging each tourist staying at their resorts an additional 5 Euro “environmental fee,” it was able to cover the additional costs. Although it has installed solar panels, the water supply issue remains unresolved. The company is still trying to address access to treated water for irrigation purposes. At present, desalination plants are charging the company exorbitant rates for water. The company has developed a plan to establish its own desalination plant powered by solar energy to serve its own needs and those of the neighboring resort, but its current financial and liquidity challenges in the aftermath of COVID-19 have forced it to shelve its plans until it can find subsidized funding options or self-fund it in the future.

**Improve supply and quality of labor.** An important tourism BMO noted an interest in working with donor agencies on vocational training programs, technical assistance for management and logistics, promotional efforts on the international stage, and training for sector operators on adopting basic digital solutions to promote their business and facilitate online transactions.

In addition, one company co-founded the first private language school, serving the south Red Sea area. One association for education, training, and development manages the Port Ghalib Language School, which was founded in 2013. In addition to serving as a CSR initiative for the local community, the school has helped the company retain its staff, as they have been able to relocate their families to Marsa Allam. This company also provides educational courses on ecotourism in addition to diving. The school is currently operating at a loss and needs additional sources of funding to ensure it continues to operate and expands to include more students from the local community. The organization is interested in financial and technical support for the school, which would expand ecotourism skills and workforce.

## ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

USAID/Egypt’s PSE Visioning Sessions in December 2019 noted that the Mission’s approach to programming has evolved from more traditional approaches emphasizing restoration interventions to enterprise-led approaches. For example, through the Rediscovering Esna’s Cultural Heritage Assets activity, USAID is developing, implementing, and promoting an alternative tourism development approach that improves the local community’s economy. This activity has engaged local MSMEs in revitalizing the historical city center and has stimulated local investment of EGP 176,300 (\$10,900) to renovate shops in the market. In USAID/Egypt’s 2020 PSE Action Plan, the Mission stated that a priority is ensuring that the new Integrated Management of Cultural Tourism (IMCT) activity, once launched, focuses deliberately on engaging the private sector and fostering enterprise-led opportunities to create a sustainable private sector infrastructure that supports cultural heritage sites. The request for proposal (RFP) for the project, released in fall 2019, aims to engage with the private sector to identify and



implement initiatives that provide new, integrated, and competitive cultural tourism experiences. The project aims to overcome barriers limiting Egypt's full potential by integrating private investments, local MSMEs, and the local workforce into cultural tourism value chains and improving the enabling environment.

Such enterprise-led approaches strengthen sustainable tourism and cultural heritage restoration through shared value with the private sector. This approach aligns with USAID's objectives of preserving culture and boosting opportunities to attract domestic and international tourism and strengthening job creation.

## OPPORTUNITIES

- Provide grants for small cultural and ecotourism operators to support business operations, focusing on developing natural and cultural heritage sites that are not currently on the tourism map.
- Provide technical assistance to develop operator capacity in marketing, management systems, and adoption of digital solutions. USAID can either engage with companies directly or through BMOs like the Committee to Promote Cultural Tourism in Upper Egypt.
- Support the establishment of vocational institutes to increase the supply of trained labor across the country and particularly in frontier regions like Upper Egypt.
- Develop a tourism partnership fund, such as that under USAID/Jordan's Building Economic Sustainability through Tourism Project (BEST), which provides grants and technical assistance for product and market development, tourism industry competitiveness, and public-private partnerships and job creation (USAID, 2017). Multinational corporations (MNCs) such as the Chaudhary Group have already expressed interest in investing in Egypt's tourism sector, as have Hyatt, Marriott, and Hilton (Daily News, 2019).
- Facilitate public-private dialogue with groups such as the Egyptian Tourism Federation (ETF),<sup>20</sup> the Tourism Investors Association, the Egyptian Tourism Authority, the Tourism Development Authority, and the New Urban Communities Authority (NUCA), to improve the enabling environment for small operators.

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<sup>20</sup> ETF is composed of five bodies: The Hotels Association, the Travel Agents' Association, the Chamber of Tourist Establishments, the Chamber of Tourist Commodities, and the Chamber of Diving and Water Sports



## 4. CROSS-CUTTING THEMES

This section builds on the sectoral analysis by drawing out some cross-cutting themes that emerged from the KIs and survey, specifically, 1) the COVID-19 response and potential emerging opportunities, 2) digitalization, 3) legal and regulatory barriers, 4) women's empowerment, and 5) other issues, including sustainability and youth employment.

### 4.1 COVID-19 RESPONSE AND EMERGING OPPORTUNITIES<sup>21</sup>

The COVID-19 pandemic has exacerbated the political and social uncertainty that has plagued Egypt. The global economy is witnessing the worst economic crisis since the Great Depression of the 1930s, with all countries seeing a slowdown in their economic activity. Egypt is expecting its economy to contract significantly, although these economic losses are likely to be lower than in many comparable countries, given Egypt's low level of COVID-19 infections. According to the IFPRI, Egypt's GDP from April to June 2020 will decline by 1.1 percent. Without the GoE's COVID-19 emergency response package, this figure could have reached 8.7 percent (IFPRI, 2020).

The hardest-hit sectors have been services (-10.9 percent) and manufacturing (-8.3 percent). The restrictions on international travel are estimated to have contracted the tourism sector by 90 percent (IFPRI, 2020). The partial closing of trade activities and the reduction of air and land transport have driven losses in services. The decline in demand for intermediate inputs, especially in trade and transportation, has affected the manufacturing sector. Companies interviewed noted a decline in productivity in their factories due to several COVID-related factors including 1) curfew measures that affected the factory shift system; 2) the emergence of some COVID-19 cases in factories leading to production stoppage for some time; and 3) virus prevention measures, including reducing the number of workers per shift.

Disruption in product levels and international trade have affected both local sales and export levels. One logistics company noted that it has seen most of the industries its clients operate in suffer from disruptions, significantly reducing business for them while it faces rising expenses and a liquidity shortage.

As noted by this company and discussed in Section 3.1, the agri-food industry is one of the few sectors that has been resilient in the face of COVID-19. COVID-19 is not expected to have any direct effect on most agricultural crop production. Livestock production is even expected to increase by 10 percent in 2020 to substitute for a decline in imports. This decline has also bolstered domestic agri-food processing. The ICT sector has witnessed the biggest growth, driven by working from home, e-learning, and online shopping. The Minister of ICT recently announced that the consumption of Internet services increased by around 50 percent (IFPRI, 2020).

COVID-19 presents considerable challenges for the Egyptian economy but will also provide opportunities for economic transformation. Limited competition from imports, for example, may provide opportunities for labor-intensive manufacturing to increase domestic production. Support for

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<sup>21</sup> The American Chamber of Commerce in Egypt has created a COVID-19 resource hub, [https://www.amcham.org.eg/information-resources/covid-19-response\\_](https://www.amcham.org.eg/information-resources/covid-19-response_), which has extensive analysis of the impact of COVID-19 per sector.

the ICT sector can also help foster the digitization of government and business services, e-learning, and online remote work.

ICT and technology companies have witnessed a significant rise in demand from public and private sector players for remote/e-learning collaboration platforms and online security solutions. An increasing number of educational institutions, for example, have approached Microsoft to develop or upgrade their interactive curricula. Microsoft was already working closely with decision makers in the public sector (mainly, the Ministries of Education and Higher Education) before the pandemic on digitization initiatives. During COVID, these efforts have accelerated, as Microsoft has upscaled its training programs, installed new solutions, and provided support services to help the sector respond to the crisis.

One large ICT company has noted a surge in demand for workforce transformation products in both the private and public sectors. It has also experienced rising demand for security transformation products to secure online transactions and remote working arrangements. Similarly, COVID-19 has created new business opportunities for certain ICT companies, as more corporate clients have approached the company to provide remote working technology solutions. It has also engaged with clients in both the public and private sectors to upgrade their e-service platforms. Smaller players in the sector, however, have not fared as well and have been unable to compete as successfully for contracts with large enterprises or for public sector projects or contracts with large enterprises.

Many academic institutions noted that they are now planning to offer training courses online, but while they saw increased opportunity, there are also risks—as companies start cutting costs, the training and development budget is usually the first area targeted. Others are also developing blended learning programs.

### **Rethinking PSE in the COVID-19 Era**

Although the immediate health and economic effects of COVID-19 on USAID programming and related PSE strategies are increasingly clear, the long-term effects will unfold over time. The most profound effect is expected to be on the PSE process, given the face-to-face nature of prevailing PSE strategies. The pandemic's effects will also vary by technical areas of USAID programming. They will likely have a greater impact in programming areas that involve engagement at the micro level (e.g., smallholding agriculture, MSMEs, and women's empowerment projects) than in areas that require engagement at a more aggregate level (e.g., government capacity building projects).

The following are some of the immediate effects of COVID-19 on the PSE strategy in Egypt:

1. PSE must pay more attention to the survival of private enterprises, especially MSMEs. Many will not recover from their economic losses and will not return to business, which will undermine future PSE.
2. The pandemic underscores the importance of private sector networks to a government's ability to ensure access to critical supplies (e.g., food and health supplies). Beyond tapping private sector networks and supply chains, the crisis has also highlighted the importance of working with the private sector in agricultural production, education, health care, and information dissemination.
3. Many PSE strategies are based on face-to-face meetings and interactions, which COVID-19 has rendered difficult, if not impossible. An immediate effect of COVID-19 on USAID's PSE strategy is in challenging the notion that a "return to normalcy" of USAID programming is even possible. Therefore, changes to USAID programming that have been a long time in the making need to accelerate, including a more facilitative approach to development programming, locally led development projects, and

digitization of everything from supply chains to program management capacities (now envisioned by the new USAID Digital Strategy).

4. COVID-19 underscores the importance of diversified economies and sources of livelihoods. Therefore, PSE strategies should also strive to develop diversified regional economies.

*(Excerpt from a forthcoming LEAP III Thought Piece on PSE in the MENA Region by Mr. Nikolaus Eichman and Tauhidur Rahman)*

## 4.2 DIGITALIZATION

### OVERVIEW

As of 2018, approximately 47 percent of the Egyptian population used the Internet, and 95.3 percent had a mobile cellular subscription (World Bank, n.d., “Egypt, Arab Rep.: Country Profile”). In 2019, households with a computer increased by 13 percent, and average Internet speed continued to increase (Daily News Egypt, 2020; Egypt Today, 2020a). Egypt’s digital transformation is changing companies’ business models and expanding markets; creating new jobs for Egypt’s youth; and, in the wake of COVID-19, playing an important role delivering remote learning and health care services.

Recognizing the importance of digital growth, the GoE has prioritized expanding digital technology across Egypt. The Ministry of Communications and Information Technology’s (MCIT) ICT 2030 Strategy toward a “Digital Egypt” focuses on innovation, capacity building, and digital transformation through infrastructure and legislation (MCIT, n.d.). In a recent presentation at AmCham, the MCIT Minister stated that the GoE is working to train 45,000 people in telecoms and ICT over the next three years, expand the digital economy through mobile and web portals and provide for digital delivery of government services, and increase the ICT sector’s contribution to GDP by 2 percent (American Chamber of Commerce, 2018). MCIT is also building new technology parks that will provide a space for incubators and accelerators, promote innovation such as the use of artificial intelligence, and provide new skills for students and young entrepreneurs. Other plans include increasing the use of electronic signatures, establishing electronic examination systems at the university level, establishing data center clusters, launching the cloud for government agencies, digitally transforming the tax authority, and improving infrastructure to increase Internet resiliency (Kamel and Alaa El-Din, 2020).

The GoE has expressed an openness to working with the private sector to achieve these goals. In December 2019, President Abdel Fattah al-Sisi expressed interest in creating a digital trading platform, similar to Amazon or Alibaba (Al-Youm and Al-Masry, 2019a). Shortly thereafter, the Safina Egypt company launched an e-commerce platform for Egyptian traders, dealers, importers, and international exporters, and in August 2020, GAFI met with Amazon’s Souq.com to discuss expanding its activities in Egypt (Al-Youm and Al-Masry, 2019b; GAFI, 2020). Recently, in response to COVID-19, international experts launched a “Together We Continue” digital platform to provide services to support business continuity for MSMEs and increase their resilience (Alaa El-Din, 2020). Also in response to COVID-19, in the tourism industry, the UNESCO Regional Bureau for Sciences in the Arab States and MoTA convened senior officials through an online meeting to exchange information on safety procedures and guidelines and e-ticketing and online gift shops (UNESCO, 2020).

## PRIVATE SECTOR CHALLENGES

Of the firms that responded to the online survey, about one-third accept online orders, have online transactions, and/or use digital accounting software. Even fewer report marketing their products and services online and either conducting or participating in online training. Half of the respondents reported that their organization needs specific digital technologies that it currently lacks access to. One ICT firm reported that the challenges it faces include an appropriately skilled workforce, cash flow issues, and uncertain future budgets. A non-profit organization dedicated to youth development across health and agriculture sectors reported mobility and Internet access at the local level as a critical risk factor.

The KIIs echoed these survey findings. One of the most critical challenges the sector faces is the scarcity of qualified IT professionals. Over the past few years, Egypt has experienced a brain drain in this sector, as many high-caliber ICT professionals have pursued more lucrative opportunities abroad. Current MCIT-sponsored training programs graduate a limited number of developers, most of whom are snapped up by MNCs, leaving domestic players to compete over a small talent pool. Another critical challenge facing most domestic players in the sector is that they lack the capacity to compete with MNCs, particularly for contracts for large-scale public sector projects. Accordingly, despite the many opportunities that public sector digitization initiatives have created, MNCs or larger established domestic players continue to dominate this field.

Other challenges facing ICT companies in expanding their businesses include the low level of digital maturity in several industries, particularly in manufacturing. In these sectors, awareness is lacking of the importance of digitalization for productivity and business optimization. In many cases, the companies also lack the capacity to benefit from technological solutions in business or production. Adopting digital transformation strategies can require a significant investment, which is a constraint for local companies with limited financial resources (particularly second-tier or MSMEs).

## ALIGNED INTEREST AND ENGAGEMENT POTENTIAL

USAID has supported Egypt's digital transformation in several activities. In the Early Grade Learning project, a government-to-government activity supporting implementation of the Ministry of Education's reform agenda, the Mission is developing both traditional and digital teaching materials. USAID supports the Government of Egypt's STEM high school model of education, and in the 2006 School LINK GDA with Microsoft and Vodafone, USAID provided new schools with ICT centers that introduced computer-based learning. In the 2007 TILO project, USAID worked with Microsoft, Intel, and Oracle to provide training, hardware and software, and licensing to improve the use of technology in schools across nine governorates. Under the U.S.-Egypt Science and Technology Joint Fund, USAID links and engages scientists whose work addresses development challenges, such as innovations in lab-to-market technologies for agriculture that may be suitable for commercialization. Lastly, in the FTF Egypt FAS, USAID incorporates innovative technologies in small-scale cold storage infrastructure.

These areas for USAID and private sector engagement directly align with the Agency's new 2020–2024 Digital Strategy, which calls for consistent use of digital technology in the face of the worldwide digital transformation, across programming in all operating units, and with inter-agency and implementing partners, as part of the Journey to Self-Reliance. It includes a detailed strategic framework, which

outlines USAID's objectives in "leveraging digital technology to further programmatic gains" (USAID, 2020a).

## OPPORTUNITIES

1. Provide grants and technical assistance to the Information Technology Industry Development Agency (ITIDA) under the MCIT to develop new ICT training programs to increase the supply of qualified developers available for domestic players in the market.
2. Provide grants and technical assistance to support local companies needing digital transformation. That kind of support is in demand in the manufacturing industry and among MSMEs in general.
3. Promote MSME capacity development in the sector through enterprise capacity building programs to increase competitiveness and ability to handle components of large service projects.
4. Raise the awareness of private and public sector players regarding the importance of adopting digital solutions through training sessions that introduce them to digitalization programs and communicate potential impacts on their productivity and growth.

## 4.3 POLICY AND INSTITUTIONAL REFORMS

Egypt's legal and regulatory framework is a significant barrier to private sector growth. As noted in the USAID/Egypt CDCS Phase One presentation, policy and institutional reforms are key to accelerating development in Egypt and improving the outcomes of USAID's investments.

Over the past few years, the GoE has shown a commitment to reforming economic policy and addressing these constraints. Difficult reforms have been undertaken since 2016, including new investment and bankruptcy laws, the introduction of a value-added tax, and the adoption of a more flexible exchange rate policy (USAID/Egypt, 2020). Egypt climbed six places on the World Bank's Doing Business 2020 index as a result of improvements in the legislative environment. Egypt has also ranked in the top 10 list of improvers over the past three years. In the past 12 months, the GoE implemented the second most reforms in the MENA region.<sup>22</sup> This included simplifying starting up a business by abolishing the requirement to obtain a certificate of non-confusion and improving its one-stop shop, improving the reliability of electricity supply by implementing automated systems to monitor and report power outages, strengthening minority investor protections by requiring shareholder approval when listed companies issue new shares, and simplifying tax payments by implementing an online system for filing and payment of corporate income tax and value-added tax.

Despite this progress, Egypt remains in 114th place globally in the World Bank Doing Business rankings, indicating that more work is needed. As recognized in the USAID/Egypt Country Economic Review (2020), "the real challenge that the Egyptian government faces lies in the actual implementation of reform and enforcement of its laws and regulations." According to the 2019 World Justice Project index, Egypt ranks 121st out of 126 globally and last in the MENA region.

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<sup>22</sup> AmCham (2020b) provides a full list of major laws enacted and government actions taken in 2019.

A recent FEI study (FEI, unpublished) revealed policy and institutional barriers, including lengthy, bureaucratic, and time-consuming trade procedures; cumbersome tax collection systems; inefficient land allocation and pricing; complicated processes for granting licenses and permits, which hinder new players; lack of coordination among government agencies, which creates conflicts in the decrees of circulars issued and causes confusion and complications for businesses; and slow litigation processes (both for business to business and business to government), which can lead to long-standing unresolved disputes.

As outlined in subsequent responses from private sector actors, the policy and institutional environment is a dominating constraint across all sectors. Further deep structural reforms are needed to improve the business and regulatory environment and enforces the rule of law.

### PRIVATE SECTOR CHALLENGES

#### **Respondents noted that the overriding issue was bureaucratic inefficiencies and red tape.**

Multiple respondents noted that bureaucracy is the most critical challenge facing all players in the private education sector. One educational company noted that so many laws and regulations govern the industry and in every step of the process (e.g., establishing new schools, issuing new licenses, and approving new budgets) that receiving approvals for any activity becomes difficult. Other education companies shared this sentiment, noting that bureaucratic red tape has delayed their expansion plans to develop new technical schools. A large ICT company noted that regulations concerning the evaluation and assessment of educational institutions adopting digital solutions need to be updated. Inspectors from the Ministry of Education are unfamiliar with the application of EdTech solutions and hence unequipped to monitor and evaluate the performance of these schools and their teachers.

In the agricultural sector, the FEI noted that bureaucratic red tape favors established companies but hinders new companies. Similarly, an agricultural BMO noted that most of the challenges facing exporters in the sector relate to regulatory issues under different ministries, e.g., agriculture, finance, and trade and industry.

Regarding the health sector, one company noted that bureaucracy within the Ministry of Health results in an inefficient and slow process for registering new products and significantly delays the provision of new drugs (even generic ones) to the market. Despite an expected total of 105 days mentioned in Egypt's registration guidelines to complete the process, pharmaceutical manufacturers, for example, have reported delays in regulatory approvals taking up to two or three years. This company has attempted several times to engage in dialogue with the Ministry of Health and other relevant authorities, e.g., the Egyptian Drug Authority, over needed reforms to the regulatory framework. Despite promises to review the pricing system and regulatory approval process, little has changed.

For the tourism sector, once a new heritage site is identified as a potential spot for a new ecolodge, for example, a tourism company has to engage with several ministries and bodies, including the Ministries of Antiquities, Tourism, and Environment, to receive the necessary approvals. Receiving approvals from the Ministry of Antiquities entails a long, confusing, and untransparent process, and the Ministry of Environment lacks regulations to approve ecotourism projects. Hence, ecolodges are rated using the same criteria applied to commercial hotels and resorts, which, in effect, means they receive lower ratings than they deserve.

Notably, an energy company did not note any regulatory challenges in the energy sector. It has received its payments on time and has had a good experience dealing with the Ministry of Petroleum. Its plans in Egypt are well aligned with the government's oil and gas strategy.

## PRIVATE SECTOR OPPORTUNITIES

Two new studies were recently commissioned to provide more detailed recommendations for required reforms. The first is a UNIDO study, in collaboration with the manufacturing committee in the FEI and the Ministry of Planning, that will focus on quick fixes for the manufacturing sector. The second is a study conducted by the consulting firm Bain & Company, in collaboration with the Ministry of Planning, which addresses reforms across different industries, emphasizing trade barriers.

## 4.4 WOMEN'S EMPOWERMENT

### OVERVIEW

In Egypt, USAID targets specific activities to promote women's empowerment and reduce gender inequalities and gaps across many sectors and activities, including women's economic participation, gender-based violence, sexual harassment, women's health, and education. According to the 2020 Global Gender Gap Report (WEF, 2020), Egypt ranked 134th out of 153 countries with an overall gender gap index of 0.629, which signifies a slightly positive trajectory from prior years but indicates a long way to achieving overall gender equality.<sup>23</sup>

In recent years, Egypt has progressed considerably in reducing the gender gap in several areas, namely health, education, and political engagement. Although women have lower literacy rates than men (65 percent for women, 82 percent for men), primary school is much more accessible for girls than boys in Egypt, with girls' enrollment rates matching those of boys in 2017 (25.43 percent for girls, 25.69 percent for boys) (Samari, 2019). However, gains in educational attainment have yet to translate into increased women's economic participation. Only 24.7 percent of Egyptian women are engaged in the formal labor force, with 20 percent on part-time contracts (Zeitoun, 2018). Egyptian men earn approximately 3.8 times more income than women (although legislation prohibits wage discrimination) (WEF, 2020; Zeitoun, 2020). Women's economic activity predominantly occurs in the public sector or in the informal economy, but those who work in the private sector typically work as wage laborers in food processing, textiles and garments, electronic assembly, education, health care, and export-oriented manufacturing (Assaad and El-Hamidi, 2009). In the private sector, representation of women is low in general managerial roles (7.1 percent), top managerial roles (4.9 percent), and firm/business ownership positions (2.4 percent) (Zeitoun, 2018).

Since 2010, the percentage of women in the formal labor force has risen only slightly (24 percent in 2010 to 24.7 percent in 2019) (Zeitoun, 2018). Women's full participation in the formal labor force not only positively affects national GDP,<sup>24</sup> it also increases women's economic empowerment and agency in controlling other aspects of their lives (Constant *et al.*, 2020).

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<sup>23</sup> The index is measured as a proportion, with a score of 1 indicating full gender equality achieved across the 12 indicators measured in the index.

<sup>24</sup> Booz and Company (2012) estimated that if women's employment rates matched those of men, it would result in a 34 percent increase in Egypt's GDP.



Challenges to women's participation in the private sector surround recruitment and retention.<sup>25</sup> In Egypt, companies may perceive that women to be unreliable sources of labor and are thus reluctant to hire and train women, as they believe women may leave the position when they marry. Some companies do not want to incur costs related to women's reproductive roles, such as paying adequate maternity leave or complying with mandates for childcare services (Assaad, 2015).

Cultural and social norms shape and dictate women's expected roles and responsibilities in society, such that they assume unpaid care work responsibilities (and the associated time burdens), have limited influence in the public sphere, and are submissive toward their husbands in household decision-making. Popular culture reinforces these stereotypes (women as homemakers and men as leaders) (IFC, 2019). The share of time spent on unpaid labor does not decrease when women engage in paid labor, which requires women to make tradeoffs (IFC, 2019). Private sector jobs often require longer working days (nine hours per day compared with 7.5 hours for public sector roles), which disincentivizes women from taking private sector roles, because longer hours compete with household responsibilities and increase safety risks during work commutes (Assaad, 2015). The decline in available public sector jobs disproportionately affects higher educated women, while growth in private sector opportunities has been limited (Constant *et al.*, 2020).

Additionally, and importantly, high rates of sexual harassment in the workplace create hostile working environments, lead to high rates of job dissatisfaction, and disincentivize women from staying in their positions for the long term, leading to higher turnover among women employees and potentially contributing to the perception of women being unreliable sources of labor (Assaad, 2015; Maghraby *et al.*, 2020). Although Egyptian law criminalizes sexual harassment in public places, there is no law against sexual harassment in the workplace specifically. Poor enforcement of existing anti-discrimination and sexual harassment laws in the workplace, in public, and in public transportation fosters hostile working environments for women (Constant *et al.*, 2020). In addition, a lack of reliable and available evidence on sexual harassment in the workplace poses challenges to understanding the full extent of the issue, sectoral differentiation, its long-term impact on women's participation in the labor force, and an evidence-based path forward.

USAID has worked on programming with the private sector and other partners to address these critical issues related to women's empowerment. This section outlines areas in which the private sector and development partners are working toward women's empowerment and gender equality. The section then outlines opportunities for which USAID can leverage private sector expertise, capacity, and experience to improve women's empowerment outcomes where interest overlaps and to generate awareness among private sector partners and leadership on gender equality and women's empowerment issues in the workforce.

## PRIVATE SECTOR CHALLENGES

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<sup>25</sup> The Rand Corporation recently published a study that presents an in-depth exploration of barriers to women's participation in the Egyptian labor force (Constant *et al.*, 2020). In addition, the World Bank published a Women's Economic Empowerment Study in 2018 that presents country-specific in-depth analyses across indicators of women's economic empowerment in Egypt (Zeitoun, 2018).



**Behavioral and cultural norms are persistent challenges to addressing gender equality and improving women's empowerment outcomes.** A woman-focused BMO indicated that the main challenges to addressing women's empowerment initiatives are cultural and behavioral norms; awareness campaigns are the most effective and important strategy to shift these norms.

**Private sector leadership is unaware of the issues and opportunities related to women's empowerment.** Generally, private sector leadership views gender equality or women's empowerment as a human resources or compliance concern and lacks awareness of their potential role in creating or fostering a culture of equality and diversity in their workplaces. Across the KILs, only development partners or women-focused business membership organizations mentioned women's equality in the workplace to address or reduce sexual harassment, or other issues such as these.

**Funding is an issue for private sector partners to implement their general community engagement initiatives (including those specific to women's empowerment).** In general, private sector partners indicated that a lack of funding or strategic logistical support to implement their initiatives limited their ability to continue. In addition, partners indicate that funding is a challenge in scaling their community engagement initiatives as well. For example, a health company interviewed recently had to cut its CSR budget as its profits declined. Another example, a business organization focused on women faces challenges around financing and securing grant funding to support their programs and activities.

#### PRIVATE SECTOR INTERESTS

**Workforce development training:** CIRA, an education company, trains approximately 700 teachers (mostly women) for free. The company hired approximately 300 of these trainees intending to provide 400 additional trainees with skills to enter the market for hire. Similarly, the Business Women of Egypt (BWE) association targets skill training and facilitates access to new and existing markets for women entrepreneurs over the age of 40.

**Girls' and STEM education:** Apache has supported the Springboard Initiative (in collaboration with the Sawaris Foundation and Egypt's National Council for Childhood and Motherhood) since 2004 to provide access to educational opportunities for rural girls. More than 10,000 girls have been educated through this initiative across three governorates. Other companies have worked with USAID/Egypt successfully to focus on girls' education and STEM training through the GILo project with the Ministry of Education. Microsoft Egypt participates on the board of the STEM School for Girls.

**Women's health:** DKT, a health company, has been working with the Ministry of Health, Rotary Egypt, the Egyptian Family Planning Association, the Red Crescent, and Assuit University to deliver contraceptive and family planning services to vulnerable women, particularly those in rural, hard-to-reach areas; target health care training to assess and treat women's health issues effectively; and conduct awareness campaigns against female genital cutting (FGC)<sup>26</sup> and other women's health issues.

**Entrepreneurship and facilitating access to finance:** The National Council for Women works with the CBE on a financial inclusion initiative through which it coordinates VSLAs to provide financial education and microfinance products for women, in addition to entrepreneurship education. In

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<sup>26</sup> FGC is practiced regularly in Egypt and poses a significant risk to women's and girls' health. Adherence to cultural and religious norms shapes both men and women's widespread support and continued practice of FGC. (approximately 92.3 percent of all Egyptian women) (Demographic Health Survey, 2015; Van Rossem and Meekers, 2020).

addition, EBRD is working with its partner banks to train them in disaggregating and using data by sex and on gender financing. The BWE association works with the Export Development Bank, which does gender-focused CSR, to showcase women entrepreneurs and increase networking for small-scale women entrepreneurs. The association holds annual forums for various sectors (such as fashion and agriculture) in different regions each year (Sinai, Upper Egypt) to provide exposure to different markets, such as local and international buyers, allowing women-led businesses to exhibit their products and open new markets for their businesses. FinBi's CSR initiatives focus on engaging local and international institutions to empower youth and women, increase access to finance and access to education (focusing on vocational training), and bridge the gap between labor market needs and the education system. Specifically, FinBi has supported social entrepreneurship projects with the Association for Women's Total Advancement and Development, an NGO based in Sinai.

**Reduction of barriers to women's participation in the labor force:** Other development partners (such as IFC and the World Bank) have worked with private sector companies to enhance recruitment strategies for women and to foster strategies to better retain and promote women employees. Programs such as the Women on Boards program certify professional women to join boards and diversify private sector decision-making. The BWE association partnered with the Global Project Partner to support a Women on Boards initiative, assembling women experts for nomination to the boards of publicly listed companies. Some companies implement targeted recruitment practices and engage a large percentage of women in their workforces. For example, 40 percent of the employees of Plantform, a family-owned agricultural business, are women.

#### ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL

Opportunities to engage with the private sector in continuing USAID/Egypt's work on women's empowerment around economic participation, women's health, sexual harassment and gender-based violence, and educational and skill-building opportunities have the potential to multiply impact across activities. The private sector is interested in working on select women's empowerment initiatives. Multiple companies interviewed for this activity have previously worked with USAID or other donor partners on such initiatives.

However, some companies and BMOs mentioned challenges with working with USAID on women's empowerment initiatives. A BMO, for example, cited misaligned interests in engaging with USAID's SEED program, as it did not suit the needs of women entrepreneurs (the information was too basic) and the funding provided was too small. Another BMO found the SEED program to be too ambitious, expensive, and unstructured for its needs. They opted to partner with the Sawaris Foundation and French Aid on the "Women Pioneers" Program instead. In another example, a health company had expressed interest in partnering with USAID on women's health initiatives, but meaningful collaboration did not materialize.

#### OPPORTUNITIES

- **Provide technical assistance to women-oriented BMOs, such as the BWE association.** The BWE association identified several potential areas for collaboration with USAID, such as USAID providing technical assistance to support the development of the BWE association's social media presence to expand its reach as an organization, training members to use online platforms to promote their products and build new market linkages (such as Amazon or local e-commerce), and training staff for capacity-building exercises to grow their programming.

- **Partner with private sector companies that are already working on women’s empowerment initiatives to provide funding and scaling capacities.** For certain companies included in this assessment, like DKT, funding and associated capacity issues for scaling up activities limit their ability to continue efforts toward women’s empowerment. Given COVID-19, when companies have likely faced a downturn in profits, funding partners are essential to continue work on women’s empowerment initiatives.
- **Be a thought leader, with other development partners, to increase awareness among private sector leadership of the barriers to and opportunities from increasing women’s participation in the private sector.** With respect to opportunities, USAID can raise awareness and present the business case for why increasing women’s participation in the workforce benefits company and overall economic growth<sup>27</sup> For one example, Dawi, a health company, strategically employs women to better target their products and services toward women as their main client. This approach is considered a smart business decision, as Dawi understands that if the woman in the household uses its services, she will then send her daughters, sons, husbands, and other relatives or friends to use them as well. So targeting women, using women-centric marketing approaches, enables Dawi to attract multiple consumers by targeting one woman.<sup>28</sup>

With respect to barriers, USAID can first facilitate dialogue among private sector partner leadership to raise awareness of the many issues preventing women’s engagement and retention in the private sector and why these issues transcend human resources compliance and to identify the role private sector leadership can play in fostering a positive work culture and reducing barriers to women’s participation. USAID has already begun to work with the private sector and the GoE on these activities. Second, USAID can facilitate gender mainstreaming in general private sector engagement strategies to ensure that partners are aware of these gender-specific issues in the workplace and have the tools to integrate socially inclusive recruitment, retainment, and promotion strategies. Finally, USAID can work with public sector partners to co-design effective anti-sexual harassment and anti-bias training for the workplace, targeted toward both men and women employees, so that all employees know their rights. USAID and its public sector partners should also develop safe reporting mechanisms for victims of sexual harassment in the workplace to foster and create a safer work culture.<sup>29</sup>

## 4.5 OTHER CROSS-CUTTING ISSUES

### YOUTH ENGAGEMENT

The share of youth, ages 15–29, that is not engaged in education, training, or employment in Egypt is extremely high, at around 30 percent before the pandemic (World Bank, n.d., “World Development Indicators”). The impact of COVID-19 on youth in Egypt and across the MENA region is yet to be fully understood. However, COVID-19-related losses of job opportunities and reduction in access to

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<sup>27</sup> IFC (2019) conducted a thorough study specific to the Egyptian context of why women’s representation at the board level positively affects company growth, investment for social investing and impacts, diversity in employees and consumer base, among other indicators.

<sup>28</sup> This strategic business decision applies across economies (Silverstein and Sayre, 2009).

<sup>29</sup> Constant *et al.* (2020) provides an in-depth analysis of other strategic actions the private sector or actors in this space can take to promote women’s empowerment and participation in the workforce, in addition to removing additional barriers to women’s participation.

education, training, and other centers for the engagement of youth will probably amplify the challenge of youth participation in the Egyptian economy throughout 2020 and into 2021. A recent UN Policy Brief on the Impact of COVID-19 on the Arab Region suggests revising national youth strategies in the region, including plans for reintegrating youth through education, training, and employment programs and increasing investment and support for youth-led ventures (United Nations, 2020). As noted previously, the private sector in Egypt has exceeded expectations in terms of resiliency during the current COVID-19 crisis and will be an effective engine for growth and recovery post-COVID. **The private sector must be incentivized and supported for this potential to become an opportunity for accelerating youth inclusion in the Egyptian economy.** Without such support, youth participation may slip further as young people struggle to gain the skills needed to participate amid shifts in the Egyptian economy, especially after a prolonged period of disengagement. KII and survey data collected for this report indicate the Egyptian private sector's continued willingness to target and support youth in gaining employment. Specific examples include partnerships with vocational schools that allow use of production facilities to provide technical training with a pathway to employment upon graduation, incubation support for youth-led startups in the same industry or sector, and development of job opportunities that cater to youth. These efforts have both practical and social motivations. The practical motivation involves developing a capable workforce and maintaining a stable operating environment over the long term. The social motivation involves a sense of obligation to the community and a desire for a healthy, engaged, and gainfully employed generation of youth in Egypt. Though the practical motivations are often the best leverage points for incentivizing increased support from the private sector, the social motivations are equally important for scaling and sustaining their engagement.

Youth employment is a policy priority in Egypt, and a recent World Bank study presents promising evidence that youth employment programs, including Active Labor Market Programs, can be highly effective in increasing youth employment and income, especially for the most disadvantaged populations, such as young women and youth in poor areas (Elsayed *et al.*, 2018). That said, evidence to the contrary also exists, indicating that such initiatives and related active labor market policies are ineffective in increasing youth employment opportunities (Krafft and Assaad, 2018). This reality is rooted in supply and demand challenges. On the supply side, skills training must align with the skills employers demand. On the demand side, job opportunities must be available to youth for skills development to have a direct effect on increasing youth employment. The case may be that youth employment programs have been most effective for the most disadvantaged youth in Egypt, given that any skills development would be a vast improvement for such youth and effectively prepare them for any low-skill employment opportunity. To have a broader effect, youth employment programs must also effectively prepare youth for semi- and high-skilled employment opportunities. Public-private partnerships have proven to be a promising approach for this purpose, including performance-based skills development programs that are encouraged to concentrate on job placement over program participation as a metric of success (Krafft and Assaad, 2018).

USAID has a long legacy of engaging youth to increase inclusion in the Egyptian economy, including current partnerships with the American University in Cairo to establish career development centers and offer scholarships for career-related ongoing education opportunities; targeting of youth as beneficiaries in various USAID workforce development, entrepreneurship, agribusiness, trade, and tourism activities; and support for youth-led enterprises in gaining access to finance and business development assistance,

including through the Egyptian-American Enterprise Fund and upcoming Business Egypt Activity. This legacy is a source of credibility and momentum for continued USAID support via private sector-led initiatives.

To increase youth participation in the Egyptian economy, USAID can support various necessary activities, including the following:

1. **Increase investment and support for youth-led enterprises.** As mentioned previously, the post-COVID Egyptian economy will likely present both new challenges and opportunities for MSMEs. To take advantage of these opportunities, youth entrepreneurs will need access to capital and support in the form of skills development and mentorship programs. USAID could increase its investment in youth-led enterprises by expanding investment in related enterprise funds and funding complementary support programs.
2. **Increase investment and support for youth employment programs that private sector companies directly manage or support and are connected to actual job opportunities.** Semi- and high-skilled job opportunities for youth require more specialized training. USAID could increase direct support to in-house youth employment and internship programs that the private sector manages, including through the use of GDAs, which has proven to be a successful model in the region (USAID, 2020b). USAID could also increase support to partnerships between existing for- and not-for-profit youth employment programs and private companies by subsidizing access to and incentivizing a focus on job placement.
3. **Accelerate the digitization of youth employment programs, including partnerships with related tech companies.** In a post-COVID economy, youth will need remote access to digital skills development resources. USAID could launch a grand challenge encouraging youth employment programs to partner with tech companies and digitize access to their support programs. Like the MCIT and Nokia partnership launched in 2019, such programs should link directly to job opportunities and include internship, mentoring, and other support programs to enhance the probability of success in job placement and retention (Bowen, 2019).
4. **Expand access to basic skills development programs for the most vulnerable youth populations.** USAID could work with the GoE to expand access to basic skills development programs for vulnerable youth by supporting expanded investments in basic digital skills development resources. As in the digital skills academy recently launched by ITIDA and Udacity (Egypt Today, 2020b), access to such digital resources could be subsidized and used as a prerequisite for semi- and high-skilled programs.
5. **Improve the enabling environment for small- to medium-sized enterprises.** Though not directly linked to youth employment, MSMEs are an important source of job opportunities for youth and the enabling environment for such enterprises is poor in Egypt (Krafft and Assaad, 2018). Especially given the extraordinary circumstances brought on by COVID-19, improving the enabling environment for MSMEs should be a priority for USAID and be considered as a complementary and necessary action for increasing youth participation in the Egyptian economy.

Pursuing these and any other programs that target youth as beneficiaries should actively include youth in the development, decision-making, and delivery of all related activities. Doing so will not only improve such activities' relevance to the changing realities of youth in Egypt, but also enable youth to play an active role in their own development, thus building confidence and providing experience and skills that are needed for successful employment.

## CLIMATE CHANGE

The effects of climate change are broad and unpredictable, especially in the MENA region, where water scarcity amplifies the related challenges. Climate change is also at the heart of the agriculture-water-food security nexus in the region and is expected to further exacerbate the humanitarian crises, conflict, and civil unrest that plague the region (Abouelnaga, 2019). As mentioned previously, the COVID-19 crisis has created additional challenges in that climate change adaptation and mitigation strategies often require longer-term investments that are hard to justify during an economic crisis. In Egypt, climate change is expected to contribute to as much as a 50 percent reduction in agricultural production and threatens to flood Alexandria and the Nile Delta with rising sea levels (Egypt Independent, 2019). These, among other climate change-related challenges, including acute risk to human health, make Egypt one of the most vulnerable countries in the MENA region.<sup>30</sup> Therefore, climate change adaptation measures should be an immediate priority. Unfortunately, the GoE is reluctant to make the necessary investments unless they come with guaranteed funding from developed countries (UNDP, n.d.).

The private sector in Egypt, including companies interviewed for this report, is well aware of the challenges and threats associated with climate change and is willing to invest in solutions. That said, other persistent and pressing challenges, including the ongoing COVID-19 pandemic, complications related to the BEE in Egypt, and lack of access to finance, take priority and affect the private sector's ability to take immediate action (see Figure 12 in Annex II). They also cannot take on these challenges alone and will be ineffective if their efforts are not coordinated. Therefore, a trusted development partner like USAID is needed to both co-invest in solutions and coordinate investments across all sectors of the Egyptian economy. USAID is well positioned to play this role and as a co-investment partner, USAID can ensure broader access to and impact of climate change-related solutions.

Though USAID has already provided, and continues to provide, support for Egypt's efforts to mitigate and adapt to the effects of climate change, including through activities related to promoting climate smart agricultural practices and better management of energy and water resources, a more aggressive approach is required to accelerate the pace of the private sector investments needed to scale and sustain Egypt's response to the threat of climate change. Absent the GoE's willingness to take a more aggressive approach, Egypt's private sector will need to do so, with support from development partners like USAID.

Some specific opportunities for USAID support include the following:

1. **Support a vast increase in R&D investments related to climate adaptation and mitigation solutions and strategies.** Building on related USAID grand challenges and other global USAID programs, Missions in the MENA region could coordinate efforts and resources to

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<sup>30</sup> <https://www.adaptation-undp.org/explore/northern-africa/egypt>

incentivize the private sector to scale R&D investments in response to climate change. As a regional effort, global and regionally focused companies can better coordinate and focus their own internal resources toward this effort with USAID playing more of a coordinating than a funding role. USAID can also encourage Egyptian companies to participate with a special programmatic focus and resources to address the most acute challenges in Egypt—agriculture and the threat of rising sea levels.

- 2. Support the GoE in realizing its National Adaptation Plan and SDS, Egypt’s Vision 2030, including increased coordination with private sector investments and initiatives.** Though Egypt has a strong policy framework in place to address climate change, as mentioned previously, the GoE is not willing to make serious investments without guaranteed support from developing countries. Starting with private sector support, USAID can build momentum for a more proactive response and advise the GoE on scaling this momentum through its own initiatives.
- 3. Facilitate longer-term capital for private sector investments in projects and business models related to climate change adaptation and mitigation efforts in Egypt.** USAID/Egypt could buy into the Catalyze or a similar investment facilitation program that focuses on financing large projects related to climate change adaptation and mitigation. Such initiatives could include land reclamation and indoor agriculture projects to increase productive capacity, reforestation projects to reduce the effects of carbon emissions while also combating desertification (Steffen, 2020), and projects related to improving the resilience of coastal settlements and livelihoods.



## 5. STRATEGIC WAYS TO ENGAGE THE PRIVATE SECTOR

This section describes collaboration models for USAID to consider when engaging with specific private sector actors to address the Mission's development challenges. Each collaboration model includes example opportunities for engagement, outlines the value proposition to USAID and the business case for the private sector, describes potential technical approaches and structures for engagement, describes potential partners and pathways for sustaining results, and suggests next steps for USAID to engage with potential partners.

The LEAP III team acknowledges that due to COVID-19 and the nature of remote data collection, conducting additional data collection or a series of virtual workshops with USAID/Egypt may be required to further narrow down these broad opportunities into actionable activities for the Mission, particularly as they relate to any CDCS-process-related updates to Mission priorities. Output from additional KII and virtual workshops with USAID/Egypt could be organized as an opportunity analysis. Such an analysis would include an opportunity prioritization exercise conducted with the Mission's PSE working group, initial desk research and due diligence on priority opportunities, and next steps in conducting outreach.

### 5.1 HIGH-LEVEL TAKEAWAYS

- **The BEE in Egypt is a persistent development challenge that cuts across all sectors.** Complexity and corruption continue to plague GoE processes and systems and the increasing influence of the GoE in its "free" market system threatens the viability of the private sector, which grows only in spite of this reality. Respondents constantly cited outdated and unnecessary regulations and excessive bureaucracy as significant barriers to entry and major impediments to growth and expansions across the different sectors. Therefore, improvement of the BEE must be a priority and represents the greatest potential for unleashing the private sector's true potential to grow the Egyptian economy.
- **Integrating MSMEs into lead-firm supply, service, and support networks is an overarching business objective.** MSMEs, however, lack capacity to comply with increasing quality, safety, and traceability standards. KIIs regularly indicated that the absence of effective public policies and regulations to support the development of MSMEs and lack of incentives for lead firms to invest in their development make importing raw materials and components more economical. Vertical integration is an additional alternative. While costly, vertical integration may be worth the expense if importing is not a viable option and if MSMEs cannot easily integrate into the supply chain. To accelerate integration, MSMEs will need increased access to finance and business development services. Lead firms can co-finance and support this access, but this should be done as a comprehensive support initiative in collaboration with development partners like USAID, which have the experience and influence needed to coordinate and connect their efforts with a wider range of development partners. If not comprehensive, the current incremental measures taken by lead firms will continue to fail.

- **Egypt needs more investment in training and technical and vocational education to upgrade workforce skills in line with shifting job opportunities in all sectors.** Workforce development is a persistent development challenge in Egypt and across the MENA region. Technology is changing rapidly and with it the necessary workforce skills, especially for skilled and semi-skilled labor. The COVID-19 crisis has amplified this challenge with production disruptions, added safety protocols, and health-related absences. COVID-19 is also shifting the Egyptian economy in ways that are as yet unclear but will likely change the required workforce skills. USAID and its development partners must instead focus on increasing coordination and co-investment between employers and public education institutions, including TVET and other employment-focused training programs, to better align workforce skills with changing job opportunities (this is envisioned to occur under the upcoming USAID Workforce Egypt project).
- **The entire Egyptian economy needs a digital transformation, including in telehealth, digital learning platforms, manufacturing, and government administration.** Though this has been a GoE and private sector priority for many years, poor coordination of initiatives and costly solutions have held back progress. Given the challenges related to COVID-19, there has never been a better time to accelerate this process. USAID works directly with both public and private sectors and is therefore well positioned to support and coordinate its efforts across all economic sectors. Over the last few years and especially over the last several months, innovation has greatly increased the options and decreased the price of digital solutions. USAID can therefore play more of an enabling and scaling than developing and testing role.
- **Youth and women represent the greatest untapped human capital resource in Egypt and across the MENA region.** It is crucially important to Egypt's development that they be engaged and empowered. Engagement of youth and women through development programming must include their involvement in program design, decision-making, and implementation. Support programs must focus both on improving youth and women's capacity and agency to contribute successfully to growth in the Egyptian economy. Public-private partnerships to upgrade and expand TVET institutions and networks, employer training initiatives, and other education organizations should actively engage youth and women to improve their education for employment initiatives, focusing on formal job placement and retention as the most important metrics of success. USAID is planning to work on Egypt's Gender accelerator through a partnership with the National Council for Women and the implementer Marketing, Implementation & Community.
- **Response to megatrends, like climate change and population growth, must be aggressive, comprehensive, and persistent, and include a large increase in investment in private sector-led R&D.** At best, adaptation and mitigation approaches over the past few decades have been incremental. The GoE, consistent with most governments in the region, hesitates to invest the necessary resources. USAID and its development partners will have to take a bold approach to incentivize the private sector to take the lead. In line with the concept of a grand challenge and/or an innovation prize, which seek to support "bold" development ideas, an innovative approach could be an R&D fund that can issue awards to

private sector firms that make breakthroughs in the development and/or commercialization of technologies that can address these challenges.<sup>31</sup>

## 5.2 COLLABORATION MODELS

### 5.2.1 AGRIBUSINESS AND FOOD PROCESSING

**Collaboration Model I—Strengthen local supply chains with support for expanding lead firm investments in outgrower and other MSME support networks.**

<b>Collaboration opportunity</b>	USAID could expand support, including facilitating access to capital and targeted technical assistance, to lead firms that are investing in outgrower and/or MSME support networks. This proven facilitative approach supports the growth of small farmers and non-farm enterprises by directly connecting them to markets and the support needed to access those markets. This approach could have a significant impact in a country like Egypt, where strong lead firms operate alongside disorganized and/or under supported MSMEs to access export and local markets that have high and increasing quality and safety standards. As mentioned previously, establishing an agribusiness hub is a good example of a comprehensive support network. Various other support models are also viable and should be designed according to the needs of both the lead firm and the network of MSMEs it works with.
<b>Value proposition</b>	Lead firms in Egypt are already familiar with this approach and have invested in their own programs with different degrees of success. Programs that are highly subsidized and/or focus on participation of MSMEs rarely succeed. Programs that focus on results such as sales for the lead firm and increases in MSME income are more likely to succeed because interests are well aligned. Rather than seeking to develop new approaches or doubling down on approaches that have proven ineffective, which is expensive, USAID could target direct support to help improve and expand already developed and well-managed lead firm support networks—similar to what is envisioned through its partnership with Carrefour. The demonstration effect of success will encourage more lead firms to invest in replicating successful approaches. By targeting the expansion of existing networks, USAID investment can focus more on access to private capital, provision of targeted technical assistance, and support for improving the enabling environment, with less expectation regarding cash contributions through grants.
<b>Business case</b>	Growing regional and global demand for Egyptian agricultural production comes with increasing quality standards and the need for consistent quantity of production. To succeed, lead firms have two choices: 1)

<sup>31</sup> Such a fund could be regionally focused and attract additional financial support from other donors and private for- and not-for-profit institutions. The exit strategy of such a fund should not be time bound but instead attached to addressing the challenge successfully. The fund could also broadly focus on, for example, supporting R&D related to climate change adaptation and mitigation strategies. This is just an example. The point is that the private sector will have to be incentivized to address these challenges proactively. Especially when support and/or regulatory response from the partner country(s) is insufficient.

	invest in vertically integrated supply chains to control production or 2) invest in support networks to improve MSMEs' ability to support and feed into their supply chains. The latter approach is less expensive and is more scalable as long as reliable, capable, and capitalized MSMEs are available to work with.
<b>Technical approach and structure</b>	Direct support to expand already developed and well-managed private sector support networks could take many forms, including GDAs and pay-for-performance contracts. Direct support (not through an existing project) has the advantage of avoiding the urge to double down on past approaches implemented by USAID implementing partners. Direct support can also work in parallel to support from implementing partners through existing USAID projects in the form of complementary technical assistance and access to capital for associated MSMEs. Successful approaches should be scaled mainly through private capital, which could include USAID support in connecting with third-party sources, such as impact investors. The USAID Catalyze program could be used for this purpose.
<b>Potential partners and their roles</b>	Potential partners include any lead firm (producer, processor, exporter, retailer, etc.), though building on the success of existing approaches holds the highest potential for immediate impact. Replicating success with Carrefour, for example, could start with engaging other supermarket and hypermarket brands such as Metro Group's Makro Markets.
<b>Sustainability potential</b>	If the approach is to expand existing MSME support networks, USAID partners will have a lot of skin in the game and the demonstration effect for future lead firm initiatives to follow will be long-lasting. The approach risks the appearance that USAID is picking winners, though given these lead firms are already well established and investing in support approaches, the greater likelihood is that USAID will influence lead firms' approach to maximize inclusion and benefit for MSMEs and accelerate the scaling of support. Support for multiple lead firms will increase competition among them, which is an opportunity for MSMEs to increase the value they capture.
<b>Immediate next steps</b>	Next steps include a prioritization exercise of high-potential lead firms, which the USAID/Egypt PSE Working Group could conduct using the principles laid out in the recent private sector outreach training provided through the Middle East Bureau. Direct outreach from USAID would follow, allowing lead firms to self-select through a process of learning and informing alongside USAID regarding what approaches work best and why. Lead firms that are willing to expand support to MSMEs aggressively with their own resources and are willing to improve sustainability and inclusivity elements of their programs with support from USAID, should be prioritized.

**Collaboration Model 2—Integrate a mentorship activity into USAID agricultural support programs.**

<b>Collaboration opportunity</b>	USAID could integrate a mentorship activity into its agricultural support programs that is aimed at helping MSMEs increase their efficiency and productivity and adopt more value-added activities within the value chains they work. For example, mentorship programs could take place between buyers and suppliers with current working relationships, between established and up-and-coming firms that work in the same sector, or among smaller farmers who work together through outgrower networks. Encouraging mentorship while integrating MSMEs into formalized supply chains will accelerate the integration process and develop the needed skills for sustained integration.
<b>Value proposition</b>	A small investment in encouraging mentorship will reinforce business-to-business relationships and improve participation in and sustainability of USAID agricultural support programs.
<b>Business case</b>	Potential mentor firms are directly interested in improving the capacity of the MSMEs they work with, but often lack the bandwidth, structure, and resources to do so. By providing the structure and resources, mentor firms can more easily justify the use of bandwidth. Indirectly, mentor firms can use the social capital gained from such involvement to enhance their corporate reputation, which can have a positive impact on their bottom line through increased demand for their products.
<b>Technical approach and structure</b>	USAID could manage such a mentorship activity as an add-on to and added benefit of participation in any agricultural support program across its entire activity portfolio. Mentors and mentees could either self-select or be matched through the support program they are involved in. Once matched, a simple application through the existing support program could entitle the mentors to reimbursement for expenses related to meeting with their mentees. To incentivize reporting, a yearly prize could highlight exceptional efforts and improvements by mentors and mentees, respectively. Once operational, USAID could hand off management to a third-party organization and seek donations from lead firms to fund the mentorship program.
<b>Potential partners and their roles</b>	Potential partners include any interested mentors and mentees and any third-party management organization and lead firms that are interested in supporting the program through donations.
<b>Sustainability potential</b>	Mentor/mentee relationships can lead to lasting business-to-business partnerships and have a cascading effect by enhancing the corporate reputation of the participants and the sectors they work in. By engaging lead-firm sponsors and a third-party organization for management, USAID can ensure its continuation beyond direct USAID involvement.
<b>Immediate next steps</b>	Next steps for USAID include engagement with its agricultural support projects to gauge potential interest and the number of initial potential participants. If the program is deemed viable, a management system will

	have to be developed, and then USAID can engage potential resource and management partners.
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**Collaboration Model 3—Support investments into digitizing agricultural supply chains, distribution, and sales networks.**

<b>Collaboration opportunity</b>	<p>USAID could engage lead firms that are interested in investing digitizing their agricultural supply chains and distribution and sales networks.</p> <p>Digitizing supply chains is especially important in the agriculture and food processing sector, given the potential to improve efficiencies in engaging and supporting MSMEs that work within and along their supply chains.</p> <p>Such an initiative could focus support on lead firms willing to co-invest in digital solutions with the MSMEs that they work with. By doing so, USAID would be supporting both the digitalization and integration of MSMEs within more formalized supply chains, which are mutually reinforcing priorities.</p>
<b>Value proposition</b>	<p>By supporting lead firms expanding investments in digital solutions, USAID will be enabling and scaling, rather than developing and testing, which is less costly for USAID and holds more potential for sustaining and scaling impact.</p>
<b>Business case</b>	<p>Digitization is important for improving traceability and complying with local and international food safety and quality standards. Given heightened food safety sensitivities due to the current COVID-19 crisis, there has never been a better time to accelerate digitization initiatives.</p>
<b>Technical approach and structure</b>	<p>USAID could release a Broad Agency Announcement or similar mechanism that challenges lead firms in Egypt to seek out and invest in digital solutions that include an element of integration with the MSMEs that they work with. The initial application could be as simple as a description of the challenge and the desired or planned solution. The co-design phase could include USAID technical support and expertise to help interested companies navigate, filter, and prioritize potential digital solutions providers according to their needs. USAID could then have an option to fund some of the MSME integration component of the solution, if doing so clearly aligns with USAID's development objectives. If USAID wants to broaden the level of response, the MSME integration component could be presented as a priority rather than a requisite for participation. USAID could also encourage solutions providers to respond with a description of their solutions. In this case, the co-design phase could include USAID support in matchmaking with potential clients, and the same previously described funding option could apply. This initiative would also support the recently launched “Digital Future” initiative, which is a GoE PPP that includes Microsoft and aims to expand access to digital solutions for MSMEs.</p>

<b>Potential partners and their roles</b>	Any lead firm in the agriculture and food processing sector, the MSMEs they work with, and digital solutions providers are potential partners. Partners would be responsible for seeking out and investing in their own solutions. USAID would support this process with technical expertise related to decision-making, matchmaking with digital solutions providers, and accelerating the integration of MSMEs.
<b>Sustainability potential</b>	Given that partners would be investing in their own solutions, the potential for sustaining and scaling impact beyond USAID support is great. If MSME integration is considered a priority, a cascading effect will also occur as MSMEs adopt and scale use of digital solutions as they grow.
<b>Immediate next steps</b>	USAID could start engagement by consulting with current and recent partner lead firms, including those engaged for MSME integration through the SEED project. This learning and informing exercise will help in understanding potential partners' perspective and priorities and build awareness of the potential partnership opportunity. This engagement can be extended to digital solutions providers, including companies like Salesforce that presented at the recent Digital Strategy Workshop provided through the Middle East Bureau.

**Collaboration Model 4 — Facilitate market linkages and efficient transactions by improving a central database of suppliers and producers.**

<b>Collaboration opportunity</b>	USAID could provide technical assistance to the GoE to improve the reliability and accuracy of its database of local suppliers and producers and support programs for those that are registered in the database. PPD could support technical assistance to ensure that buyers' needs are being met. A partner, such as the Federation of Business Industries via its Chamber of Food Industries, could organize the PPD. Such a database does present some obvious complications, including reluctance of informal MSMEs to be added. For this reason simultaneously improving support programs for those that are registered will be important. The GoE has advanced various measures to improve its database, including issuing smart cards to curb corruption associated with the distribution of subsidies. Given the challenges faced by buyers, MSMEs, and the GoE in the current COVID-19 crisis, there has never been a better time to push forward swift and comprehensive measures such as these.
<b>Value proposition</b>	By coordinating the necessary PPD for this type of initiative through a partner organization like the Federation of Business Industries, USAID can benefit from the influence of its network of members and from its collective will and resources to push forward. Technical assistance from USAID to the GoE can be implemented through related existing or upcoming projects.



<b>Business case</b>	The lack of a reliable and accurate database has been a persistent challenge for buyers in Egypt, who are forced to develop parallel databases. This represents a cost for the buyer that is often passed on to the MSMEs they work with, but it also a barrier to MSMEs by limiting their buyer options. Therefore, database improvement would be a clear win-win for both, but only if the support programs associated with being in the database are sufficient to overcome the perceived risks associated with entering the formal economy.
<b>Technical approach and structure</b>	USAID could coordinate PPD through a Memorandum of Understanding with the partner organization. If resource support is necessary, a co-investment element could take the form of covering meeting costs. As mentioned previously, technical assistance can be implemented through related existing or upcoming projects, such as the Egypt Rural Agribusiness Strengthening activity or the Business Egypt activity.
<b>Potential partners and their roles</b>	As mentioned previously, the Federation of Business Industries or a similar organization would be a potential partner.
<b>Sustainability potential</b>	By coordinating the needed PPD through an existing local institution, a connection between the institution and the GoE would last beyond USAID involvement. Also, by involving the private sector through PPD, the improved database and support programs is more likely to reflect their needs and therefore have a more lasting impact.
<b>Immediate next steps</b>	Next steps for USAID include engagement with the potential PPD partner and relevant GoE officials. If interest in moving forward exists, an MOU with partners and coordination of project resources for the provision of technical assistance would also be necessary.

**Collaboration Model 5—Improve the GoE’s monitoring and regulatory capacity to ensure that local production abides by domestic and international food safety and health standards.**

<b>Collaboration opportunity</b>	USAID could expand support to improve the GoE’s monitoring and regulatory capacity to ensure that local production abides by domestic and international food safety and health standards. Such an initiative could include support for digitizing processes and procedures that increase transparency and decrease complexity. Digitizing agricultural supply chains as suggested in Collaboration Model 3 and improving the GoE database and support programs for local suppliers and producers as suggested in Collaboration Model 4 should happen simultaneously with digitizing related GoE processes and procedures. Doing so will make reporting compliance information easier and more efficient for companies and streamlining support programs for MSMEs easier for the GoE. Though progress has been slow, “Digital Transformations” have long been a stated goal of the GoE and other governments in the MENA region and around the world. So has the improvement of monitoring and regulatory capacity. Recent increases in regional and global demand for Egyptian production, along with increases in related standards and
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	regulations and new challenges due to the COVID-19 crisis, have increased the pressure to move forward with these mutually reinforcing initiatives.
<b>Value proposition</b>	Supporting the improvement and digitization of the GoE's monitoring and regulatory capacity will expand access to markets and improve the efficiency of transactions in the agriculture and food sector of Egypt. Supporting this initiative simultaneously with the improvement of a database of local suppliers and buyers and digitization of supply chains would truly be a digital transformation. Though USAID has already provided support to the GoE for this purpose, including through its Food Security and Agribusiness Support and Egypt Rural Agribusiness Strengthening projects, building on this support with a focus on digitalization would clearly add value.
<b>Business case</b>	The GoE's lack of monitoring and regulatory capacity has been a persistent challenge for buyers and exporters. The GoE is protective of its role in this process and has recently taken steps to increase its involvement. However, the lack of an efficient means of doing so would further complicate the issue. Therefore, the private sector has a clear interest in supporting this initiative, which could be done in coordination with the PPD suggested in Collaboration Model 4.
<b>Technical approach and structure</b>	Technical assistance from USAID to support this initiative could be managed through an existing or upcoming project. PPD can be coordinated through a partner organization as suggested in Collaboration Model 4. A digital transformation is expensive and may not get the resource support needed from the GoE. To get the necessary resources, USAID could explore coordination of efforts with other development partners, such as the World Bank, and partnerships with U.S. providers of digital solutions to help reduce the cost of digitization.
<b>Potential partners and their roles</b>	As mentioned previously, potential partners could include the Federation of Business Industries or a similar organization for PPD. Private service providers could also be engaged to expand the reach, ability, and reliability of GoE's regulatory capacity. U.S. digital solutions providers could also be partners in terms of providing reduced-cost digital solutions.
<b>Sustainability potential</b>	On its own, improving the GoE's monitoring and regulatory capacity is a long-needed endeavor that will be more sustainable if implemented in partnership with the private sector through PPD. Uptake of digital solutions by the GoE will be more sustainable if implemented together with digitizing supply chains and improving support programs and database of local suppliers and producers to create a true digital transformation.

<b>Immediate next steps</b>	Next steps for USAID include engagement with the potential PPD partner, the GoE, resource partners like the World Bank, and potential U.S. digital solutions providers. If interest in moving forward exists, USAID should directly manage coordination of USAID efforts, with support from its existing or upcoming projects.
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## 5.2.2 BUSINESS DEVELOPMENT SERVICES

### Collaboration Model 6—Support business consulting/development services

<b>Collaboration opportunity</b>	<p>In addition to expanding USAID's existing efforts supporting development of sector-focused BDS centers to provide technical assistance to MSMEs in specific sectors and/or value chains,<sup>32</sup> the study has identified two collaboration models to support business consulting firms:</p> <ol style="list-style-type: none"> <li>1. Providing training/knowledge transfer opportunities for local consultants through direct training opportunities or through pairing with international consulting firms on technical advisory projects awarded by USAID, to ensure knowledge transfer in areas where local firms lack expertise.</li> <li>2. Enabling smaller and less established consulting firms to penetrate the market through a pay-for-results cost-sharing mechanism.</li> </ol>
<b>Value proposition</b>	By providing local consulting firms with technical assistance and opportunities to work closely with international firms, USAID would contribute to developing the sector and upgrading the quality of business development services available to the private sector in general and MSMEs in particular. In addition, USAID would improve MSMEs' ability to access these services.
<b>Business case</b>	Local consulting firms, particularly smaller and less established ones, have limited opportunities for training and development. They usually rely on the experience of the founders, who are either ex-employees in international consulting firms or have accumulated years of experience as freelancers. Local consulting firms are interested in receiving training from experts in the field in both donor-centric areas (e.g., M&E, technical assistance delivery, and management systems) and in more commercial areas including market intelligence, digital marketing, productivity enhancements, and optimization. Furthermore, the exposure partnering global consulting firms would gain on potential USAID projects would enable them to develop their capacity in areas where local expertise is lacking, such as data analytics and knowledge management systems.

<sup>32</sup> This includes technical assistance related to supporting the integration of MSMEs into those sectors through e-marketing, productivity enhancement, technology, and innovation.

<b>Technical approach and structure</b>	<p>USAID could contribute to developing the capacity of local consulting firms in two ways. The first is a more direct approach, in which USAID issues an RFP for experts in consulting to provide capacity building to local consulting firms (the terms of reference could include a focus on targeting smaller and less established firms). The project can also fund and facilitate networking opportunities for these firms to engage with their global counterparts through international forums/roadshows/study tours and gain exposure to international best practices. The second approach would be to pair local consulting firms with international consultants to provide technical advisory services in areas where expertise is lacking locally. This approach would entail including local consulting firms as partners to the global consulting firms and not as subcontractors.</p> <p>To facilitate access to the MSME market for local consultants, the proposed approach would be a pay-for-results cost-sharing mechanism. Under this project, USAID would subsidize the cost of technical advisory services provided by local consulting firms for MSMEs and pay an incentive fee for achieving the project's predetermined targets. Conditions of disbursement would include financial facilitation (payment would be received upon obtaining financing), market linkages (measured in sales contracts), tangible productivity enhancements, and achievement of certifications. Moreover, to develop the roster of local consultants, USAID can set prerequisites for interested firms to ensure they are qualified to provide these services at the required standards. One example of a precondition can be the completion of the training proposed in the aforementioned project.</p>
<b>Potential partners and their roles</b>	<p>USAID contractors would implement the activity under competitive tender.</p>
<b>Sustainability potential</b>	<p>Developing the capacity of small local consulting firms would increase the level of competition in a sector currently dominated by a handful of firms. This competition would expand options for MSMEs and private sector players and spur improvement among business consulting service providers.</p> <p>The pay-for-results cost-sharing mechanism secures the buy-in of consulting firms that have to deliver services at certain standards to ensure they meet the deliverables required to receive their full fee. These standards will become new benchmarks for the industry that consulting firms will be expected to meet in general. Furthermore, as mentioned previously the successful experience of MSMEs under this project will have a demonstration effect on MSMEs across sectors and could facilitate a rise in demand for consulting services on a more commercial basis and beyond the scope of this project.</p>
<b>Immediate next steps</b>	<p>The KIs conducted in this study only scratched the surface of what is an under researched and underdeveloped sector in Egypt. A proposed next</p>

	<p>step for USAID would be to conduct/commission a market study of the business consulting sector. The study would provide a more in-depth assessment of the needs of local consulting firms to determine the main areas of technical assistance that any prospective Technical Assistance project should include for capacity building in the sector. Moreover, the unregulated nature of the industry means the quality of services provided varies significantly across the fragmented sector. Hence, another purpose of the study could be to filter and short-list the small consulting firms with the necessary potential to benefit from technical assistance services USAID could provide. Finally, the study should also include an evaluation of the effectiveness of the existing cost-sharing mechanisms by institutions like the IMC and EBRD by interviewing a wide sample of firms that participated in these initiatives. The feedback would be useful input when designing the pay-for-results mechanism.</p>
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### 5.2.3 EDUCATION (INCLUDING VOCATIONAL EDUCATION AND WORKFORCE DEVELOPMENT)

#### Collaboration Model 7—Support in-house workforce development programs.

<b>Collaboration opportunity</b>	Expand the skilled labor force with market-relevant qualifications across industries by supporting in-house workforce development programs, endorsing research and development initiatives by lead firms to serve their respective sectors, and expanding partnerships with TVET institutes.
<b>Value proposition</b>	<p>This is already a top-priority area for USAID Egypt, as demonstrated by the commitments made under the WISE project and the new RFP for the follow-on project USAID Workforce Egypt. MoETE has been very forthcoming and cooperative in working with the private sector to establish applied technology schools. WISE supported the establishment of an applied technology school with Al-Salhiya Agriculture company and the Ministry was very responsive. USAID Workforce Egypt, in collaboration with the Ministry and the private sector, will have to transform 10 technical schools into model schools, which have many features, one of which is the ability to generate revenues.</p> <p>However, judging by the feedback received from the private sector players participating in this study, the quality of the labor force across sectors remains one of the most critical obstacles constraining private sector growth. Accordingly, an obvious need exists to scale up existing projects and capitalize on the significant interest from the private sector and the government to co-invest in workforce development initiatives at a more sustainable scale.</p>
<b>Business case</b>	To address the shortage of qualified labor and the mismatch between the academic education received by current job market candidates and the skills needed, lead firms across different sectors have invested in several

	<p>initiatives, which include developing in-house training programs and engaging with or sponsoring higher education institutions (technical/vocational institutions or public universities) to develop market-relevant curricula and coursework and provide internship opportunities to students.</p> <p>These initiatives, however, have mainly served the needs of these lead firms with limited spillover effects for the rest of the sector. Lead firms have expressed their interest in co-investing with USAID in larger-scale initiatives, e.g., sponsoring more vocational and technical schools serving each sector, training institutes, and career advising centers.</p>
<b>Technical approach and structure</b>	<p>USAID's approach under the WISE project of leveraging PPPs in revamping TVET institutes has proven to be successful, and significant demand exists from both the public and private sectors for extending and expanding this project. To ensure the project's future success, however, the private sector concerns regarding potential partnerships with the government to establish new TVET institutes need to be addressed. These concerns include red tape in the tendering and licensing processes, which have deterred companies from engaging in such initiatives and resorting to in-house solutions. Another major concern is the lack of financial incentives and cost-sharing, because running technical schools is financially and procedurally burdensome.</p> <p>Initiatives for workforce development in other sectors may take different forms and entail direct partnerships with the lead firms or relevant authorities in each respective sector. The following section provides examples of potential partnerships in various sectors in which USAID could provide financial and technical support to improve the quality of the workforce.</p>
<b>Potential partners and their roles</b>	<ul style="list-style-type: none"> <li>● <b>Manufacturing:</b> Industry players have taken several initiatives to sponsor TVET institutions and universities to provide a market-relevant curriculum, modern teaching resources and methods, and internships. These initiatives represent opportunities for USAID to expand the outreach of its workforce development programs and support efforts by industry players to revamp the technical and vocational education system. Potential partners include El-Araby Group, GB Auto, BTM, and ElSewedy.</li> <li>● <b>Agriculture and food processing:</b> USAID could support higher education institutions in Egypt to increase dialogue with lead firms in the sector around skills and research needs and innovative approaches to developing the agricultural industry. In addition to dialogue, USAID could support lead firms (e.g., CPC and Sekem) by co-funding specific research initiatives and internship opportunities for students.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>ICT:</b> To address the shortage of qualified ICT professionals in the market and the brain drain challenge, USAID could provide technical assistance to ITIDA under the MCIT to develop new ICT training programs.</li> <li>• <b>Legal services:</b> USAID could contribute to providing legal students with practical training opportunities and employment services by providing grants to expand the outreach of programs like the moot court competitions and summer training programs organized by private law firms.</li> </ul>
<b>Sustainability potential</b>	Both public and private sector partners in this collaboration model are heavily invested in developing long-term and sustainable solutions to addressing a chronic challenge that has impeded the growth of the private sector and that of the economy as a whole.
<b>Immediate next steps</b>	<p>Because USAID is planning to stick with the private sector–led approach to revamping the technical and vocational system, it should ensure that the project includes components that address private sector concerns (e.g., technical assistance to streamline tendering and licensing procedures and funding mechanisms to reduce the financial burden placed on private sector players).</p> <p>With respect to alternative workforce development initiatives, USAID should seek to consult the relevant authorities and lead firms in the various sectors to design interventions with the most inclusive and sustainable impact.</p>

#### **Collaboration Model 8—Partner with ICT companies on educational reform projects.**

<b>Collaboration opportunity</b>	<p>The COVID-19 pandemic has elevated the importance of distance education and blended learning in Egypt and accelerated the MoETE's plans for technology education. Recently the MoETE released its plan for in-service teacher continuous professional development, which aims to deliver all teacher training through an online platform. USAID's new Teach for Tomorrow activity is well positioned to support the Ministry in these efforts, making USAID the leading donor in the online teacher training space.</p> <p>U.S. technology firms are leading in e-learning and have aggressively sought to partner with governments to provide these services. For example, Microsoft recently launched Egypt's first e-learning platform for universities. Microsoft is also interested in engaging in educational reform projects like those it has collaborated with USAID on in the past, e.g., TILO and GILO. However, feedback from Microsoft indicates that discussing potential partnerships at the project design phase would be more effective than partnering on an <i>ad hoc</i> basis as in the past. Scope also exists for collaborating with Microsoft on expanding the outreach of</p>
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	<p>their current e-learning programs to support K–12 schools in their digital transformation process.</p> <p>The new consensus around technology education is a major opportunity to accelerate these initiatives. In partnership with the MoETE, USAID could engage technology companies, starting with U.S. firms, to help address the gaps in e-learning uptake identified by the MoETE and to bridge them in line with the Ministry’s vision for the sector. This can be done by supporting tech companies through advocacy, co-investment in R&amp;D, and resource support to improve educational quality and inclusion and accelerate the digital transformation of Egypt’s education system.</p>
<b>Value proposition</b>	<p>This initiative aligns with USAID’s Digital Strategy and have a significant cascade effect as youth become more tech savvy and translate those skills to the digital skills that are needed for future employment. As noted throughout this report, digitization is an overarching objective across all sectors, which engaging youth through e-learning will support.</p>
<b>Business case</b>	<p>Even before the COVID-19 outbreak, MoETE was investing substantially in ICT for education solutions, in partnership with international and national private sector companies. COVID-19 accelerated the Ministry’s efforts in this domain. Some tech firms are already engaged, so the business case has been made and the market is quickly expanding due to COVID. So rather than incentivizing their entrance, USAID would be accelerating the process, with the added benefit of expanding the presence of U.S. tech firms in Egypt.</p>
<b>Technical approach and structure</b>	<p>Given this initiative’s urgency, a broad and flexible support program is advisable. Resources should include technical assistance and funds for co-investment as outlined previously. A GDA may be an effective mechanism and could have a similar structure to the USAID e-trade alliance but focused on e-learning. Alternatively, GDAs with individual companies focused on Egypt only could also be utilized.</p>
<b>Potential partners and their roles</b>	<p>Any tech firm is a potential partner, though USAID should proactively target U.S. firms.</p>
<b>Sustainability potential</b>	<p>As mentioned previously, aggressive support for accelerating the digital transformation of Egypt’s education system will support the digitization of all other sectors by increasing the presence of tech firms in Egypt and the tech savvy of Egypt’s youth. This positive impact will grow exponentially as tech firms expand their services as part of a greater digital transformation of the Egyptian economy.</p>
<b>Immediate next steps</b>	<p>Next steps for USAID include engaging with the Ministry of Education to understand its technology plans, gaps, and interest in working with tech firms. If interest in moving forward is sufficient, USAID can bring tech firms and the GoE together to co-create solutions. The Middle East</p>

	Bureau can support this outreach through its ongoing private sector outreach activity, if needed.
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## 5.2.4 FINANCIAL SERVICES

### Collaboration Model 9—Increase access to finance for MSMEs by partnering with local financial institutions and BDS centers.

<b>Collaboration opportunity</b>	<p>USAID has deep experience in developing value chain financing models that are customizable to almost any country context. The keys to success are MSME integration into more formalized supply, service, and support chains; willing and able financing partners with appropriate financial products and interest rates; risk mitigation support for first-mover partners; and sufficient financial literacy of the end beneficiaries. Though this set of circumstances may seem overly idealistic, they are not all necessary to get started and will naturally develop once the partners gain experience and momentum. The most important starting point is MSME integration, as the transaction history and strength of the relationship between lead firms and MSMEs is what will attract willing financial partners. All else will build from there. To start, USAID could identify current and recent lead firm partners with a well-established network of MSME suppliers and/or service providers and help them accelerate MSME integration in line with Collaboration Models 1 and 3. Then USAID could connect financing partners to finance MSME growth in line with the opportunities and backed by the regularity of transactions and support that are associated with integration.</p> <p>As mentioned previously, the financial inclusion gap in Egypt is massive with access for only the largest and most connected lead firms. No single solution will change this reality in the short term, as will, capacity, and pressure to bring the financial institutions into this market are lacking. So instead of trying to pull MSMEs up into the financial markets as they are, financial markets must undergo disruption that forces financial institutions to pursue opportunities to finance the massive MSME segment of the market efficiently. MSME integration and the continued rise of alternative financing options from NBFIs will trigger this disruption, which will be accelerated by the digitization of supply chains and the continued rise of Fintech.</p> <p>USAID has successfully supported these disruptions all over the world and could do so in Egypt as well.</p>
<b>Value proposition</b>	<p>By focusing on MSME integration and the digitization of supply chains, USAID can support MSME growth while setting the groundwork for MSME's financial inclusion. Successfully connecting NBFIs with appropriate digital financial services will have a powerful demonstration effect that can disrupt the financial market toward further MSME integration and financial inclusion.</p>

<b>Business case</b>	<p>Lead firms are willing to support their MSME networks only to a certain extent. Starting with a strong and reliable transaction history, lead firms will eventually invest in building MSMEs' capacity to help them continue to grow in line with the lead firm's needs. However, at some point, MSMEs must be able to gain access to finance, as the lead firm will reach a point of diminishing returns in terms of investing in MSME support. Therefore, lead firms are willing to help MSMEs gain access to finance by providing some risk mitigation support through their contractual relationship, including triangulation of payments, but only as long as this support is less costly than the alternative, which is the failure of the MSMEs to grow. Though a sunk cost, lead firms are always more hesitant to allow MSMEs to fail if they have already invested in supporting them. For this reason focusing on MSME integration ahead of supporting risk mitigation strategies to improve access to finance is important.</p>
<b>Technical approach and structure</b>	<p>Working through existing projects like the Egypt Rural Agribusiness Strengthening project, USAID could conduct initial consultations with existing and recent lead firm partners. Consultations should assess the size of the MSME network that the lead firm works with, the nature and history of their transactions with this network (at a high level), and the challenges and opportunities related to further integration and expansion of their MSME network. USAID could make a plan of action in line with Collaboration Models 1 and 3 and then coordinate collaboration with the upcoming Business Egypt or any other appropriate activity to connect potential financial partners to the lead firms, again, concentrating first on NBFIs with appropriate digital financial services. USAID must provide ongoing support by helping the lead firms and their financial partners develop and troubleshoot value chain financing models. Once established and operating, lead firms can pressure their own financial institutions to consider extending financing to their MSME networks to keep them as a client. This model has worked well in Latin America and East and West Africa, from which USAID/Egypt could pull lessons learned and insights.</p>
<b>Potential partners and their roles</b>	<p>Any lead firm with an established and relatively well organized MSME network could be a potential partner, as could any financial institution. However, as stated previously, NBFIs with appropriate digital financial services would be the best place to start. USAID could also use BMOs through pay-for-performance contracts to support MSMEs in preparing and applying for finance and complying with the related terms and conditions.</p>
<b>Sustainability potential</b>	<p>Value chain finance relationships between lead firms and financing partners to finance MSMEs rarely last beyond donor support, if the level of subsidization is high and the donor has an urgent sense that the quantity is more important than the quality of loans. By focusing on MSME integration and the digitization of supply chains, USAID can indirectly support expanded access to finance for MSMEs by</p>

	strengthening the necessary conditions for it to take place. Then by connecting NBFIs with appropriate digital financial services to lead firms and supporting the development and troubleshooting of their partnerships (with modest risk mitigation support), a natural process of development and proof of concept will take place.
<b>Immediate next steps</b>	Immediate next steps for USAID include engagement with potential lead firms and existing USAID projects to start assessing the potential size and readiness of their MSME networks for value chain financing. Once assessed, the timing and approach of further action would be informed and implemented in coordination with Collaboration Models 1 and 3.

#### **Collaboration Model 10—Broaden the range of NBFIs.**

<b>Collaboration opportunity</b>	Financial institutions are notoriously risk averse; slow to change; and even slower to take on new clients, products, and services. However, once compelled through disruption, proof of concept, and new entrants into their markets, change can be rapid, and competition can be fierce to protect and expand market share. For example, relatively new products and services in Egypt that have proven successful, such as leasing, microfinance, and electronic payments, have grown rapidly. However, the full spectrum of needed products and services remains unaddressed and underpenetrated—especially for MSMEs. USAID has an opportunity to accelerate change by supporting NBFIs with a focus on expanding access to Fintech and data analytics. Amid current challenges of COVID-19 and its effect on the Egyptian economy, digital innovation is accelerating. Digital innovation and consolidation of NBFIs (currently more than 800 MFIs operate in Egypt) will create a powerful force for change, as the NBFIs are better equipped to disrupt and challenge the market dominance of more traditional financial institutions in Egypt.
<b>Value proposition</b>	By simultaneously supporting value chain financing partnerships as outlined in Collaboration Model 9 and catalyzing innovation in and expansion of access to digital financial services by NBFIs, USAID can affect the necessary conditions for increased financial inclusion (including for MSMEs) without aggressive subsidization.
<b>Business case</b>	The business case for NBFIs to increase their market share in Egypt is clear as it represents a vast untapped market, especially for financing MSMEs. As mentioned previously, support such as international best practices and targeted risk mitigation is often needed to coordinate efforts toward this goal—especially if the target market includes MSMEs. The prospect of working with lead firms greatly strengthens the business case for these efforts.
<b>Technical approach and structure</b>	USAID could support NBFIs with targeted technical assistance to bring in international best practices in value chain financing. USAID could also support innovation in and expanded access to digital financial services by

	launching an innovation prize like or in conjunction with the supply chain digitization initiative outlined in Collaboration Model 3. Such a prize should reward the ability to support new NBFIs with proven services and consolidation/expansion plans that increase financial inclusion within underserved sectors, populations, and regions. USAID could also pilot financing partnerships with lead firms as outlined in Collaboration Model 9 and facilitate access to risk mitigation support programs such as the DCA loan guarantee. In addition, USAID could facilitate additional access to capital to NBFIs from impact investors.
<b>Potential partners and their roles</b>	Potential partners include all NBFIs interested in expanding access to digital financial services. Lead firms can also be partners as outlined in Collaboration Model 9.
<b>Sustainability potential</b>	As discussed previously, heavily subsidized finance initiatives rarely succeed beyond donor support, largely because the “innovation” or the increase in “inclusion” focuses more on the donor’s objective of reaching beneficiaries than on the business case for investing in relevant markets. Therefore, a corrective market retraction often occurs once the subsidy is phased out. To avoid this situation, USAID should focus support on existing initiatives that have proven successful but need support to scale success and/or expand to other potential clients, as explained in Collaboration Model 9.
<b>Immediate next steps</b>	Next steps for USAID include engagement with NBFIs to gauge their current capacity and willingness to invest in this initiative. USAID could also engage the GoE to see if CBE resources could be aligned toward this initiative, which is in line with current policy. However, waiting for this support may end in inaction.

## 5.2.5 HEALTH CARE

**Collaboration Model 11—Partner with Egyptian health care providers, particularly healthtech, with a specific interest in FP/RH issues.**

<b>Collaboration opportunity</b>	The USAID PSE Visioning Sessions on December 20, 2019, note and the PSLA team confirms that an opportunity exists to partner with private sector health care firms to provide much needed training and capacity building in exchange for greater support for FP/RH based on lessons learned to date from the Family Planning through the Private Sector project.
<b>Value proposition</b>	By providing training to health care companies, USAID can leverage limited funds with an outsized impact on FP/RH uptake.
<b>Business case</b>	Health businesses gain from much needed capacity building and technical support for their staff, enabling them to meet client needs and boost revenues more effectively.

<b>Technical approach and structure</b>	USAID can expand the model of the Family Planning through the Private Sector project.
<b>Potential partners and their roles</b>	KIIs, while limited, did indicate potential opportunities for partnership. DKT Egypt, in particular, expressed a strong preference to partner.
<b>Sustainability potential</b>	Evidence from the World Bank, the World Health Organization, and Population Services International points to success with this model.
<b>Immediate next steps</b>	Given the constraints of conducting a multi-sector PSLA, the team could only identify one company, DKT Egypt, that was explicitly interested in FP/RH interventions. Dawi and Smartcare are open to capacity building and training support from USAID, which could offer an opportunity to include a FP/RH element, but FP/RH was not raised as a priority. To assess private sector interest, USAID should conduct a phone survey of the top 100 health care firms to 1) identify interested firms, 2) understand motivation for partnership, and 3) document possible partnership types.

## 5.2.6 MANUFACTURING

**Collaboration Model 12—Co-invest with BMOs and leading private sector players in manufacturing industries to enable MSMEs in the feeding industries to scale up and compete domestically.**

<b>Collaboration opportunity</b>	USAID could identify current and recent lead firm partners that have a well-established network of MSME suppliers and/or service providers and support them in accelerating MSME integration in line with Collaboration Models 1 and 3 above, then connect financing partners to finance MSME growth backed by the regularity of transactions and support that are associated with integration. To pull MSMEs up into the financial markets, there must be a disruption that forces financial institutions into pursuing this market segment. This disruption will be triggered by both MSME integration and expanding access to alternative financing options from NBFIs, and it will be accelerated through the digitization of supply chains and the continued rise of digital financial services (Fintech). BDS can also be used through pay for performance contracts to support MSMEs in preparing and applying for finance and complying with the related terms and conditions.
<b>Value proposition</b>	Strengthening Egyptian MSMEs' capacity to manufacture production inputs and improving the linkages among domestic value chain actors allow USAID to help promote a more sustainable growth model for the manufacturing sector by decreasing manufacturers' reliance on imports for reliable, affordable, and high-quality components.
<b>Business case</b>	BMOs, like the Engineering Export Court Council, express substantial interest in creating markets for locally sourced components by

	<p>developing local suppliers' capacity to produce production inputs that are usually imported by the leading manufacturers in the sector. Products that could be developed locally (to substitute imports) include PCBs, dye caster and gaskets for refrigerators and freezers, gas valves, LEDs, compressors, and small motors for appliances. Several lead firms in the engineering sector are interested in endorsing initiatives to invest in developing the capacity of MSMEs in the sector and enabling them to supply their production inputs. Companies like FRESH and ELSewedy have offered access to their resources (e.g., electromagnetic labs) to enable local suppliers to produce the components that meet the desired specifications and the required quality.</p>
<b>Technical approach and structure</b>	<p>USAID could partner with BMOs (e.g., the Engineering Export Council and the Federation of Industries) and lead firms in the engineering sector to develop a shared resource center for MSMEs to provide access to markets, capital, technical assistance, and technology. The services provided by the center could include</p> <ul style="list-style-type: none"> <li>• Developing databases on existing suppliers, product ranges, and market data on demand and supply (i.e., quality, quantity, specification, and price) to enhance transparency and promote better exchanges between suppliers in the feeding industry and manufacturers in the national value chain.</li> <li>• Building supplier capacity to upgrade their products in terms of quality, innovation, and diversification by providing the required training and funding and promoting cooperation with technology partners (companies and research institutes) to enable MSMEs to test, examine, and apply new emerging technologies.</li> <li>• Implementing technical advisory programs to help MSMEs enhance their business models, internal operation systems, and product development.</li> <li>• Investing in human capital through training opportunities, in technical, vocational, and business skills (e.g., management and marketing) to ensure availability of the skilled workforce needed for the MSMEs.</li> </ul>
<b>Potential partners and their roles</b>	<p>Potential co-investors in this project are BMOs like the Engineering Export Council and the Federation of Industries and lead firms in the engineering sector, e.g., El-Araby Group, FRESH, and ELSewedy.</p>
<b>Sustainability potential</b>	<p>Lead firms would have strong vested interests in ensuring this project succeeds, as it would potentially boost their competitiveness in both the domestic and export markets. Securing their buy-in by including them as co-investors further enhances the sustainability of the project beyond USAID's involvement.</p>



<b>Immediate next steps</b>	Engage in discussions with BMOs and lead firms to design the project.
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**Collaboration Model 13—Partner with the Ministry of Trade and Industry to support industrial clusters for feeder industries.**

<b>Collaboration opportunity</b>	<p>Another collaboration model to strengthen value chains in the manufacturing industry is to support the development of industrial clusters in sectors with high market demand, growth, and export potential. Given the potential for cluster-based development, the Egyptian Government has made cluster-based industrialization a key pillar of Egypt's SDS to 2030. Promoting business clusters in manufacturing would significantly enhance sector productivity, promote forward and backward linkages, localize value addition, and realize the sector's job creation potential.</p> <p>To increase the amount of value addition that occurs in a country, simply enacting policies that force manufacturers to utilize local components is not enough. Though the purpose of such policies is logical (to increase the amount of value addition realized locally beyond wages paid to laborers for assembly), manufacturers can only comply if local options are reliable and competitive. Local MSMEs can supply components and provide services but need support to comply with the standards of manufacturers. Otherwise, and as noted previously, vertical integration becomes the only alternative to importation. Many proven models for supporting the development of industrial clusters exist. Special economic zones (SEZs) and industrial parks are a good start, as they provide incentives for manufacturers to locate and expand their operations in the partner country. To take full advantage of the potential of these investments, manufacturers also need support for developing the capacity of local MSME suppliers with on-site access to support services, including those needed to streamline the exportation process. Though Egypt has enacted policies and developed several SEZs and industrial parks for this purpose, like many countries in the region, the attitude is "if you build it, they will come." However, this is not enough.</p> <p>The usual next step is to develop additional infrastructure around these economic centers and give local MSMEs incentives to locate near the manufacturers. What is missing is a sustained effort to build these MCMEs' capacity to become reliable suppliers and service providers, connect them with affordable investment and financing options to fuel their growth, and continually improve all the services needed to streamline the exportation process. USAID can build on lessons learned in other countries in the region, such as Morocco where major improvements have been made in industrial clusters in the textile, automotive, and aeronautics sectors. Though capacity development of local MSMEs should be a co-investment between the manufacturers and the partner country, a development partner like USAID can accelerate the process.</p>
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<b>Value proposition</b>	<p>Most investment needed to develop industrial clusters is already done in the form of setting up the SEZs and industrial parks and expanding manufacturing capacity. Building the capacity of local MSME suppliers and service providers is a crucial next step to unlocking the full potential of a well-functioning industrial cluster. This incremental investment is relatively small, yet extremely valuable (especially for the local community) as it helps to localize value addition. USAID's role could be catalytic by providing technical assistance and international best practices and facilitating access to finance and investment capital to MSMEs to fuel their growth.</p>
<b>Business case</b>	<p>As noted previously, functioning clusters can improve the efficiency and profitability of manufacturing operations, but building MSMEs' capacity takes time and has a less certain outcome than vertical integration or importation of components—even if the former is less costly in the long run. To accelerate the time frame, reduce the cost, and improve the certainty of the outcome, support from a development partner like USAID is necessary, especially if the needed support is not coming from the partner country.</p> <p>An example of a sector in which technical and financial support to clusters can help MSMEs realize their potential is the RMG sector. Functional clusters in this sector enhanced the competitiveness of local suppliers of components and services and enabled them to take advantage of growing demand in European markets.</p>
<b>Technical approach and structure</b>	<p>USAID could assist the local and national governments, including the Ministry of Trade and Industry and MSMEDA, in improving their support programs for industrial cluster development by bringing in regional and international best practices and arranging site visits and mentorship opportunities with more established clusters in Egypt and across the region. USAID could also assist manufacturers with resources for developing support systems for their MSME suppliers, including training centers, joint R&amp;D and technology diffusion initiatives, and workforce development programs. USAID can also facilitate access to business development services and investment capital for the supported MSMEs, including through the EAEF.</p>
<b>Potential partners and their roles</b>	<p>Manufacturers, local and national government agencies, and MSMEs are all potential partners for USAID. However, as mentioned previously, the focus should start with improving existing industrial clusters.</p>
<b>Sustainability potential</b>	<p>By focusing on improving existing industrial clusters, USAID can provide an incremental, yet catalytic investment that will double as a powerful demonstration effect to incentivize further cluster development. Keeping the GoE involved to the furthest extent possible is important as the ideal collaboration for developing industrial clusters is as a public-private partnership between manufacturers and the partner country.</p>

<b>Immediate next steps</b>	Next steps for USAID include engaging manufacturing companies that have already invested significantly in developing industrial clusters and engaging with the appropriate GoE support agencies. This could be done through an existing or upcoming project like Egypt TRADE. USAID could also take stock of best practices by collaborating with other Missions in the region, including USAID/Morocco.
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## 5.2.7 TOURISM

**Collaboration Model 14—Develop the capacity of tour operations, boost management systems, and increase the adoption of digital solutions.**

<p><b>Collaboration opportunity</b></p>	<p>USAID could engage major hotels, mass tourism operators, and digital booking platforms to build MSMEs' capacity to provide more personalized experiences to tourists in line with shifting trends in the tourism industry. Major hotel chains like Marriott are making big investments in booking platforms that provide local experiences for their guests. These experiences are often referred to as cultural, eco, experiential, and more broadly alternative tourism options, the entry point being the hotel or a mass tourism package that can be expanded to personalized options for clients. This strategy is meant to be a differentiating factor over competing mass tourism options. Digital booking platforms including TripAdvisor and Airbnb also continue to expand their market share in alternative tourism by providing a convenient and secure booking option. Unfortunately, most traditional MSME operators cannot take advantage of these trends. As they continue to rely on street traffic to pull in clients, they are rapidly losing market share to the growing number of international operators that utilize digital booking platforms.</p> <p>As Egypt reopens to tourism, tourists will seek experiences that they can trust to be safe, including reduced contact by joining smaller groups and using digital booking and payment systems. For convenience, clients are more likely to book these experiences through a single digital booking platform such as TripAdvisor or through a platform connected to their hotel or mass tourism operator. To connect to these platforms, MSME operators must be able to operate their tours safely, reliably, and consistently according to high customer service standards. They must also be able to process digital payments and differentiate themselves with effective digital marketing strategies.</p> <p>Meeting these standards will require technical assistance to develop MSME operators' capacity in marketing and management systems and adoption of digital solutions. MSMEs will also need access to finance to upgrade their systems accordingly. Though alternative tourism options are in demand, it is much easier for major hotels, mass tourism operators, and digital booking platforms to allow international operators to fill the demand. To increase the inclusion of local MSME operators, USAID will need to incentivize these partners to engage with them—highlighting their authenticity and local knowledge as an important value addition.</p>
<p><b>Value proposition</b></p>	<p>By working in partnership with major hotels, mass tourism operators, and digital booking platforms, USAID will have an effective and efficient means of upgrading both the capacity and the market linkages needed for greater inclusion of MSME operators within a shifting tourism sector in Egypt. However, significant co-investment will likely be required to do</p>

	<p>so, as the rise of international operators presents an alternative. Even so, such a partnership model would include skin in the game from partners and a direct linkage with the market, which will be less expensive for USAID and have a higher likelihood of success than direct capacity development only.</p>
<b>Business case</b>	<p>As mentioned previously, the authenticity and local knowledge of local MSME operators has value, but this value must be weighed against the time and resources needed to upgrade their capacity to adhere consistently to service and management standards and transact through digital booking platforms.</p>
<b>Technical approach and structure</b>	<p>The basic requisite for MSME operators is proficiency in the English language. Next is management systems that are sufficient to book and process payments through digital booking platforms. However, most important, MSME operators must be able to comply with high customer service standards. Working with major hotels, mass tourism operators, and digital booking platforms, USAID would need to first define the current demand for alternative tourism options and then assess and segment MSME operators according to their capacity needs for reaching this demand. Once defined, USAID and its partners could engage local BMOs to update training programs, and USAID could then offer BMOs a pay-for-results contract to train MSME operators to comply with standards set by USAID's partners. As a co-investment, MSMEs operators would need to invest in the needed systems to progress through training. As an incentive to complete the training program, USAID's partners could provide a year of free access to their digital booking platforms and cover the cost of initial promotions for their clients, along with ongoing mentorship and support as the MSME operators grow as a company.</p>
<b>Potential partners and their roles</b>	<p>Potential partners could include major hotels, mass tourism operators, and digital booking platforms to define standards, provide a market, and co-fund initial access and promotions for MSMEs on their digital booking platforms. BMOs and the MSME operators would also be partners in providing services and investment in improving their own operations.</p>
<b>Sustainability potential</b>	<p>By working with partners that are a major gateway for access to clients, USAID will be able to connect the capacity that is needed by MSME operators with a growing market for alternative tourism, though USAID may need to lead the initiative initially and subsidize BMOs to provide the needed training. Success will encourage a lasting linkage between BMOs and USAID's partners to continue collaboration while phasing out USAID support. The GoE also prioritizes the success of MSME operators and can be engaged to provide additional resources to support the initiative.</p>
<b>Immediate next steps</b>	<p>Next steps for USAID would include engaging major hotels, mass tourism operators, and digital booking platforms to gauge interest. If interested, USAID would then need to assess the potential pool and</p>

	<p>capacity of BMOs and MSME operators for participation in the program. USAID partners could be engaged through MOUs pledging and defining their support ahead of a co-design workshop to further develop the initiative. BMOs could be engaged through the upcoming Integrated Management of Cultural Tourism in Egypt activity or any other aligned activity.</p>
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#### **Collaboration Model 15—Develop a tourism partnership fund.**

<b>Collaboration opportunity</b>	<p>Regarding funding for tourism MSMEs, the team found little interest from private banks and no existing commercial financial options/instruments that provide feasible terms and cater to the needs and conditions of MSME operators and the seasonal nature of the tourism industry. Accordingly, interviewees were interested in or expecting from USAID either grants or subsidized funding to support small projects or initiatives they were undertaking. Suggestions included an initiative for an innovative funding mechanism that the Ministry of Tourism to address the lack of access to finance for small- and medium-sized players in the sustainable tourism field that has been stifled by red tape/bureaucracy. The proposed funding mechanism is a zero-interest tourism fund designed to finance tourism operators that adopt energy efficiency technology solutions. The number of rooms (capacity of the facility) would determine the size of funding, execution milestones would serve as conditions of disbursement, and repayments would be directly linked to occupancy rates.</p> <p>One best practice activity in the region that provides lessons learned in this context is the USAID/Jordan Building Economic Sustainability through Tourism Project. BEST provides grants and technical assistance for product and market development, tourism industry competitiveness, public-private partnerships, and job creation.</p> <p>USAID could support a similar fund to provide finance, grants, and technical assistance for tourism companies in Egypt to revive and realign their products and marketing. Key goals may include improving Egypt's competitiveness amid global shifts in the global tourism industry, upgrading workforce capacity, and increasing public-private partnerships to protect Egypt's tourism resources. Such a fund could also be used to finance and support the capacity development of MSMEs as outlined in Collaboration Model 14.</p> <p>Given the need to revive Egypt's tourism sector post-COVID, this initiative would be especially timely and could also help to diversify the tourism industry in Egypt to include cultural and eco-tourism options. Partners in the fund could include major hotels, mass tourism operators, digital booking platforms, and a wider range of lead firms in Egypt, as well as other MNCs such as the Chaudhary Group, that have expressed interest in investing in Egypt's tourism sector.</p>
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<b>Value proposition</b>	By bringing in major hotels, mass tourism operators, and digital booking platforms, the fund could help bridge the gap between the current mass tourism model and USAID's desired shift to alternative tourism options, including cultural and eco-tourism. Linkages and co-investment to build the capacity of MSME operators to expand alternative tourism options would accomplish this shift. A multi-source fund also creates shared responsibility and risk and eases the financial burden on USAID.
<b>Business case</b>	Fund partners would benefit from rapid recovery of Egypt's tourism sector and its realignment with shifting global demand trends toward alternative tourism options, directly, by increasing tourist traffic and enhancing their experience of tourism in Egypt, and indirectly, by increasing demand for all other goods and services as tourism revives and grows in Egypt.
<b>Technical approach and structure</b>	USAID could launch such a fund through various mechanisms, including collaboration or using a structure like the current Egyptian-American Enterprise Fund. Alternatively, such an initiative could also be accomplished through a project or GDA. Given the importance of the tourism sector in Egypt and the threat to the sector due to the current COVID-19 crisis, such a fund would be most effective if not time bound, but instead developed as a private entity that can eventually phase out USAID support.
<b>Sustainability potential</b>	If developed as a private entity, the fund would be sustainable as long as it proves its ability to effect the desired outcomes and continue to grow its resource base through returns on investments and loans and by attracting additional capital.
<b>Potential partners and their roles/Immediate next steps</b>	USAID could begin outreach by contacting donor organizations it has worked with in the past, such as UNIDO and UNDP, or other organizations active in the region, such as the World Bank, to gauge their interest as core funding partners. Next, USAID could engage major hotels (Hyatt, Marriott, and Hilton), mass tourism operators, digital booking platforms, and other large firms with which it already has a relationship. For example, this could include the Ford Foundation, Microsoft, Vodafone, General Motors, GE Foundation, BP, Chevron, and the like. These partners could have an interest in supporting improved transportation or digitalization within the tourism sector. Lastly, USAID could conduct outreach to other new potential partners, such as the Chaudhary Group.

## 5.2.8 CROSS-CUTTING THEMES

**Collaboration Model 16—Support PPD across the Egyptian economy to address enabling environment barriers.**

<b>Collaboration opportunity</b>	PPD directly engages public and private sector stakeholders in an outcome-focused dialogue. PPD works best when it achieves results that directly affect businesses. When both the process and results are communicated to the community at large, including the public and private sectors and civil society, regionally or nationally, then PPD can become a trusted avenue for achieving results. Given the prevalence of enabling environment constraints across the Egyptian economy, PPDs offer a mechanism to engage constructively with the GoE on reform.
<b>Value proposition</b>	PPD can be used to support reform or action agendas across USAID priority areas.
<b>Business case</b>	PPD enables the private sector to work with public sector counterparts to identify priorities and create a framework for reform.
<b>Technical approach and structure</b>	The structure of the PPD will need to be tailored to the specific issues and actors in each sector. In addition to working with some of the more traditional think tanks (like the Egyptian Center for Economic Studies), scope exists for trying to establish more concrete and structured platforms for private sector comment on policies. The opportunity to engaging more non-traditional actors also exists, for example, by training journalists and academics to contribute to the policy discussion.
<b>Potential partners and their roles</b>	<ul style="list-style-type: none"> <li>• <b>Education:</b> Existing private associations and forums for dialogue between private providers and regulatory authorities have been ineffective to date. However, leading private sector players, e.g., CIRA and AUC, have taken new initiatives, co-leading a private education committee under AmCham that USAID can support.</li> <li>• <b>Financial services:</b> Foster dialogue between regulatory entities (CBE and the FRA) and the private sector to streamline regulatory frameworks that are responsive and aligned with advancement and innovation in providing financial services.</li> <li>• <b>Health:</b> Facilitate dialogue among private pharmaceutical firms, the Ministry of Health, and the Egyptian Drug Authority to advocate for reforms in the existing regulatory framework (related to the pricing system and regulatory approval process).</li> <li>• <b>Legal services sector:</b> Take a leading role in developing PPD between private sector law firms and public authorities over required legal system reforms. Absent existing channels, law firms have resorted to participating in workshops organized by public institutions for consultations over legislative and regulatory reforms and/or lobbying through business associations. For example, Shalakany Law Firm has actively engaged in workshops conducted by</li> </ul>



	<p>bodies like GAFI on how to improve the BEE in Egypt and other regulatory bodies (e.g., the Financial Regulatory Authority) when they hold consultations over new legislation. Hassouna &amp; Abou Ali Law Firm have resorted to lobbying through associations like AmCham and the Junior Business Association to advocate for legislative and regulatory reforms.</p> <ul style="list-style-type: none"> <li>• <b>Manufacturing sector:</b> Facilitate dialogue between the private and public sectors to promote the reforms required to develop manufacturing industries. Over the past few years, leading players like El-Araby Group and the Federation of Egyptian Industries have been in dialogue with the authorities (including the Prime Minister and relevant ministries) advocating for legislative reforms (including increasing the minimum requirement of local components) and introducing incentives for MSMEs operating in high-tech manufacturing industries. However, these efforts have yet to bear fruit.</li> <li>• <b>Tourism:</b> Facilitate public-private dialogue with groups such as the ETF, the Tourism Investors Association, the Egyptian Tourism Authority, the Tourism Development Authority, and NUCA that are particularly related to issues of small operators such as improving enabling environment.</li> </ul>
<b>Sustainability potential</b>	PPD, if effectively organized and funded, can be one of the most cost-effective ways of achieving enabling environment reform.
<b>Immediate next steps</b>	USAID should take stock of all PPD efforts across priority sectors and identify operational gaps.

# ANNEX I. KEY INFORMANT INTERVIEW (KII) GUIDE

The following questions are modified from the PSLA How-to Guide (Annex I) and the five questions of the new USAID PSE Policy.

Please make sure to ask each question and take sufficient notes to allow the rest of the team to read the notes, understand what the person said, and generate analysis. Also, if the respondent gives a lackluster answer or does not seem to understand the question as it was asked, please probe each question. We provide an illustrative list of probe examples, use them as you see fit.

SECTION I: RESPONDENT INFORMATION	
Interviewer Name	
Interview #	
Date of Interview	
Platform and Mode of Interview	[Skype, WhatsApp, Telephone, etc.] [Video or call format]
Company Name	
Respondent Position	
Respondent Sex	Man    Woman
Company/Organization Sector	
Company/Organization Key Activities	

## PRIVATE SECTOR QUESTIONS

QUESTION	NOTES
----------	-------

General Business/Organization Information	
1. I would like to learn about your business/organization's activities and programs. Please tell me about your main activities.	
Business Interests	
2. What new opportunities or activities is your organization/business currently pursuing in Egypt?  <i>Probe:</i> For non-profit: In what ways are you expanding programming or activities?	
3. How is your organization/business pursuing these opportunities?  <i>Probe:</i> For non-profit: How are you expanding programming or activities?	
Business Challenges	
4. What are the main challenges to growing/maintaining your business/organization?	
5. How is your business/organization addressing these challenges, including those that may not be within your direct control, but those that affect your operations?	
6. How has your business/organization prioritized its response to these challenges?	
Aligned Interests and Engagement Potential	

7. What development partners have you worked with or would you like to work with in addressing these same challenges? If you have worked with partners, what was the nature of this partnership? (If USAID, please see Section 6)	
8. Can you briefly discuss any current or former corporate social responsibility (CSR) work your business/organization has engaged in?	
9. What, if any, specific factors are currently holding back increased investment in your business'/organization's involvement specific to these support/CSR/engagement programs we have discussed?	
10. How could partners such as USAID help to alleviate or eliminate these challenges?  <i>Probe: In what ways would you envision your business/organization partnering with USAID to solve problems? What would this collaboration look like and why would it be needed?</i>	
<b>Previous Collaboration with USAID</b>	
11. Can you tell me about how this collaboration started, how you collaborated, and how it was designed?	
12. Can you tell me what this collaboration achieved? Was this considered a success? How was success defined? What metrics specifically did you use to define this success?	
13. What did your business/organization learn from this collaboration with USAID? Has it influenced other parts of your business? How?	

### Supplemental: Sector-Specific Questions

Based on the responses to the questionnaire, questions on sector-specific issues and opportunities will be drafted and circulated to the team.

### BUSINESS MEMBER ORGANIZATIONS

Question	Notes
1. How do you work with the Government to resolve challenges related to the business-enabling environment (laws, regulations, and procedures)? Are any particular agencies helpful in resolving these challenges? If so, which one(s) and why?	
2. How effective are your organizations' communications and advocacy efforts in effecting change? Within the Government? Within client organizations?	
3. Have you ever worked with an international donor organization, USAID or other, in support of a particular program or service provided by your organization (business development service, advocacy, market linkages) and/or in support of your organizations' internal capacity development objectives? If so, how and was the program considered a success?	

### DEVELOPMENT PARTNERS

QUESTION	NOTES
1. What economic development programs does your organization support? What other program areas does your organization support (health, education, governance)?	

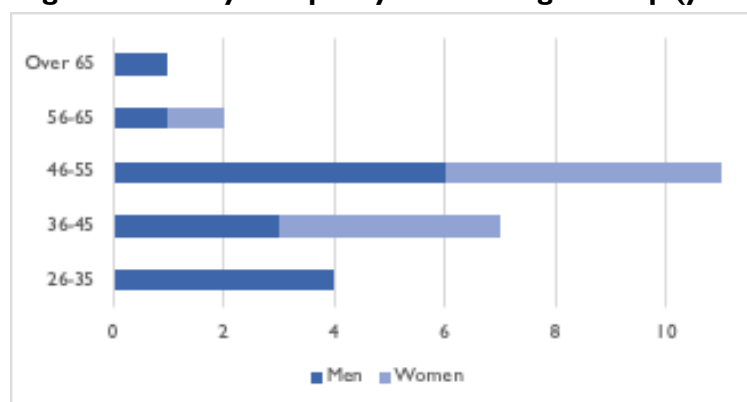
<p>2. Does your organization work in coordination with other development partners? With USAID? If so, how and has this coordination proven useful in furthering the objectives of your programs? Is this collaboration coordinated through a Joint Development Partner Working Group?</p>	
<p>3. Can you provide an example of working collaboratively with USAID to address a development challenge related to private sector development and/or engagement with the private sector as a joint initiative to reach development goals?</p>	

# ANNEX II. SUMMARY OF ONLINE SURVEY

## SECTION 1: RESPONDENT INFORMATION (N=25)<sup>33</sup>

The respondents represented various private sector companies and business membership organizations in Egypt. Figure 1 presents the survey sample by sex and age group in years.

**Figure 1: Survey Sample by Sex and Age Group (years) (n=25)**

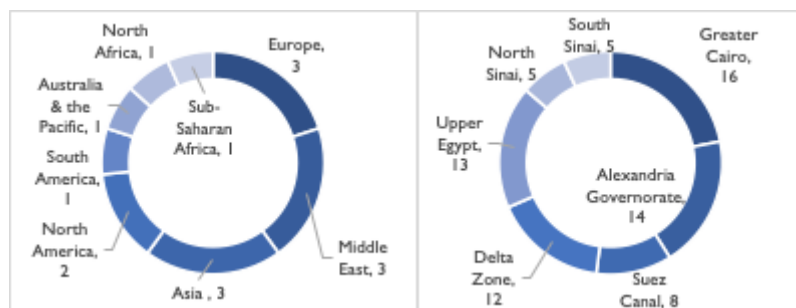


Respondents were in their current role for an average of nine years, although this ranged between zero and 32 years. Company positions represented included Chief Executive Officer, Chairman, Managing Director, Vice President, Board Member, Lawyer, Assistant to Chief Executive Officer, Director, Manager, Foreign Affairs, or Partner.

## SECTION 2: GENERAL BUSINESS/ORGANIZATION INFORMATION (N=20)

Most respondents represented local companies or business organizations (n=16), whereas four were multinational. Figure 2 presents the scope of geographic regions in which the multinational companies have operations and the regions in Egypt within which all respondents operate.

<sup>33</sup> The total number of respondents to start the survey was 25. However, some respondents did not complete the entire survey, stopping at different points. Each section will note the total number of respondents that did answer all section questions.



Respondents represented companies or business organizations across sectors (Table 11), who have been in operation in Egypt from 0–5 years to more than 20 years (Figure 3).

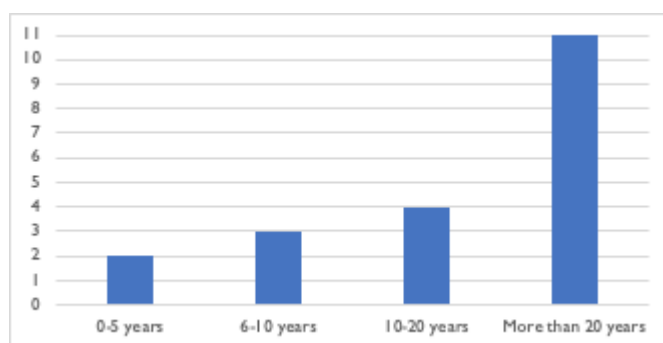


TABLE 11: COMPANY OR BUSINESS ORGANIZATION ACTIVITIES BY SECTOR, KEY SERVICES, AND TARGET DEMOGRAPHIC (N=20)<sup>34</sup>

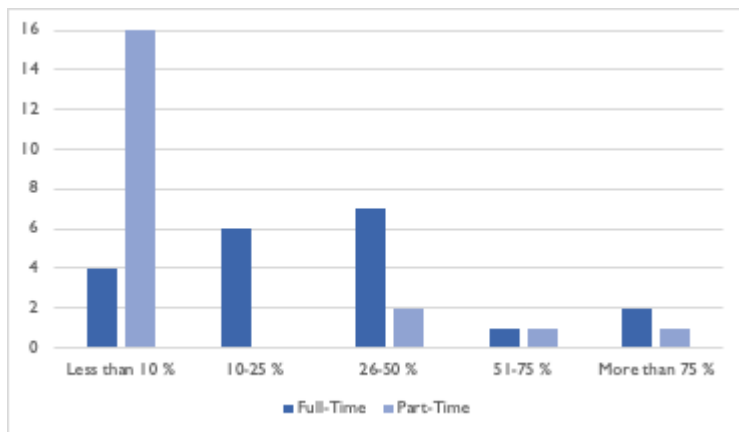
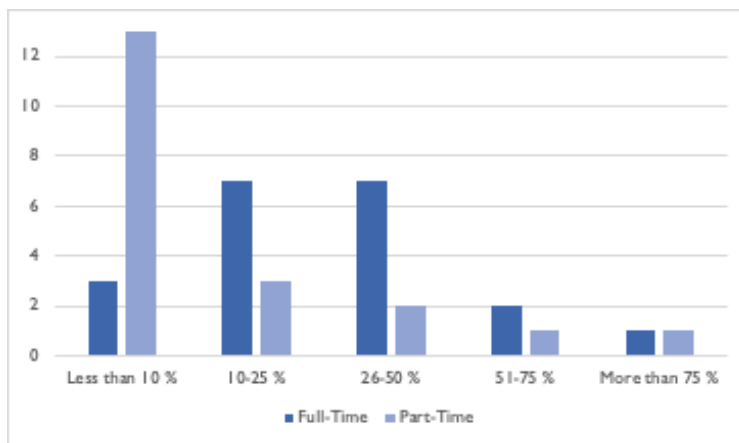
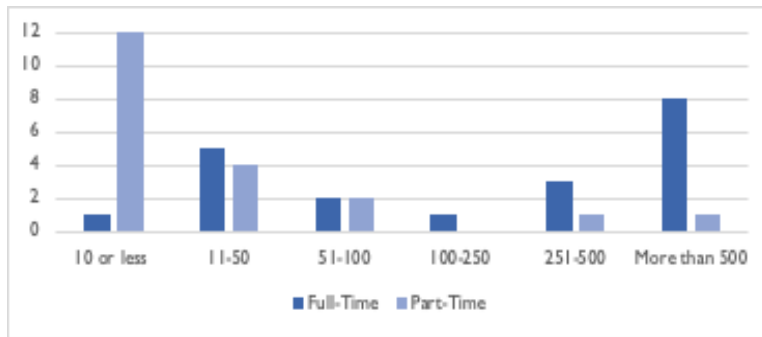
Main Sector of Operations	Key Services, Products, or Mission	Target Demographic
Financial Services (n=1)	-Microenterprise credit	-All microentrepreneurs in non-seasonal activities
Health (n=1)	-Services for job creation, providing high-quality education, addressing health topics, and providing community development for marginalized communities	-Marginalized communities, with a focus on the disabled, women, and children in shelters

<sup>34</sup> Some respondents indicated they operate across two or more sectors.



Agriculture and Food Processing (n=10)	<ul style="list-style-type: none"> <li>-Fresh and frozen agricultural products</li> <li>-Horticultural technical extension services</li> <li>-General and post-harvest logistics</li> <li>-Empowering and providing services to marginalized communities</li> <li>-Organic herbs and spices</li> </ul>	<ul style="list-style-type: none"> <li>-Worldwide</li> <li>-Farmers (small, medium, and large)</li> <li>-Exporters (small, medium, and large)</li> <li>-Distributors in Europe</li> <li>-Marginalized Egyptian communities</li> </ul>
Business and Legal Services (n=1)	-Legal services	-Foreign companies doing business in Egypt and local companies
ICT (n=2)	<ul style="list-style-type: none"> <li>-Technology investments</li> <li>-E-services, correspondence, meetings, quality and archiving management systems</li> </ul>	<ul style="list-style-type: none"> <li>-Startups</li> <li>-Government organizations</li> </ul>
Oil and Gas Cross: Manufacturing (n=1)	-Manufacturing and marketing of floor coverings	-Worldwide
Business Associations (n=2)	<ul style="list-style-type: none"> <li>-Providing services to industry community</li> <li>-Supporting businesses socially and economically, seeking new markets and networking opportunities</li> </ul>	<ul style="list-style-type: none"> <li>-Industry community</li> <li>-Egyptian business community</li> </ul>
Tourism (n=2)	-Building and managing ecolodges	-Tourists in Egypt who seek eco-friendly and authentic travel experiences
Other (n=3) *Textiles, Government Service, and Electronics	<ul style="list-style-type: none"> <li>-Production of clothing and textiles</li> <li>-Manufacturing and distribution</li> <li>-E-services</li> </ul>	<ul style="list-style-type: none"> <li>-All</li> <li>-Government organizations</li> </ul>

Most businesses and organizations represented in our sample had more than 500 full-time employees and 10 or fewer part-time employees (Figure 4). Businesses and organizations in the sample either had women employees represent 10–25 percent (n=7) or 26–50 percent (n=7) of full-time employees and less than 10 percent of part-time employees (n=13) (Figure 5). Businesses and organizations in the sample either had youth employees represent 26–50 percent (n=7) of full-time employees and less than 10 percent of part-time employees (n=16) (Figure 6).



Of the 20 respondents in this section, seven had current agreements with the Government of Egypt. The rest did not.

### SECTION 3: BUSINESS/ORGANIZATION INTERESTS (N=16)

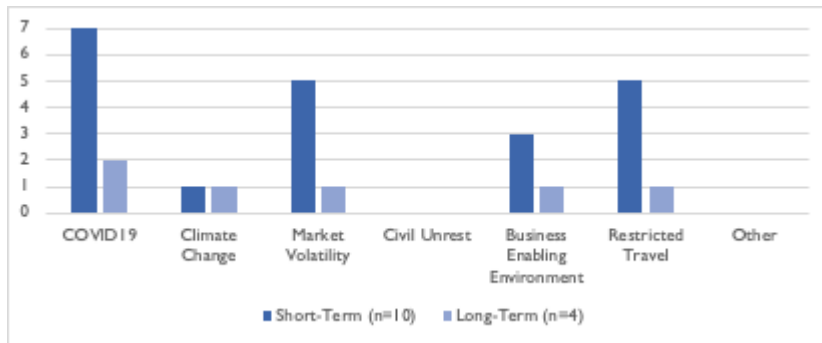
Table 12 presents the growth strategies that businesses or organizations in this survey are currently pursuing to expand operations in Egypt in the near term (1–5 years) and the long term (beyond 5 years).

TABLE 12: GROWTH STRATEGIES BY SHORT/MEDIUM AND LONG TERM (N=16)		
	Short and Medium Term	Long Term
Strategy	Examples	Examples
Increase operations/ production	<ul style="list-style-type: none"> <li>-More products and brands <b>R1</b></li> <li>-Expand clothing production capacity <b>R3</b></li> <li>-Increase distribution <b>R5</b></li> <li>-Engaging new suppliers <b>R5</b></li> <li>-Enforcing our brand by building a new ecolodge in a new location <b>R10</b></li> </ul>	<ul style="list-style-type: none"> <li>-Increase monthly production to reach 80k units from current 30k units <b>R2</b></li> <li>-Achieving growth rates in Egyptian agricultural exports by up to 20 percent <b>R3</b></li> <li>-Reaching full production capacity within five years and reaching the maximum production limit <b>R4</b></li> <li>-More investments to increase production capacity vertically and horizontally to suit the requirements of our customers worldwide <b>R6</b></li> </ul>
R&D/ digitalization	<ul style="list-style-type: none"> <li>-Innovation <b>R2</b></li> <li>-Developing digital content and solutions <b>R7</b></li> </ul>	<ul style="list-style-type: none"> <li>-We plan on continuing the efforts we exert, enhancing our reporting and targeting of ultra-poor, as well as launching an MIS system to better track our partners' data, so we are able to focus on learning and expand our reach <b>R8</b></li> <li>-Develop its products to meet market requirements <b>R10</b></li> </ul>
Enter new markets	<ul style="list-style-type: none"> <li>-Spread geographically <b>R1</b></li> <li>-Enter a new scope of business, for example, in the extraction of medicinal herbs <b>R8</b></li> </ul>	<ul style="list-style-type: none"> <li>-Expansion into practice areas <b>R11</b></li> <li>-We are planning to expand in Egypt by building a new ecolodge in a new location (west bank of Luxor) and, after three years, build our first ecolodge outside Egypt, mainly in Oman <b>R12</b></li> </ul>
Marketing	<ul style="list-style-type: none"> <li>-Improve marketing <b>R9</b></li> </ul>	

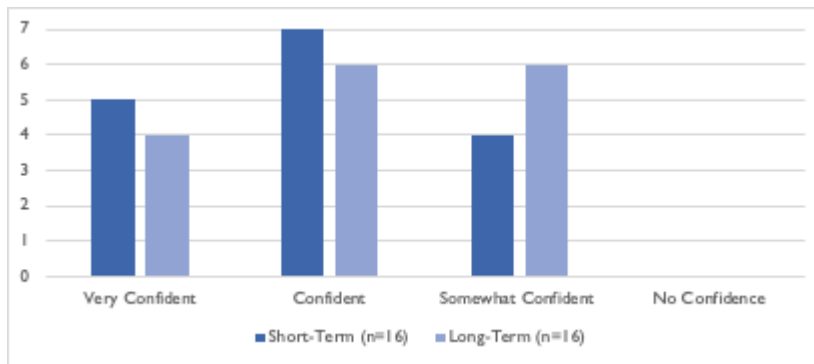
Upgrading	<ul style="list-style-type: none"> <li>-Update dyeing and finishing machines <b>R3</b></li> <li>-Investing in machines and lean manufacturing <b>R5</b></li> </ul>	<ul style="list-style-type: none"> <li>-Use new technology in fabric dyeing and finishing to improve the impact on environment <b>R2</b></li> <li>-Focusing on delivering the highest quality of product to Egyptian households <b>R5</b></li> </ul>
Improving regulatory environment	<ul style="list-style-type: none"> <li>-Cooperating with official authorities in Egypt to work on removing any obstacles to the Egyptian agricultural exports system <b>R4</b></li> </ul>	
Increasing services	<ul style="list-style-type: none"> <li>-Cooperating with the operating authorities in Egypt to provide various services to the agricultural sector <b>R4</b></li> <li>-Providing appropriate technical support to exporters and farmers to raise efficiency and effectiveness <b>R4</b></li> <li>-Cooperating with international agricultural technical experts to train fresh school and university graduates on agricultural best practices <b>R6</b></li> </ul>	<ul style="list-style-type: none"> <li>-Become a prominent leader in transmission of knowledge and innovative concepts that pave the road to the advancement of the Arab community at large. <b>R7</b></li> </ul>
Engage with new partners	<ul style="list-style-type: none"> <li>-Engage with international donors to expand our activities all over Egypt <b>R6</b></li> <li>-Participate in business associations <b>R9</b></li> <li>-Partnering with new tourism companies <b>R10</b></li> </ul>	
Reducing costs		<ul style="list-style-type: none"> <li>-Reducing production cost by applying lean manufacturing techniques <b>R5</b></li> </ul>
Workforce development		<ul style="list-style-type: none"> <li>-Continuous training and coaching of the workforce <b>R5</b></li> <li>-Modernize our vocational secondary school to produce higher and well-rounded graduates <b>R2</b></li> </ul>

**R: respondent number**

Of the 16 respondents in this section, 10 indicated that their short-term growth opportunities had changed significantly since January 2020, and four indicated that their longer-term growth opportunities had changed significantly since January 2020. Figure 7 presents the factors that explain change of short- and long-term growth strategies.

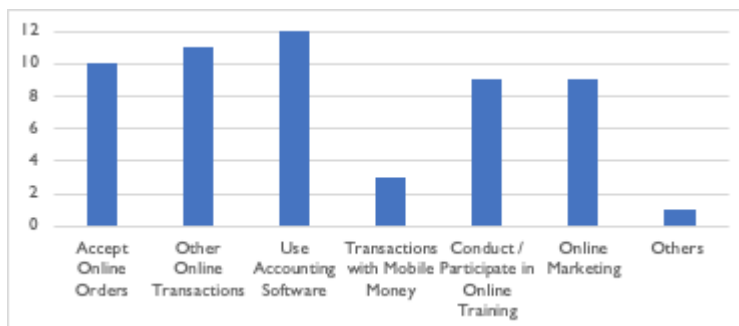


Respondents then indicated the level of confidence they have in their business or organization meeting and realizing short- and long-term growth metrics and strategy. Figure 8 presents the level of confidence respondents reported in meeting these targets in the short and long term.

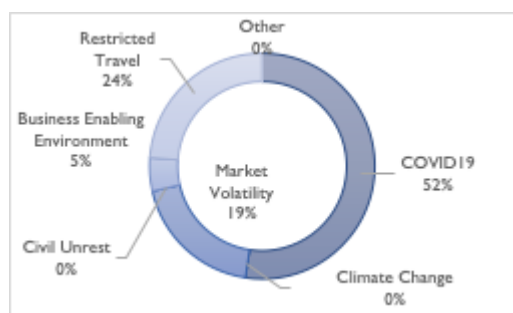


### Digitalization

Respondents indicated they used various digital technologies in their businesses or organizations. Figure 9 presents the types of technologies used. One respondent in the tourism sector indicated they also used online platforms, such as Booking.com or Airbnb, to book tourists/clients.



Eleven out of 16 respondents indicated that their organization/company's use of digital technologies has changed since January 2020. Figure 10 presents factors responsible for the change, as indicated by respondents.



Eight respondents indicated that they needed digital technologies that they did not currently have access to, including the technologies in Table 13.

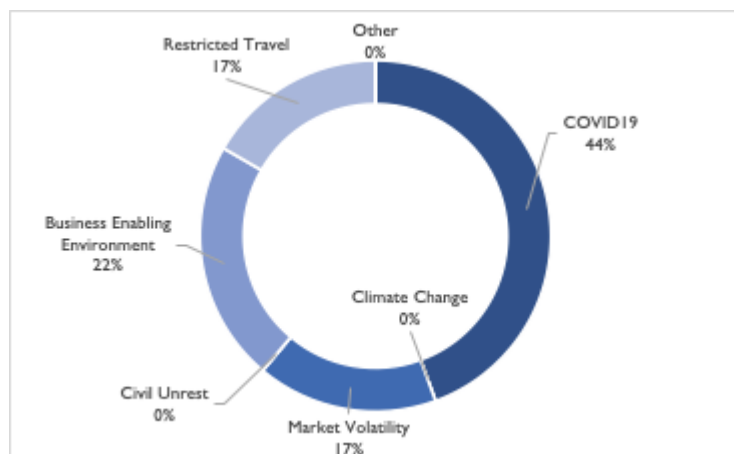
TABLE 13: TECHNOLOGIES COMPANIES/ORGANIZATIONS NEED (N=8)	
Technology Type	Examples
Software or systems	<ul style="list-style-type: none"> <li>-Newer version of Gerber pattern-making software</li> <li>-Integrated ERP systems</li> <li>-Production and quality control terminals</li> <li>-Warehousing and sales invoices by handheld devices</li> <li>-Online payment systems</li> <li>-Constructing own website</li> </ul>
Distance communication tools	<ul style="list-style-type: none"> <li>-Providing council services to members at a distance</li> <li>-Offer financial services remotely</li> </ul>
Marketing tools	<ul style="list-style-type: none"> <li>-Digital marketing</li> </ul>
Access to online retailers	<ul style="list-style-type: none"> <li>-Amazon</li> <li>-Alibaba</li> </ul>

#### SECTION 4: BUSINESS/ORGANIZATION CHALLENGES (N=15)

Respondents were asked to identify up to three challenges their business or organization were currently facing. Table 14 presents the different types of challenges. Ten respondents indicated that these challenges had changed significantly since January 2020, citing the reasons presented in Figure 11.

TABLE 14: CHALLENGES AFFECTING BUSINESSES/ORGANIZATIONS (N=14)	
Types of Challenge	Example
Laws and regulations	<ul style="list-style-type: none"> <li>-Old laws <b>R2</b></li> <li>-Long process when dealing with some authorities <b>R2</b></li> <li>-Lack of consistency in legal environment <b>R7</b></li> <li>-Licensing, as Egypt had no license for ecolodges yet <b>R8</b></li> <li>-Restrictive legislation <b>R9</b></li> </ul>
Workforce/labor issues	<ul style="list-style-type: none"> <li>-Lack of skilled labor <b>R1</b></li> <li>-Recruitment <b>R3</b></li> <li>-No talents or trained personnel <b>R6</b></li> </ul>
Reduced revenue	<ul style="list-style-type: none"> <li>-Significant drop in production orders <b>R1</b></li> <li>-Markets getting slow <b>R4</b></li> <li>-Cash flow <b>R6</b></li> </ul>
Cost issues	<ul style="list-style-type: none"> <li>-High cost of daily transportation of employees <b>R1</b></li> <li>-Increasing manufacturing productivity and reducing production cost <b>R3</b></li> <li>-ERP is too expensive <b>R3</b></li> <li>-Expanding in logistics and pack houses in all governorates due to land exaggerated and over pricing <b>R5</b></li> </ul>
Digitalization	<ul style="list-style-type: none"> <li>-Developing the work online <b>R4</b></li> </ul>
Financing	<ul style="list-style-type: none"> <li>-Funding for our small farmers extension services initiatives <b>R5</b></li> </ul>
COVID19	<ul style="list-style-type: none"> <li>-The outcomes of COVID-19 crisis <b>R9</b></li> </ul>
Market volatility	<ul style="list-style-type: none"> <li>-Instability <b>R7, R8</b></li> </ul>

**R = Respondent number**



Respondents described the most critical risk factor(s) their businesses or organizations were facing to maintain or expand operations in Egypt over the next year. Table 15 presents these factors.

TABLE 15: MOST CRITICAL RISK FACTORS FACING BUSINESSES/ORGANIZATIONS (N=14)	
Most Critical Risk Factor	Example
Market volatility	-Uncertainty of the global markets <b>R1</b> -Loss of business <b>R10</b>
COVID-19	-Travel restriction and the fear of travel <b>R8</b> -COVID-19 <b>R7, R9</b>
Environmental concerns	-Uncertainty of water abundance and prices in near future <b>R1</b>
Unfair competition	-Unfair competition from foreign companies for the government to provide them with facilities and encouragement for more than local companies. Introduce laws for industry and commerce <b>R2</b> -Instability and unethical competition <b>R6</b>
Financing/costs	-Increased cost of production due to lower productivity, cost of labor and hygiene <b>R4</b> -Funding for our extension services initiatives targeting small farmers <b>R5</b>

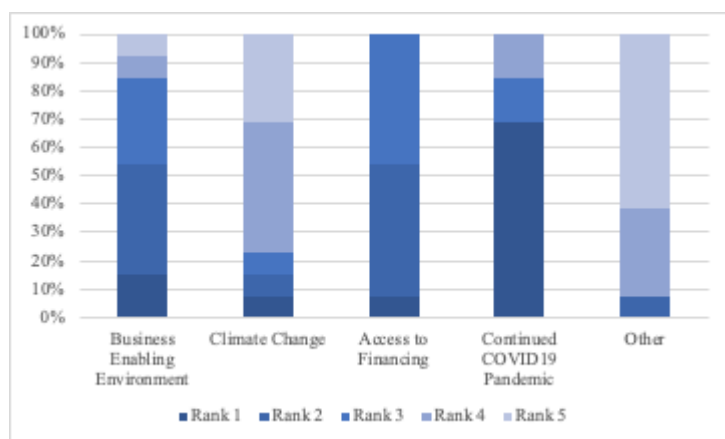
**R = Respondent number**

Respondents were asked to rank the following external factors that are negatively affecting their organizations by level of impact (with 1 having the most negative impact and 5 having the least). Figure



12 presents how respondents ranked external factors by level of negative impact on their business or organization. The COVID-19 pandemic ranked as the most negatively impactful external factor, whereas climate change (outside of “other,” which did not receive a response) was the least negatively impactful. Of the options provided in the “other” category, eight respondents indicated NO RESPONSE. The others provided the following other external factors with associated level of impact on their business/organization:

- “Garment producers in other countries receive government support for their exports, which allow them to offer competitive prices to their customers. In contrast, Egyptian government is very reluctant to pay such support. Interest rate is quite high. Also, free trade agreement with US is still not finalized” (2)
- “Worldwide political issues” (4)
- “Unethical competition and intellectual property” (4)
- “Loss of market opportunities and bad crop year leading to financial losses” (4)
- “Licensing” (5)



Out of 13 respondents, nine indicated having a strategy to overcome these challenges. While 1 respondent indicated these specific strategies were confidential, others explained. Table 16 summarizes strategies and actions plans that businesses and organizations described to overcome the following challenges: business-enabling environment, climate change, access to financing, COVID-19, and others.

TABLE 16: SUMMARY OF STRATEGIES TO OVERCOME CHALLENGES (N=9)	
General Plan/Strategy	Examples
Increased investments/financing	<p>-Increased investors <b>R1</b></p> <p>-Get access to finance from banks <b>R5</b></p> <p>-Use the success of the current ecolodge as case study to convince new investors to join. Banks are still refusing to help tourism sector. <b>R6</b></p>

Climate-friendly	<ul style="list-style-type: none"> <li>-Using climate-friendly products for our floor coverings <b>R1</b></li> <li>-Focus on providing extension services on water management and introduce new crops that are sustainable for climate change <b>R2</b></li> <li>-Raise the awareness about eco-friendly solutions <b>R6</b></li> </ul>
Increase use of digital technologies	<ul style="list-style-type: none"> <li>-Work on digital rather than printed <b>R3</b></li> <li>-Digitize operations and remote working <b>R3</b></li> </ul>
Expand/diversify operations	<ul style="list-style-type: none"> <li>-Open new areas of business <b>R3</b></li> <li>-Work in more than one market <b>R4</b></li> </ul>
Improving business-enabling environment	<ul style="list-style-type: none"> <li>-More cooperation with Ministry of Tourism to change the business environment for MSMEs in tourism <b>R6</b></li> <li>-Presenting position papers to the relevant Governmental agencies <b>R7</b></li> </ul>

**R = Respondent number**

## SECTION 5: COMMUNITY ENGAGEMENT AND CSR ACTIVITIES (N=13)

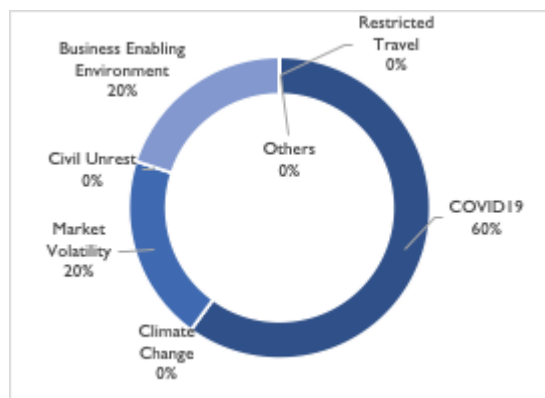
Most respondents indicated having a current sustainability, corporate social responsibility (CSR), or community engagement strategy (n=10). Table 17 outlines the different strategies identified.

TABLE 17: BUSINESS/ORGANIZATION COMMUNITY ENGAGEMENT, SUSTAINABILITY, OR CSR STRATEGIES AND FOCUS AREAS (N=10)	
Main Focus Area	Examples
Women's empowerment	<ul style="list-style-type: none"> <li>-Additionally, we have a childcare facility for mothers to drop off their children during working hours. <b>R1</b></li> <li>-Women's financial empowerment and community support <b>R6</b></li> </ul>

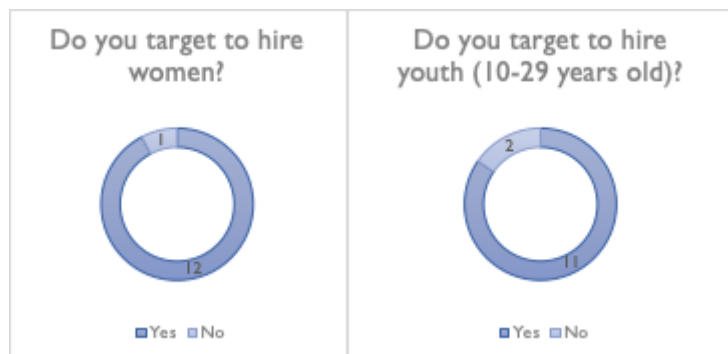
Clean water/environmental sustainability/energy	<p>-In the current period, we are focusing on projects to provide clean water to the neediest areas and help with health care. <b>R2</b></p> <p>-Clean energy for factory production. <b>R3</b></p> <p>-Sustainable use of resources. Waste reduction. <b>R4</b></p> <p>-We help local communities to discover their own Natural &amp; Cultural Heritage treasures...Put it in action using Tourism practices, to receive financial and psychological benefits. We aim to help original inhabitants of the island to rebuild their houses, using the same old techniques of Nubian Architecture, in parallel to develop a complete utilities network and infrastructure (Water – Sewage – Electricity) in an eco-friendly way to protect the island's natural heritage. <b>R7</b></p>
Workforce/youth development	<p>-We established a vocational school and allowed students to use our production facilities for training. This school is completely subsidized by the company. Students are offered employment opportunities upon graduation at the factory. Throughout their school years, students are given a monthly allowance. <b>R1</b></p> <p>-Incubating startups in the same fields <b>R5</b></p> <p>-As for job creation, we aim to add the island to the Egyptian ecotourism map, and introduce this unique type of tourism in the whole area around it, with all related services such as: lodging in Nubian houses, revive authentic Nubian food recipes and drinks, community center for local and visitors' events, Nubian handicrafts preservation. <b>R7</b></p>
Health	<p>-We also offer completely subsidized private health insurance for the employees. <b>R1</b></p> <p>-Health development <b>R9</b></p>
Education	<p>-Education and training <b>R8</b></p> <p>-Education development <b>R9</b></p>
Food safety	<p>-Raising awareness about food safety with suppliers and labor. <b>R4</b></p>

**R = Respondent number**

Of these 10 respondents with a current strategy, four indicated that this strategy had significantly changed since January 2020, for reasons presented in Figure 13.



Of the 13 respondents, a majority indicated they have targeted recruitment practices to hire women and youth (Figure 14).



Respondents listed several CSR or community engagement activities and programs (Table 18).

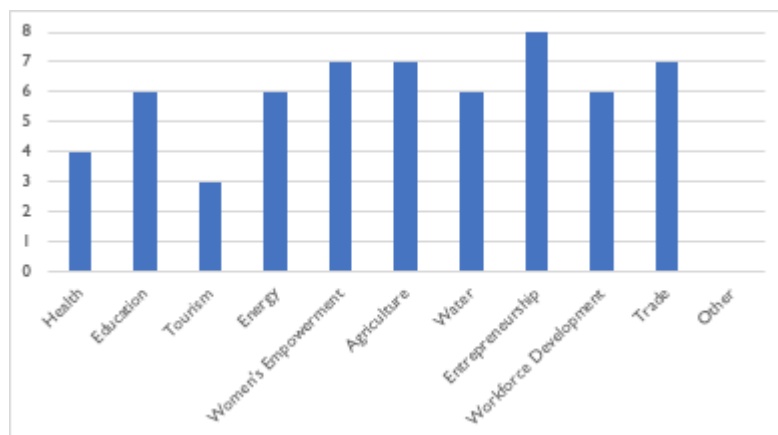
TABLE 18: EXAMPLES OF CSR OR COMMUNITY ENGAGEMENT ACTIVITIES (N=10)	
Category	Examples
Youth development	Summer jobs for undergraduates; targeting hiring for undergraduates with no prior experience; encouraging youth to be financially independent; sports activities; participating in job fairs for young lawyers
Food security	Providing foodstuffs

Environmental sustainability and energy	Desalination plants; drilling wells; waste reduction; clean energy in production
Health	Equipping hospitals; providing financial and medical aid; raising awareness on hygiene
Women's empowerment	Childcare; hiring and training women; offering equal opportunities and equal pay
Workforce development	Providing trainings; providing employment; established vocational technical and employment center to provide top-quality vocational training and workforce support (a model of excellence in workforce development); established the Middle East Development Center for executive and management training center
Agriculture	Raising awareness on best practices for pesticides with small farmers and helping them build integrated pest management programs; raising awareness for best practices on irrigation management and health management; assisting small farmers
Education	Providing free educational services to students, teachers, and parents
General community development	Providing financial aid to build roofs, schools, mosques, housing supplies, equipment, and brides support to local communities; using local homes for tourism purposes and thus creating source of revenues for local residents

Challenges reported for implementing sustainability, CSR, or community engagement activities include the lack of funding to implement or follow up on projects (n=5), difficult procedures or regulations in Egypt (n=3), supporting actually sustainable projects (n=1), and COVID-related challenges (n=1). As one example, a tourism company explained, "Tourism policies provided by the ministry of tourism [is a challenge]. [They ask] for the staff to have a tourism degree" and further indicated that the "tourism police" can be an inhibiting factor to implementing CSR or community engagement activities.

## **SECTION 6: ALIGNED INTERESTS AND ENGAGEMENT POTENTIAL (N=12)**

Respondents were asked, "would your business/organization be interested in collaborating with USAID in any of the following areas for positive impact within the communities in which you work?" and were able to select all areas of interest that applied. Figure 15 presents the areas respondents selected.



The areas that respondents expressed most interest in including entrepreneurship (n=8), followed by women's empowerment (n=7), agriculture (n=7), and trade (n=7). No respondent indicated another option outside of those listed.

## SECTION 7: EXPERIENCE WITH USAID (N=12)

All but three respondents (n=9) had worked with USAID or another donor partner previously. Six respondents had worked with USAID; others had worked with the European Bank for Reconstruction and Development (EBRD), Industrial Modernization Centre (IMC), WISE International, International Finance Corporation (IFC), Government of the Czech Republic, Government of Japan, ExxonMobil, and others.

Of the six respondents that had previously worked with USAID, they collaborated in the following projects or areas:

- Project WISE, including through a Renewable Energy Program for Vocational Schools;
- A training center and pack house for agricultural crops in upper Egypt (through the Advanced Marketing and Agribusiness Logistics GDA);
- The National Book Program;
- A renewable energy program for vocational schools;
- UN Women project funded by USAID;
- MSMEs; and
- Education.

Of the previous collaborations, three respondents indicated contributing money (n=2) and/or in-kind (n=3) resources. Three respondents did not contribute money or in-kind resources to the collaboration. Most respondents (n=4) had a high level of input into the design of their collaboration with USAID, whereas one had a minimal level of input and the other had no input.

Respondents described the process of collaborating with USAID positively. For example, one wrote, “[It was a] positive collaboration based on mutual trust and benefit,” and another wrote, “USAID personnel is very professional and keen on supporting us to succeed.”

All respondents who had previously collaborated with USAID (n=6) considered the collaboration a success. Respondents defined success as outlined in Table 19.

TABLE 19: SELECTED DEFINITIONS OF SUCCESS FOR PRIOR USAID COLLABORATION
“The project succeeded in achieving tangible targets, motivating participants, and raising awareness. After the project ended, workers and employees kept asking when will be involved again in similar projects.” <b>R1</b>
“Exporting for the first time from Luxor directly to Europe 4,200 tons of fresh produce (table grapes, mango, pumpkins, green beans). Extension service best practices field days to 5,500 farmers. Post-harvest best practices training to 6,500 beneficiaries, of which 75 percent represent farmers, Agri-associations staff, Member of production organization, Packhouse and cold store management staff, Packhouse casual labor, University graduates, and 600 women. 25 percent increase gross margin per hectare in green beans. 47 percent increase in sales per hectare. Created more than 78,000 seasonal labor days. Creating 866 part time jobs for trained laborers (women). Linking nine associations in upper Egypt with six exporters through 28 forward contracts (green beans, onion, herbs and fennel). Building international marketing capacity to 15 associations, resulting in narrowing the gap between small farmers and exporters.” <b>R2</b>
“We did our role and our teams got prizes in the international competition.” <b>R3</b>
“The MSMEs project is considered one of the world's best practices in microfinance.” <b>R4</b>

**R = Respondent number**

Respondents did share a few challenges with working with USAID, mostly concerning time, difficulty in applying, and compliance. For example, one respondent shared that the “lengthy decision process” was a challenge. Another shared more in-depth feedback: “For the projects to be sustainable, we need more time. We needed more visits by the consultants and a longer time span, especially with regards to lean manufacturing, because it requires a change of behavior. For the project to be sustainable, we need weekly visits by the consultant during one year for design and implementation of the project, in addition to one more year for follow up and sustainability.”

Regarding sustainability of the USAID collaboration project, half of the respondents (n=3) indicated their project was sustainable. One respondent explained why for an MSME project: “This is due to the diversification of different credit programs and the innovative use of tools to achieve its objectives. MSME project has its independent management with an autonomous nature overseen through ABA Board and its own executive.”

Respondents shared USAID’s most valuable contribution to these collaborations including the technical capacity of USAID consultants, equipment and resources, and provision of opportunity and support (Table 20).

TABLE 20: USAID'S MOST VALUABLE CONTRIBUTION
“The selection of the consultants, who worked with us, was great. The design of the lean manufacturing project was really good, though we needed more coaching. And the discussions with management, professionalism. and experience of the USAID staff.” <b>R1</b>
“Furbishing our center of excellency and the pack house with latest equipment and technology.” <b>R2</b>
“Provided a chance for our organization to contribute to the learning and development of students.” <b>R3</b>
“Financing the project.” <b>R4</b>
“Supporting [the] UN Women project.” <b>R5</b>
“Funding and technical support.” <b>R6</b>

***R = Respondent number***

In summary, all respondents (n=12), regardless of whether they had prior experience with USAID, indicated that they would be interested in collaborating with USAID in the future.



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