Draft State Ownership Policy Document

Summary and Key Highlights

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PREFACE

The Draft State Ownership Policy Document sets forth the details of the national strategy aimed at empowering the private sector and expanding its participation in targeted investments of $10 bn per year for four years, in addition to regulating the state's presence in economic activity to complement the adopted governmental reforms.

According to Prime Minister Mostafa Madbouly, the State Ownership Policy Document is a significant step toward expanding opportunities for private sector participation in the economy as it sends a message of assurance to local investors, serves as a lure for foreign investment, and contributes to heightening international institutions' confidence.

The State Ownership Policy is made up of the below-mentioned seven main pillars demonstrating the state's goals, among which are raising economic growth, the government's intention to ***maintain, reduce, or exit over the next three years from several economic and industrial sectors*** as part of its plans to restructure the economy, in addition to offering an outline on the ***strategic sectors which will continue to witness state involvement.***

The pillars of the State Ownership Policy are as follows:

First Pillar: Objectives and Methodology of the State's Ownership Policy

Second Pillar: Main Guidelines of the State's Ownership Policy

Third Pillar: The Sovereign Fund of Egypt's Role in Enhancing Private Sector Participation

Fourth Pillar: Forming Public-Private Partnerships (PPPs)

Fifth Pillar: State's Presence in Economic Activities

Sixth Pillar: Principles of Competitive Neutrality and the Enabling Legislative Environment for Economic Activity

Seventh Pillar: M&E of the State's Ownership Policy

Pillar 1 | Objectives and Methodology of the State's Ownership Policy

The State's Ownership Policy targets the following objectives:

- Raising the economic growth rate to between 7% to 9% through raising investments; with the aim of contributing to job creation and consequently reducing the unemployment rate.
- Empowering the private sector and providing various opportunities for its participation in all economic activities, which would in turn increase the private sector's economic contribution to GDP, investments, government revenues, and exports.
- Focusing the state's intervention, in the form of pumping investments or ownership of assets, in key strategic sectors including those prone to market failure (such as infrastructure), where the development of such sectors would be directly reflected as an improvement in the private sector's business environment.
- Rationalizing public spending that would support the government's budget; achieving fiscal discipline; ensuring financial sustainability; and enhancing the state's financial ability to support social safety nets.

Pillar 1 | Objectives and Methodology of the State's Ownership Policy

The main criteria for mapping the state's presence in the economic activity and empowering the private sector are as follows:

1. Classification of the good/service; whether it is related to national security (including necessity goods for citizens).
2. Extent to which the sector/activity is capable of attracting private investments.
3. Level of profitability of state-owned assets.
4. Ensuring that public investments do not crowd out private investments
5. Ensuring the state's presence as an organizer, financier and supporter of technological industries related to the Fourth Industrial Revolution with the aim of localizing in Egypt.
6. State's withdrawal from fully saturated industries/sectors which do not need state support.

Pillar 1 | Objectives and Methodology of the State's Ownership Policy

The draft Policy identified the following three dimensions regarding the state's ownership and government investments in different economic sectors and industries:

1. Plan to exit some economic/industrial sectors within 3 years: There are some sectors that the government intends to "exit" over the next three years. To note, "exit" doesn't necessarily mean fully exit. Across some industries in this group, such as food and drink, the government intends only to hand over management to the private sector, yet will retain ownership of the assets.

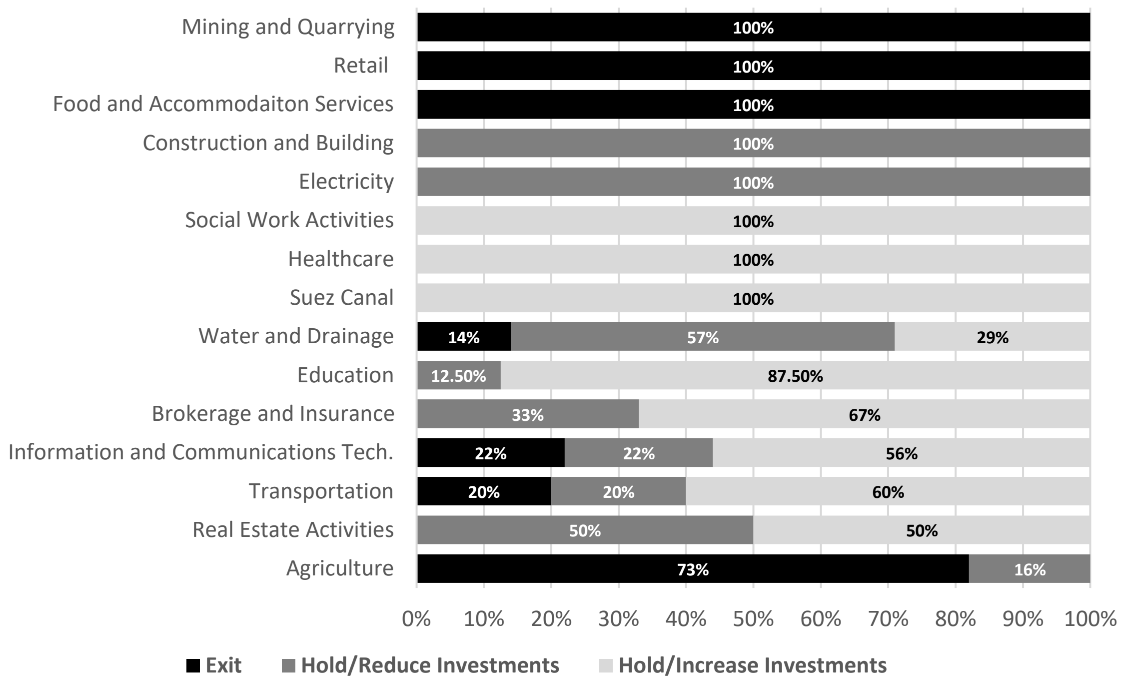
2. Plan to maintain/reduce state investments in some economic/industrial sectors while allowing the private sector to participate in some of them: The government will phase out its involvement in other sectors, where such sectors will see greater private sector participation over time.

3. Plan to maintain/increase state investments in some economic/industrial sectors, according to the prevalence of their strategic or social dimensions, while allowing the private sector to participate in some of their activities: These are sectors the government considers strategic and are mostly infrastructure-related. As per the Policy, the private sector could be allowed to increase ownership in some of these sectors.

Key Highlights of the State Ownership Policy in Economic Sectors:

The graph below shows the percentage of activities in each of the listed economic sectors from which the government will exit, maintain/reduce, or maintain/increase investments. For the agriculture sector for example, the government plans to withdraw from more than 70% of the sector's activities, and maintain, with the tendency of reducing its investments and increasing private sector participation in around 16% of the sector's activities. For the retail sector, the government plans to fully exit all the sector's sub-sectors within 3 years.

Plan for Government Investments per Economic Sector (% of Activities)

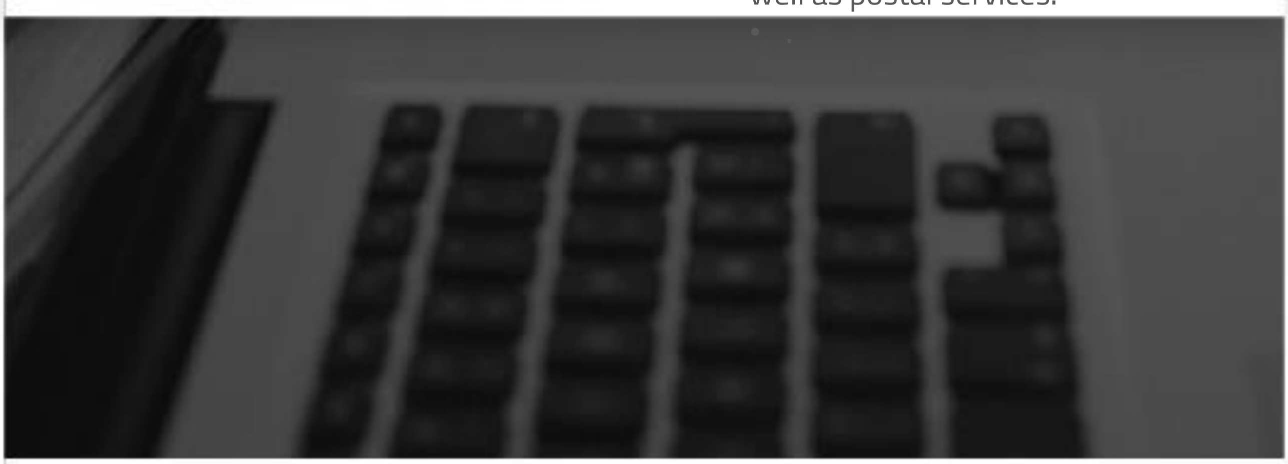


The economic sectors which the state plans to exit include:

- Some agricultural activities such as: cereals except wheat; fish farming; livestock; horticultural crops; and forestry (planting forests' trees).
- Some transportation activities such as: establishing dry and land ports; and river transport.
- Water production activities (plants for producing drinking water from desalination plants).
- Some information and communications technology activities, such as: software engineering activities; computer consulting; and TV publishing and production activities.
- Accommodation and food services activities.
- Retail trade.
- Construction and building activities, such as: buildings' construction (with the state continuing to provide relatively-average social housing); civil engineering; and specialized construction activities.

The economic sectors which the state plans to maintain/reduce its investments in, while allowing private sector participation, include:

- Some transportation activities, such as: containers' maintenance and operation; and metro management, operation and maintenance.
- Pre-primary education.
- Agricultural dairy activities.
- Real estate ownership.
- Financial intermediation activities
- Wastewater activities, such as: wastewater collection networks, lifting stations, and treatment plants; in addition to the collection, treatment and recycling of wastes.
- Mining and quarrying activities, such as: coal mining; petroleum and natural gas extraction; mining of metal and mineral ores; and mining-related service activities.
- Some of the electricity sector's activities, such as: electricity generating stations; transmission and distribution networks; and gas and air conditioning supply.
- Some information and communications technology activities, such as: internet and mobile phone services provision; as well as postal services.



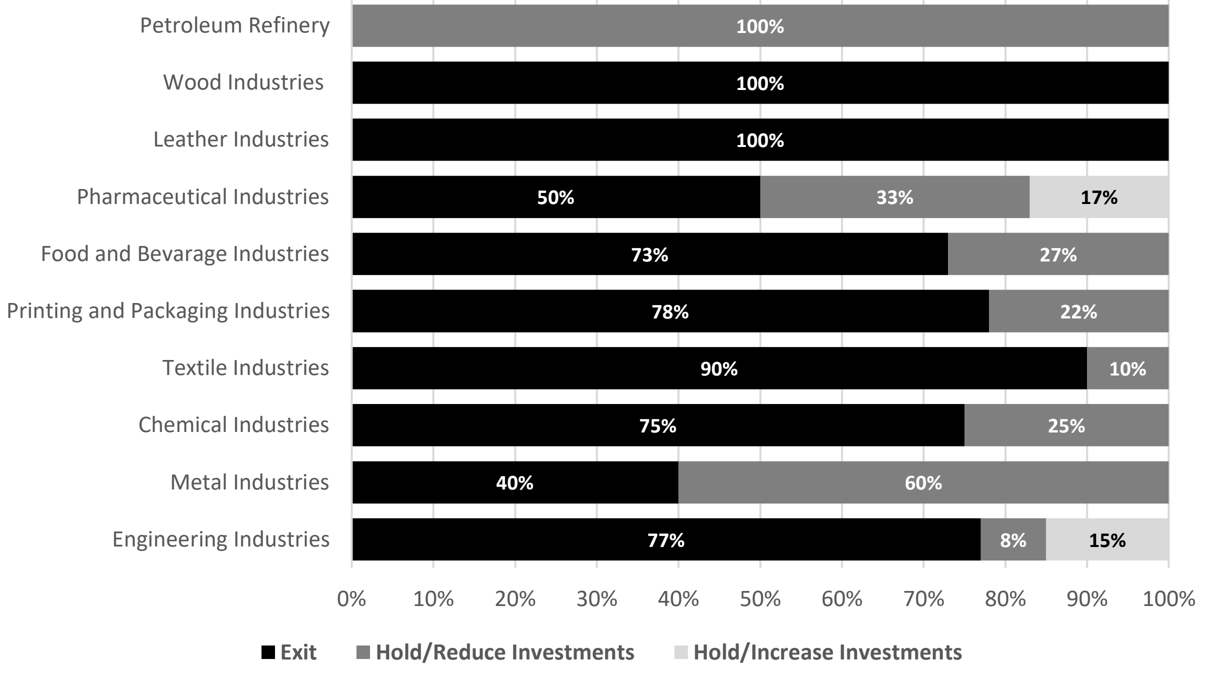
The economic sectors which the state plans to maintain/increase its investments in, while allowing private sector participation, include:

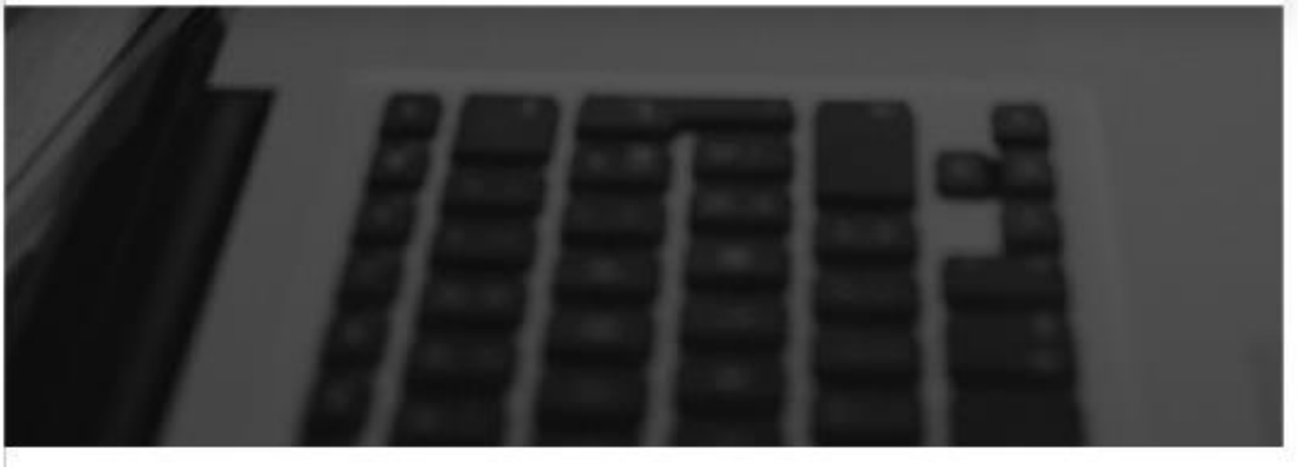
- Some transportation sector activities, such as: construction of sidewalks and infrastructure for marine transportation, railways, and metros; in addition to the management, operation and maintenance of railways and air transportation.
- The education sector from primary education to general, industrial, agricultural and commercial secondary education; and education-related activities.
- Water production activities (plants for producing drinking water from surface water sources).
- A number of activities in the water service sector (plants for the production and raising of drinking water from surface water sources).
- Activities related to the Suez Canal: the Suez Canal Economic Zone; and ships transiting the Canal.
- Healthcare sector.
- Social work activities.
- Wholesale trade.
- Some insurance and brokerage activities, such as: financial brokerage; and the insurance and provision of credits for pensioners.
- Some information and communications technology activities, such as: telecommunication services; publishing activities; and radio and TV broadcasting.

Key Highlights of the State Ownership Policy in Industrial Sectors :

The graph below shows the percentage of activities (sub-sectors) in each of the listed industrial sectors from which the government will exit, maintain/reduce, or maintain/increase investments. For the engineering industries sector for example, the government plans to withdraw from more than 70% of the sector's activities, and maintain, with the tendency of reducing its investments and increasing private sector participation in around 8% of the sector's activities, in addition to maintaining with the tendency of increasing its investments in 15% of the sector's activities. For the leather industries sector, the government plans to fully exit all the sector's sub-sectors within 3 years.

Plan for Government Investments per Industrial Sector (% of Activities)





The industries which the state plans to exit include:

- Leather industry
- Wood industry
- Engineering industry activities, such as the manufacture of electrical appliances and equipment; automotives; machinery; and electronics.
- Food and beverage industry activities, such as: slaughterhouses; production of frozen and fresh vegetables and fruits; manufacture of agricultural crops; manufacture of dairy and juice products; and manufacture of oil products.
- Metal industry activities, such as gold crafts and foundries.
- Chemical industry activities, such as: paper manufacturing; and industrial manufacturing of detergents, fertilizers, glass, and coke (fuel).
- Textile industry activities, such as: cotton pressing, dyeing and printing; ready-made clothes; and furnishings.
- Printing industry activities, such as: manufacturing of and printing on corrugated board, and paper converting.
- Pharmaceutical industry activities, such as: perfume industry, medicinal plants, etc.

The industries which the state plans to maintain/reduce its investments in, while allowing the private sector to participate in some of them, include:

- New energy fields in engineering industries.
- Food and beverage industry activities, such as: poultry and fodder industries; candy industry; and the tobacco industry.
- Metal industry activities, such as: metal forming of iron and copper; and manufacture of aluminum and copper.
- Chemical industry activities, such as: batteries industry; and charcoal and coke industries.
- Textile industry activities, such as ginning and weaving of cotton and wool.
- Pharmaceutical industry activities, such as: manufacture of medical supplies, and pharmaceutical chemical engineering.
- Petroleum refining activities.

The industries which the state plans to maintain/increase its investments in, while allowing the private sector to participate in some of them, include:

- Engineering industry activities, such as: manufacture of ships and boats; and manufacture of semiconductors.
- Printing industry activities, such as: offset printing; digital printing; and newspaper and magazine printing.
- Pharmaceutical manufacturing.

Pillar 2 | Main Guidelines of the State's Ownership Policy

A number of principles will be considered when implementing the State Ownership Policy in order to ensure its successful implementation, including:

1. The state's exit plan will be gradual, and could be in short-term stages.
2. The strategic and security dimensions of economic activities will be taken into account when making decisions about the state's ownership of assets.
3. The commitment to the Egyptian constitution's provisions stipulating government investments in certain sectors such as education and health.
4. The Policy will target efficient allocation of economic resources.
5. A post-exit plan will be set to minimize "unfavorable" repercussions on revenues and employees.

Pillar 3 | The Sovereign Fund of Egypt's Role in Enhancing Private Sector Participation

In light of the importance of the infrastructure sector, particularly as one of the important sectors attracting investments, there is a global trend for states to play a regulatory and supervisory role through which the private sector invests in various infrastructure projects, according to specific technical parameters set by the state, which are then handed over to the state at the end of the agreed projects' lifetime. Accordingly, this saves the state the burden of reinvesting again in the long term to establish an alternative to these infrastructure facilities after a period of time.

The Sovereign Fund of Egypt participates in the process of expanding the establishment of infrastructure projects in general, and strengthening state-owned assets in particular, without crowding out private sector investments. The Fund also works, through its partnerships with the private sector, to support a number of social sectors, especially the education and health sectors.

With regards to agreements concluded by the Fund, some partnership projects have been implemented with attractive internal rates of return on investment (IRR) ranging between 30% and 40%. These projects target:

- Enhancing the competitiveness of the educational and health services to ensure a balance between the service's quality and price for middle-income segments.
- Preserving the strategic dimension of the state in the education and health sectors.
- Maximizing the return on state-owned assets.
- Encouraging private investments.

Pillar 4 | Forming Public-Private Partnerships (PPPs)

The importance of establishing PPPs lies in the potential of benefitting from the significant economic gains resulting from the adoption of Fourth Industrial Revolution (4IR) technologies, most notably the artificial intelligence, where international estimates indicate that there are opportunities to increase the Egyptian economy's gains as a result of adopting such technologies by about USD 43 bn by 2030. The state is therefore planning to explore PPPs in 18 tech industries with the aim of supporting the country's digital transformation.

The program for PPPs formation to improve the efficiency of state-owned assets will focus on forming partnerships with the private sector through the implementation of joint projects in a variety of sectors aimed at increasing productivity and supporting the competitiveness of the Egyptian economy; smart resource management; capacity building and development of Egyptian workers; and the digitization of the existing manufacturing system. Hence, the program aims to establish several projects **in the 18 tech industries mentioned in the following page.**

In order to achieve a leading global position in 4IR technologies by 2030, the State will work to facilitate the role of the National Alliance for the Fourth Industrial Revolution, which is funded by the Academy of Scientific Research and Technology (Ministry of Higher Education and Scientific Research) led by the Ministry of State for Military Production, and in coordination with the Federation of Egyptian Industries.

The State aims to also improve the legislative and regulatory environment and ensure law enforcement in order to aid the economy's transition towards next-generation technologies including cybersecurity, digital security, personal data protection, intellectual property rights, industrial models, AI governance, and patent and trademark registration.

The program aims to establish several projects in the following 18 tech industries:

- Artificial Intelligence (AI)
- Internet of things (IoT)
- 3D printing
- Smart Transportation Systems and Self-Driving Cars
- Digital Security
- Cybersecurity
- Cloud Computing
- Communication Technologies: Fifth and Sixth Generations (5G & 6G)
- Smart Supply Chains and Logistics
- Modern Financial Technologies (FinTech)
- Big Data
- Genomic Medicine and Smart Healthcare Systems
- Bioengineering and Nanotechnology
- Smart Defense Systems
- Smart Cities
- The Future of Water and Food Security: Smart Farming and Irrigation Systems
- The Future of Energy: Enhancing Energy Storage and Export Capabilities
- Academic Institutions and Centers of Excellence: Applying the Fourth Industrial Revolution (4IR)

Pillar 5 | The Guidelines Governing the State's Presence in Economic Activities

With respect to state-owned enterprises (SOEs) which the state is planning to retain, the state will adhere to the OECD Guidelines on Corporate Governance of State-Owned Enterprises. These Guidelines represent an internationally agreed-upon standard for how governments should exercise the state ownership function, in addition to giving concrete advice to countries on how to manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent.

Pillar 6 | Principles of Competitive Neutrality and the Enabling Legislative Environment for Economic Activity

In order to achieve long-term productivity development in Egypt, regulatory changes at the state level and in key sectors must be implemented. Since business institutions engage in the same activity, market-regulating and competition-supportive procedures are critical in encouraging investment and innovation, which leads to increased productivity and employment. The state then aims to provide a level playing field for all businesses, regardless of their ownership or value. The state intends to attain the following goals based on the most significant foundations of the OECD:

- Strengthening the legal framework supporting competitive neutrality between companies, while maintaining it in the enforcement of the laws related to competition and bankruptcy.
- Subjecting competing activities to the same regulatory environment and enforcing regulations with the same degree of transparency.
- Enhancing transparency and disclosure regarding the performance of state-owned enterprises and general business activities, while operating in line with all principles and laws that guarantee fair, non-discriminatory and transparent terms of competition in government procurement processes.
- Ensuring that no institution, regardless of its ownership, nationality, or legal form, is granted any undue advantage.
- Fostering a competitive environment in addition to raising the efficiency of state-owned enterprises without providing any advantages that distort competition.
- Conducting a periodic review of the sectors in which the state is present in the economy, in order to ensure transparency regarding the objectives of the state's presence in the various sectors.

Pillar 7 | Monitoring and Evaluation (M&E) of the State's Ownership Policy Execution

Regular evaluations and assessments are required as part of the execution of the State Ownership Policy to determine if SOEs are still required in line with the established strategic viewpoint. Germany, for example, performs bi-annual ownership policy reviews and emphasizes that the more competitive the industrial market grows, the more rationale there is for partial/total exit of the state, especially if the private sector can deliver the product/service more effectively.

Assets' portfolio assessments also take into account local and global economic trends, as well as analyses of the outcomes of restructuring operations, for example, the restoration of the government's participation in some industries in the wake of the COVID-19 pandemic.

In this context, a set of impact indicators, such as indicators of the private sector's contribution to GDP, investments, and employment, as well as indicators of the efficiency and profitability of state-owned assets compared to those achieved by the private sector, will be used to assess the overall impact of implementing the Policy. This is with the aim of providing benchmarks for measuring the efficiency of the State Ownership Policy across time periods or economic sectors thus helping in the evaluation of the medium and long-term paths.

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