FDI Qualities Review of Egypt

Connecting Foreign and Domestic Firms for Productivity and Better Jobs

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CONNECTING FOREIGN AND DOMESTIC FIRMS FOR PRODUCTIVITY AND BETTER JOBS

OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

This *FDI Qualities Review of Egypt* examines how foreign direct investment (FDI) can contribute to productivity, innovation, job quality, and skills development. While foreign investment serves as a vital source of financing for Egypt, sustaining and deepening the current reform efforts is essential to ensure its benefits are more equitably distributed across society and to foster the growth of a knowledge-based economy. The review evaluates the policy and regulatory environment shaping technology transfer from foreign multinationals to small and medium-sized enterprises (SMEs). It offers policy recommendations to strengthen the spillover potential of FDI, enhance the ability of Egyptian SMEs to absorb new knowledge, and strengthen Egypt's integration in global value chains.

The review was prepared by the OECD in co-operation with the Ministry of Planning, Economic Development, and International Cooperation (MPEDIC) and the General Authority for Investment (GAFI), and with the support of a dedicated taskforce that included the Micro, Small and Medium Enterprises Development Agency (MSMEDA), Industrial Development Authority (IDA), Information Technology Industry Development Agency (ITIDA), Technology and Innovation Entrepreneurship Centre (TIEC), Export Development Authority (IDA), Industrial Modernisation Center (IMC), the National Council for Women (NCW), and the Central Agency for Public Mobilisation and Statistics (CAPMAS). Guidance, support, and inputs from MPEDIC's Heba Youssef and Nur Islam and GAFI's Amr Abou El-Foutouh, Heba Abdellatif, Radwa Kamouna, Eman Mansour, and Fatma Safwat Abdelaziz were instrumental to successful completion of the review.

The review was drafted between January 2024 and September 2025, drawing on in-person consultations conducted in May 2024 and virtual meetings over the drafting period. Chapters 1 and 2 focus on assessing the contribution of FDI to the national economy. Some figures use Egypt Economic Census 2017/2018 and the 2024 World Bank Enterprise Survey of Egypt. The two chapters do not evaluate existing strategies, policies, or institutional frameworks. Chapter 3 reflects the policy and reform landscape and does not consider recent policy developments, including recent government strategies or private sector reform initiatives. The report was declassified by the OECD Investment Committee on 28 November 2025.

This review is part of the OECD FDI Qualities Initiative and an output of the EU-OECD Programme on Investment in the Mediterranean. The FDI Qualities Initiative provides governments with the data, tools, and standards to assess the contribution of FDI to sustainable development and identify policies to increase its positive impacts. The EU-OECD Programme on Investment in the Mediterranean supports investment reform efforts that contribute to job creation and sustainable growth in the Middle East and North Africa region. This review builds on the longstanding co-operation between Egypt and the OECD under the MENA-OECD Competitiveness Programme. Egypt is an adherent to the OECD Declaration on International Investment and Multinational Enterprises and has completed an OECD Investment Policy Review in 2019. The FDI Qualities Review of Egypt was financially supported by the European Union.

The review was prepared by Stratos Kamenis and Letizia Montinari of the OECD FDI Qualities and Impact team, Sustainable Investment Unit, Investment Division, Directorate for Financial and Enterprise Affairs, and Derek Carnegie, External Consultant, under the supervision of Fares Al-Hussami, Head of FDI Qualities and Impact team. Ana Novik and Martin Wermelinger, Head and Deputy Head of Investment

Division, provided overall guidance. Paula Adamczyk, Rania Ampntel Chafiz, Irina Grigoryeva, Clemente Rojas Giacobbe, and Kerstin Schopohl provided substantive inputs. Helene Francois Georgieff, Alessandra Mistura, Fernando Mistura, Joachim Pohl, Ilaria Goretti, Won Hee Cho, and Pablo Shah provided valuable comments. Lucinda Pearson, Communication Officer, prepared the review for publication.

Table of contents

FIGURES

TABLES

BOXES

Abbreviations and acronyms

EDA	Export Development Authority
FDI	Foreign direct investment
GAFI	General Authority for Investment and Free Zones
GDP	Gross domestic product
GVC	Global value chain
ICT	Information and communications technology
ILO	International Labour Organization
IPR	Intellectual property right
ITIDA	Information Technology Industry Development Agency
M&A	Merger and acquisition
MENA	Middle East and North Africa
MHESR	Ministry of Higher Education and Scientific Research
MSMEDA	Micro, Small and Medium Enterprise Development Agency
NGO	Non governmental organisation
OECD	Organisation for Economic Co-operation and Development
R&D	Research & Development
SME	Small- and medium-sized enterprise
SOE	State-owned enterprise
TIEC	The Technology Innovation and Entrepreneurship Centre
USD	United States Dollars

Executive summary

Egypt has made significant strides towards achieving a resilient and sustainable economy. In recent years, the Government has launched a broad agenda of structural and institutional reforms aimed at improving the investment climate, enhancing the quality and impact of foreign direct investment (FDI), and stimulating economic growth. These efforts include strengthening the legal and regulatory framework for investment, expanding the role of the private sector, and promoting policy stability in fiscal and monetary areas. To support investor confidence, Egypt introduced measures to streamline licensing procedures and improve investor services through modernised digital platforms. Egypt continues to be a major and attractive destination for investors. Since 2011, FDI inflows have grown in absolute terms and as a percentage of GDP, despite a downturn in 2019-2021 due to the COVID-19 pandemic. However, labour productivity growth has been moderate relative to other emerging economies and strong imbalances in the labour market persist. Unemployment is high among youth and women and, while nominal wages and the minimum wage have increased, real wages remain low.

FDI boosts productivity and employment, but its contribution to innovation, inclusion, and integration in global value chains could be enhanced

FDI has the potential to help Egypt address pressing challenges and become a resilient and sustainable economy. About three-fifths of the FDI inflows received in 2023-2024 and about four-fifths of the greenfield FDI received in 2013-2023 went to construction and resource-based sectors (energy, coal, oil and gas). These are capital-intensive sectors with high levels of productivity but limited prospects for innovation and knowledge diffusion. A small share of FDI is dedicated to R&D and innovation activities, just 0.2% of all inflows in 2013-2023, and only 5.5% of foreign firms reported spending on R&D. At the same time, the renewable energy sector continues to attract investment, confirming Egypt's role as a leading global destination in this sector. In addition, innovative sectors such as software and information and communication technology (ICT), have attracted a growing share of greenfield FDI.

Foreign firms contribute significantly to labour productivity. They are on average 1.5 times more productive than domestic firms. Linkages between foreign and Egyptian firms are also significant as foreign firms tend to source around 63% of their inputs domestically. Wide productivity gaps, however, call into question the ability of domestic firms to take full advantage of these linkages, for example through knowledge and technology spillovers. There is untapped potential for FDI to increase Egypt’s integration in global value chains (GVCs). Persistent barriers to FDI and trade in services underlie limited participation in GVCs. Foreign firms are more than twice as likely to export as domestic firms but, despite their export orientation, the sectoral composition of FDI does not favour indirect exporting by SMEs and generate only limited spillovers through market linkages.

Between 2013 and 2023, 275 598 jobs were directly created by greenfield projects, a sharp increase from the 165 390 created in the previous decade. Many jobs were in manufacturing, although the relative importance of this sector for job creation has declined over the past decade. Other sectors have emerged as drivers of job creation, such as renewable energy and ICT. Despite the large number of jobs created

the intensity of FDI job creation, i.e. the number of jobs created per billion of greenfield FDI invested, is lower in Egypt than in other peer countries: in 2003-2023, Egypt's job creation intensity was 1 100 jobs, below the OECD and MENA averages of 2 100 and 1 600 jobs, respectively. Additionally, FDI flew to sectors with less job creation intensity, such as renewables and digital sectors. While FDI is contributing to Egypt's digital and green transition, it is likely to create fewer jobs in the future. The quality of jobs created by foreign firms does not appear to be different from those created by Egyptian firms. Foreign and domestic firms pay similar wages and employ skilled labour at a similar rate, perhaps because foreign firms are prevalent in low-skill or low-innovation-intensity sectors, yet they are more likely to provide training to their workers. Finally, foreign firms are not more gender inclusive than domestic firms, given the low proportions of women at all levels (employees, managers, and owners) found in both domestic and foreign firms.

Further reforms can help fully realise the potential of FDI through SME-FDI linkages and positive spillovers: Key policy directions

Egypt has advanced important and wide-ranging reforms over the past years to improve the policy and institutional framework for investment: a Ministry of Investment and Foreign Trade was created in 2024, bringing under the same roof trade and investment policy, functions previously managed by the former Ministry of Foreign Trade and Industry – now split into the Ministry of Industry and the Ministry of Investment and Foreign Trade – and the General Authority for Investment and Free Zones (GAFI). The 2025 National Economic Development Narrative frames investment as a pillar of Egypt’s development strategy. Implementing ongoing reforms and initiating additional ones will help attract FDI with improved impact on the domestic economy. Strengthening intellectual property rights (IPR) and ensuring their enforcement would increase investor confidence and encourage R&D activities. Continued governance and transparency reforms have helped improve perceptions related to corruption and strengthen Egypt’s attractiveness as a reliable investment destination. Though sustained efforts remain key to further address corruption-related concerns.

Effective investment promotion in Egypt requires a well-defined strategy that integrates the roles of the GAFI and other entities focused on FDI, SME growth, and innovation. Monitoring and evaluation, particularly of fiscal and incentive programmes, are critical to ensure they are properly designed to achieve desired policy objectives. Key challenges lie in institutional co-ordination and alignment of government efforts to attract investment in sectors with better growth prospects, such as higher value-added manufacturing sectors. Egypt has already established a green hydrogen strategy that aims to mobilise low-carbon FDI, providing a solid foundation for further development of this sector. Building on this, attracting investments through public-private partnerships and targeted incentives should be combined with tailored support for small businesses to help them succeed in this high-potential but high-risk sector.

Strengthening SME capacities requires better institutional co-ordination and policy reforms in entrepreneurship and competition. While recent reforms have provided more support and flexibility to SMEs, key issues remain. Recent reforms to simplify administrative procedures, including those implemented under the Industrial Permits Act of 2017 and the introduction of an electronic platform for business registration by GAFI, could be further developed by limiting the number of procedures required and introducing centralised and streamlined processes for business registration and license applications. Reducing unnecessary regulatory interventions and promoting transparent public-private dialogue will help create more effective policies and reduce business costs.

Connection between domestic and foreign firms to promote productivity spillovers could be strengthened. While the creation of Free and Special Economic Zones (SEZs) has attracted investment, it has also created isolated enclaves with limited linkages to the local economy. Supplier development programmes and matchmaking services can reduce search costs for international firms sourcing inputs from local

producers. Public-private dialogue should help identify barriers to forming stronger linkages. National initiatives such as MSMEDA's digital SME platform and IMC's sector-specific supplier development programmes are strengthening local firm capacity and competitiveness. These efforts are key in enhancing SME–FDI linkages, supporting absorptive capacity, and advancing sustainable integration into global value chains (GVCs). In addition, greater attention is needed to enforce social and environmental regulations in economic zones. A national strategy to leverage FDI to support SMEs and broader development goals could focus efforts across government ministries. Better data collection on FDI and its impact on the economy, including linkages between domestic and foreign firms, would help improve policy effectiveness.

Policy recommendations

- **Streamline institutional roles and improve co-ordination among government agencies involved in investment promotion and SME development.** This would improve transparency and reduce overlaps in mandates. Consider streamlining institutional roles and establishing interinstitutional networks and working groups to address co-ordination gaps in the promotion and facilitation of knowledge-intensive investment.
- **Finalise and effectively implement Egypt's National Foreign Direct Investment Strategy (2025–2030)**, currently being developed by GAFI in collaboration with the World Bank Group. The strategy should serve as a key pillar of Egypt's investment reform agenda and be aligned with Egypt Vision 2030 and the 2025 National Economic Development Narrative. The strategy should outline clear policy priorities, target sectors, governance arrangements, and a comprehensive M&E framework based on international good practices. A well-articulated strategy and M&E framework will support policy alignment, enhance co-ordination across institutions, and ensure productivity and innovation spillovers.
- **Strengthen GAFI's capacity to target and prioritise investments with high innovation and technology transfer potential.** GAFI should build on the sector prioritisation framework developed under the National FDI Strategy (2025-2030). Building on the comprehensive investment targeting and prioritisation framework can further equip GAFI with the tools needed to prioritise investments in high-value-added and innovation-driven sectors, such as ICT, advanced manufacturing, and green technologies. Targeted investments should focus on fostering high-tech solutions and increasing economic complexity. Develop sustainability and innovation scoring mechanisms to guide investment targeting and regularly review sectoral priorities based on global and domestic economic developments. GAFI should also consider developing dedicated units to facilitate green and high-tech investments and promote collaboration between foreign and local firms.
- **Strengthen supplier linkages by creating a comprehensive database and enhancing matchmaking services in collaboration with government entities involved in SME development.** GAFI should consider collaborating with local chambers of commerce, private sector stakeholders, MSMEDA and IMC to develop a comprehensive, online database of local suppliers in priority sectors. This platform would provide foreign investors with detailed profiles of Egyptian SMEs and enable virtual matchmaking to reduce transaction costs. This would enhance local integration of foreign investors, increasing productivity spillovers and supporting SME development.
- **Integrate MNE-SME linkage programmes into business support services offered in zones.** Clarify land governance procedures and streamline institutional responsibilities to improve investor access and facilitate integration of zones into local economies. Under the Inter-ministerial Group on Entrepreneurship led by MPEDIC, GAFI could consider enhancing business development services within zones by introducing dedicated matchmaking initiatives and supplier databases to connect MNEs with local SMEs in co-ordination with IDA, MSMEDA, and IMC. Complementary

measures, such as technical support, workforce training, and incentives for local sourcing, should be prioritised to foster value-added linkages and maximise spillover benefits.

- **Improve SME access to supplier development services and ensure they meet the product and service quality standards required by foreign MNEs.** Extend MSMEDA's online platform to provide a comprehensive mapping of business support services offered by the government, private sector, NGOs, and development partners. Consider connecting MSMEDA's enhanced portal with GAFI's electronic platform, as well as the Hub for Advisory, Finance and Investment (HAFIZ platform), to create a more cohesive and integrated digital ecosystem for SMEs and entrepreneurs.
- **Support and further expand supply chain and cluster development programmes implemented by IMC towards knowledge-intensive activities and industries with weak supplier capacities.** Several government agencies (e.g. EDA, IMC, MSMEDA) provide export development services that promote international exposure and networking of SMEs abroad, but they fall short of developing robust supplier capacities—such as product quality standards, certification, and accreditation—that would enable them to join the supplier networks of foreign investors domestically. Policy emphasis could be placed on developing comprehensive action plans for the development of industrial clusters and business networks and leveraging existing programmes implemented by IMC, EDA and MSMEDA.
- **Ensure that innovation policies include priorities and specific measures fostering R&D collaborations with foreign MNEs in knowledge-intensive sectors.** Collaborative initiatives currently implemented by ITIDA and TIEC could be further supported and leveraged to enhance the involvement of SMEs and startups in R&D partnerships, facilitate technology transfer, and expand matchmaking efforts. Emphasis could also be placed on supporting high-technology and knowledge-intensive activities through public-private partnerships connecting universities and R&D centres.

1 The contribution of FDI to productivity and innovation

This chapter provides an analysis of productivity trends in Egypt, exploring the key challenges the country faces in enhancing living standards and fostering sustained, resilient growth. It further investigates the role of FDI in driving productivity improvements, innovation, research and development (R&D), participation in Global Value Chains (GVCs), and the strengthening of business linkages. The analysis focuses on the period from 2013 to 2023, with comparative insights drawn from Egypt's performance relative to both regional counterparts within the MENA region and the OECD average.

1.1. Summary

Egypt, like many emerging economies, faces the critical challenge of enhancing productivity levels to improve living standards and sustain long-term economic growth. As the initial advantages stemming from low labour costs, capital accumulation, and favourable demographics begin to diminish, the shift towards innovation-driven growth has not yet fully taken off (Paus, 2017[1]). Over the past three decades, Egypt's productivity growth has been relatively modest, primarily driven by efficiency gains within sectors (Box 1.1). However, further strategic efforts will be required to accelerate productivity growth and bolster income levels. Recognising the pivotal role of productivity, Egypt's national development agenda, as outlined in Egypt Vision 2030, explicitly highlights the objectives of "fostering productivity, diversity, and value-added activities," supported by initiatives in digital transformation, scientific research, and innovation (MPED, 2023[2]).

Foreign Direct Investment (FDI) holds significant potential to accelerate productivity improvements in Egypt, driven by the activities of foreign firms and the knowledge and technology spillovers they generate within domestic industries. Nevertheless, the scale and impact of such productivity and innovation spillovers have often been limited. The majority of FDI in Egypt is concentrated in capital-intensive sectors, such as construction, oil, and certain service sectors (e.g. finance, ICT), which tend to be more productive on average than other parts of the economy. Similarly, greenfield FDI flows predominantly into a narrow range of capital-intensive industries, with a particular emphasis on renewable energy, construction, and oil. These sectors, however, offer limited potential for fostering innovation, as evidenced by the modest proportion of greenfield FDI allocated to research and development (R&D) activities. However, some innovative sectors, such as Software and Information Technology (IT), have been attracting an increasing share of greenfield FDI.

The limited absorptive capacity of Egyptian firms poses a significant challenge in fully exploiting the potential benefits of FDI. Foreign affiliates operating in Egypt tend to exhibit significantly higher productivity levels, approximately 1.5 times greater than their domestic counterparts. While these foreign firms contribute to the overall productivity of Egypt's economy, the productivity gap is also an indicator of the restricted absorptive capacity of domestic companies, which often lack the necessary capabilities to harness the technological spillovers that FDI can generate. Furthermore, the low engagement in R&D activities among both domestic and foreign firms further highlights the constraints in Egypt's ability to absorb and adapt to new technologies, hindering the broader diffusion of innovation across the economy.

Trade and investment can be highly complementary, with the international connections and productivity gains fostered by FDI playing a crucial role in expanding export opportunities. However, Egypt's integration into global value chains (GVCs) has diminished over time. Although linkages between foreign and domestic firms are substantial, the export orientation and sectoral composition of FDI in Egypt do not strongly support indirect exporting or the generation of meaningful spillovers via market connections. Foreign firms in Egypt source a significant portion of their inputs domestically—more so than the averages observed in MENA and OECD countries. However, the heavy concentration of FDI in resource-based sectors tends to limit the potential for spillovers, as these industries are capital-intensive and highly specialised. Nonetheless, business partnerships between foreign and domestic firms—such as strategic alliances, joint ventures, and contractual arrangements—are significantly utilised in Egypt. These partnerships can serve as vital conduits for the transfer of technology and knowledge, holding substantial potential to drive innovation diffusion and enhance domestic capabilities.

Diversifying the types of investments in Egypt, particularly towards innovation-driven manufacturing and service sectors, and strengthening the capacity of domestic firms, especially small and medium-sized enterprises (SMEs), could play a crucial role in better leveraging FDI and fostering more rapid and high-quality growth. These policy options are explored in greater depth in Chapter 3.

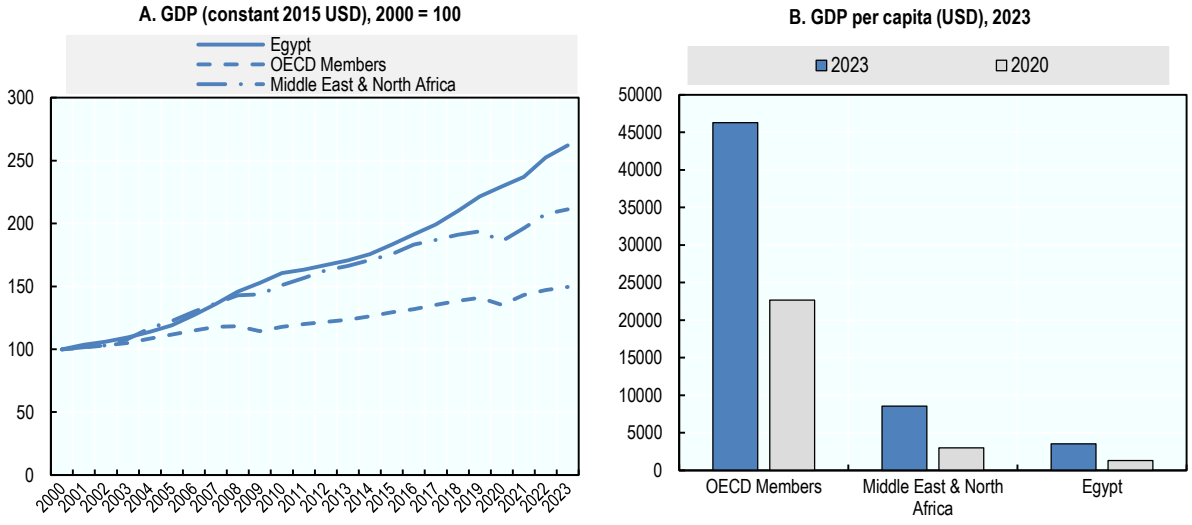
1.2. Growth in labour productivity has been modest compared to peer economies

Labour productivity, typically measured as value added per worker or per hour worked, is a key determinant of per capita income, alongside labour utilisation rates. Broad-based productivity gains are also essential for enhancing the quality of growth, as they contribute to reducing income inequalities (OECD, 2018[3]).

For Egypt, increases in labour productivity will be crucial in raising income levels, which remain relatively low on a per capita basis despite relatively strong growth in recent decades. Between 2000 and 2023, Egypt's GDP grew at an average annual rate of 4.3%, outpacing the regional average for the Middle East and North Africa (MENA) region (3.3%) and the OECD average (1.8%) (Figure 1.1, Panel A). However, income growth has not kept pace with population growth; over the same period, Egypt's GDP per capita declined from 45.2% to 41.0% of the regional average (Figure 1.1, Panel B).

To drive higher income growth, the expansion of a more competitive private sector is essential. This could be supported by reforms aimed at addressing the high regulatory barriers to firm establishment and operations, simplifying regulatory frameworks, and strengthening regulatory impact assessments to enhance policy design. These measures, alongside efforts to improve the overall business environment, would foster a more conducive ecosystem for private sector growth (OECD, 2024[4]). In this context, Egypt has recently undertaken reforms to streamline business procedures, including the automation of business establishment procedures and the launch of a new digital licensing platform. Moving forward, Egypt could continue its efforts in streamlining procedures for obtaining permits while raising awareness of the benefits and incentives of formalisation (OECD, forthcoming[5]). Foreign investment will likely play a significant role in this process, particularly if these reforms are complemented by policies that attract greater and more diversified FDI inflows (see Chapter 3).

Figure 1.1. GDP is growing rapidly, but average income remains low



Source: World Bank (2022[6]).

The rate of labour utilisation in Egypt, measured as the employment-to-population ratio, stands at 65.7%, which is comparable to the OECD average of 65.5%. However, the potential for further productivity improvements through structural transformation is diminishing as modern manufacturing and services become increasingly significant sources of employment (Box 1.1). As a result, boosting output per worker has become crucial for sustaining economic progress. Historically, Egypt has faced limited growth trends,

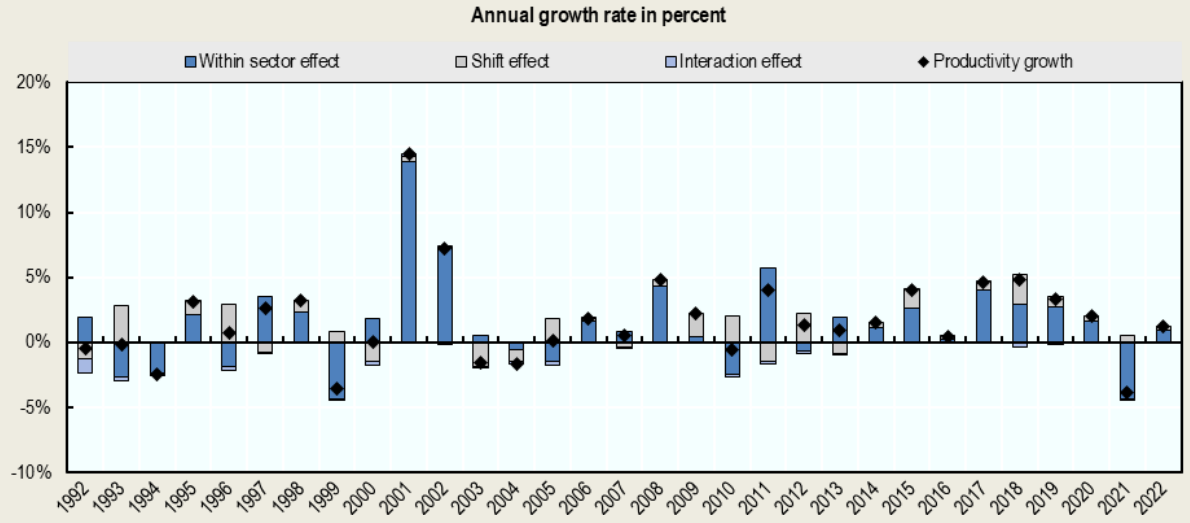
suggesting that achieving significant gains in labour productivity may be challenging, especially given the country's rapid population growth. Between 2013 and 2023, Egypt's population grew at an average rate of 2.1% per year, nearly twice the average growth rate of the middle-income country group (1.1%) (United Nations Population Division, 2024[7]). This rapid population increase further complicates efforts to raise productivity and improve living standards, making the acceleration of productivity growth even more critical for Egypt's long-term economic development. Against this backdrop, Egypt has taken recent policy measures to accelerate structural transformation and within-sector productivity through more targeted FDI attraction, sector-specific industrial strategies, and institutional support for value chain development. Egypt's FDI Strategy 2025–2030 prioritises knowledge-based and export-oriented sectors, while ongoing initiatives in vocational training, industrial clusters, and SME development are expected to enhance the absorptive capacity of domestic firms and encourage productivity spillovers.

Box 1.1. Egypt relies more on within-sector productivity growth than on the reallocation of labour to drive economic growth

Improvements in productivity are the only way to continue per capita income growth over the long term. While demographic trends may continue to support Egypt's income growth for some time into the future through the increasing share of the population of working age, structural transformation is likely to be a less important driver of growth. Favourable demographics may continue to have a positive effect on growth for several decades into the future. Egypt's age dependency ratio – a measure of the number of young and old dependents outside of working age – is forecast to continue declining from the current 59.0% to 51.1% in 2035. The dependency ratio is expected to begin increasing in the 2060s (United Nations Population Division, 2024[7]).

Future structural change may provide less support for productivity growth, however. Opportunities for resource reallocation to higher-productivity sectors (electronics-processing, ICT, software, agro-processing, and woodwork, and furniture-making) depend on several factors related to a country's export specialisation, monetary policy and labour market characteristics (McMillan, Rodrik and Verduzco-Gallo, 2014[8]). According to a recent study, sectors that are likely to create new opportunities for resource reallocations include assembly/electronics-processing, ICT, software, agro-processing, and woodwork and furniture-making (ILO, 2024[9]). While the shift of workers into higher-productivity sectors continues to contribute to productivity growth in Egypt – Egypt's employment growth is most rapid in services sectors, within-sector effects ignoring changes in employment are often the most important driver of increases in value added per worker (Figure 1.2). The interaction effect has typically been negative over this period, indicating that sectors with growing productivity have actually had a declining share of employment. This effect has typically been small, however. Continuing sector-level growth may be the result of improvements in firm-level efficiency due to the use of new knowledge or technologies, improved inputs, increases in worker skills, or pressure from new sources of competition. It may also be the result of firms' movement into high-value-added activities within established or new value chains or reallocation of productive resources and market share to higher-productivity firms (OECD, 2019[10]).

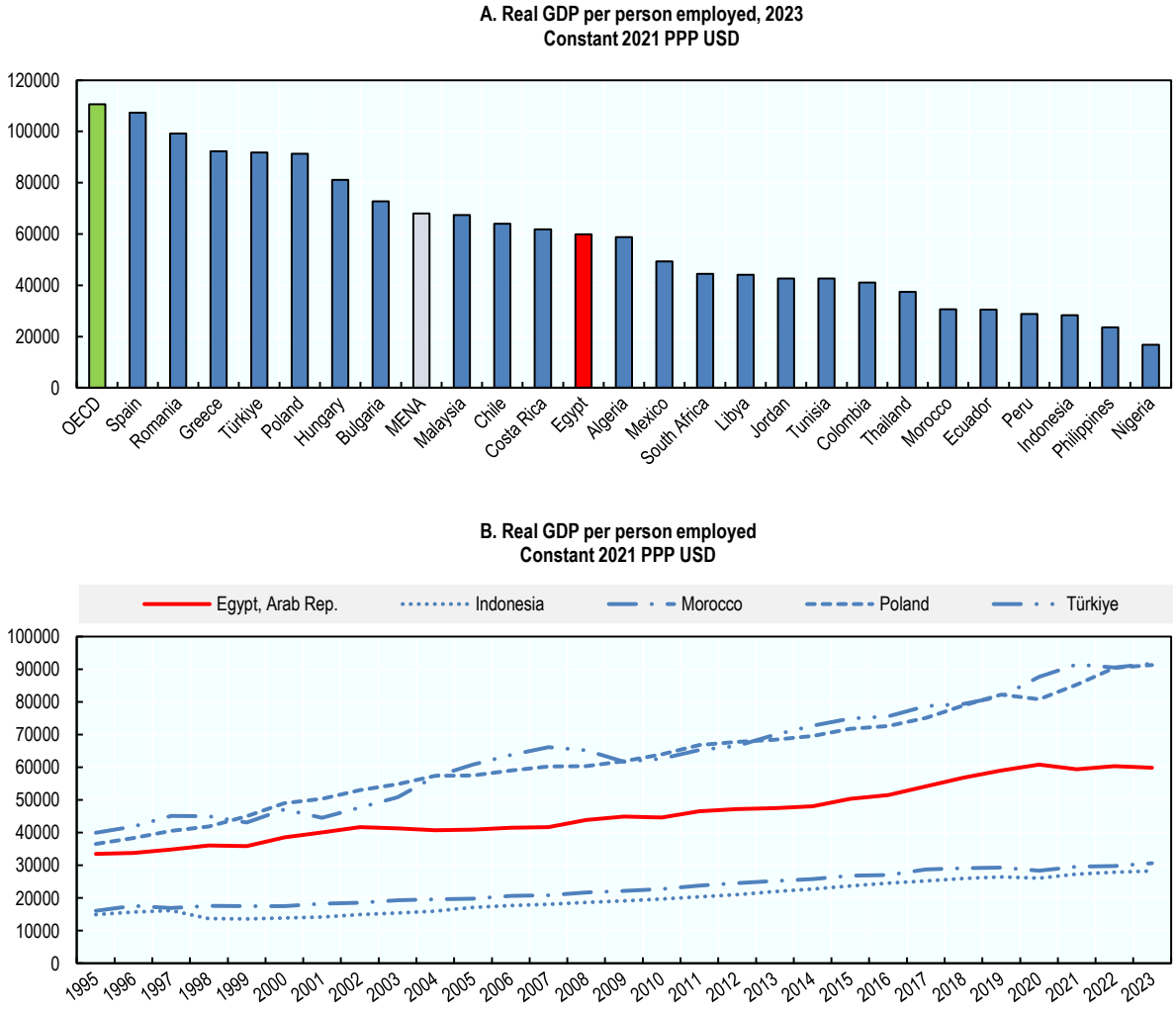
Figure 1.2. Within-sector effects account for most of productivity growth in Egypt



Note: The within-sector effect measures growth in value added per worker without considering the effects of worker movement between sectors; the shift effect measures productivity growth due to workers moving into higher productivity sectors; and the residual, the interaction effect, is positive when sectors with growing productivity grow in employment share and negative when sectors with growing productivity decline in employment share. This decomposition was calculated using total employment and gross value added at constant prices across three economic sectors (agriculture, industry, and services).
Source: World Bank Development Indicators (2022[6]).

Egypt's labour productivity, measured as GDP per person employed (in constant 2021 PPP USD), is slightly higher than the MENA average (USD 60 354 for Egypt compared to USD 52 215 for the MENA region) but is just over half the OECD average (USD 109 264) (Figure 1.3, Panel A). Growth in labour productivity has also been moderate in comparison with peer economies. Real GDP per person employed increased by an average of just 2.0% per year over 1991-2022 (Figure 1.3, Panel B). This rate was exceeded by the growth seen in other emerging economies, like Poland (3.6%), Türkiye (3%), and Indonesia (2.6%) over the same period.

Figure 1.3. Egypt's labour productivity is moderate and has grown gradually



Source: World Bank Development Indicators (2022[6])

1.3. FDI contributes to higher productivity but knowledge spillovers are limited

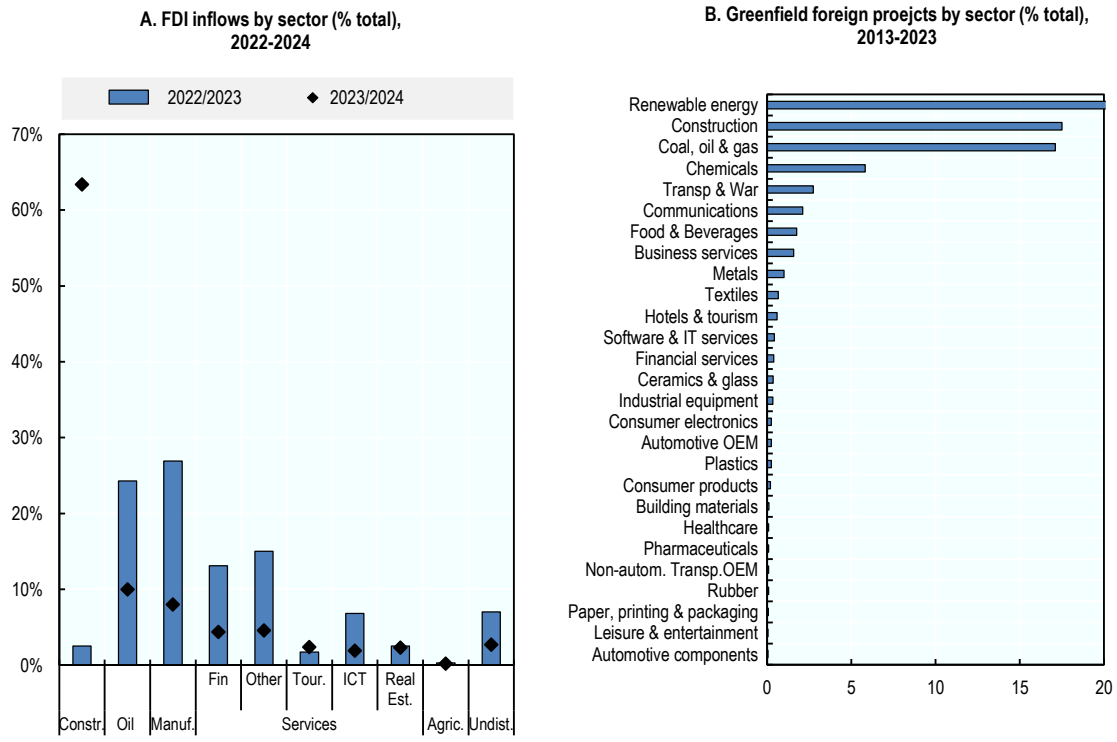
Foreign investment and the activity of foreign firms can influence productivity levels in the host economy. Directly, foreign firms can help grow higher-value-added sectors of the economy. Foreign firms also tend to be more productive than their domestic peers, due to a combination of structural and operational advantages. Their larger size often allows them to benefit from economies of scale, reducing per-unit costs and increasing efficiency. In addition, foreign firms typically have better access to high-quality inputs—both goods and services—through their global supply chains, which enhances the quality and competitiveness of their output. They also tend to adopt more advanced production processes and technologies, often developed or tested in other markets, which can boost productivity and innovation. Moreover, foreign firms often implement more effective management practices, shaped by international experience and corporate standards. These firms also tend to attract and invest in higher-skilled workers, offering better training and development opportunities. Together, these factors contribute to higher productivity and may create spillover effects to domestic firms. Nonetheless, a number of domestic firms also possess substantial resources and capabilities, enabling them to achieve productivity levels comparable to foreign enterprises.

Foreign firms can raise the productivity of domestic firms through technology and knowledge spillovers that can occur via supply chain linkages, partnerships, competition and imitation effects, or the mobility of labour between firms (OECD, 2023[11]). Vertical spillovers to upstream domestic suppliers are relatively common, as foreign firms may be actively involved in knowledge and technology transfer to improve their access to quality inputs (Javorcik, 2004[12]) (Blalock and Gertler, 2008[13]) (OECD, 2022[14]). The relative absorptive capacities of domestic firms are also important; positive spillovers are more likely to materialise when productivity, technology and skills gaps between foreign and domestic firms are smaller (Girma, Görg and Pisu, 2008[15]; World Bank, 2014[16]). Recent OECD analysis suggests that complementary policies supporting R&D are key to strengthening firms' absorptive capacities. In Egypt, this could include measures such as tax credits or direct R&D subsidies, alongside efforts to create an enabling environment for innovation through improved intellectual property framework and digital and non-digital infrastructure (OECD, forthcoming[17]).

Over the period 2023-2024, significant shares of inward FDI into Egypt went to some of the most capital-intensive and, on average, most productive sectors of the economy, such as construction (49%), oil (14%) and some service sectors such as finance (7%) and ICT (3%) (Figure 1.4, Panel A). Similarly, about four-fifths of greenfield FDI received in the 2013-2023 period went to the renewable energy sector (45.7%), construction (17.5%) and coal, oil and gas (17.1%) (Figure 1.4, Panel B). While the construction sector received a substantial share of FDI in 2023-2024, the uptake was due to a few large-scale investment projects. By contrast, in 2022-2023, FDI inflows were more evenly distributed between oil (24%), manufacturing (27%), finance (13%) and other services (15%).

While these sectors contribute significantly to Egypt's economy, their focus presents challenges in terms of maximising the potential benefits of international investment for domestic productivity. Capital-intensive industries, such as those mentioned, often have limited capacity to generate supply chain linkages with domestic manufacturing and services, which are key drivers of supplier productivity growth. By contrast, higher-technology sectors typically exhibit stronger upstream spillovers, which are more likely to foster innovation and productivity improvements in domestic firms (OECD, 2019[10]).

Figure 1.4. Significant shares of FDI are in energy, construction, and manufacturing



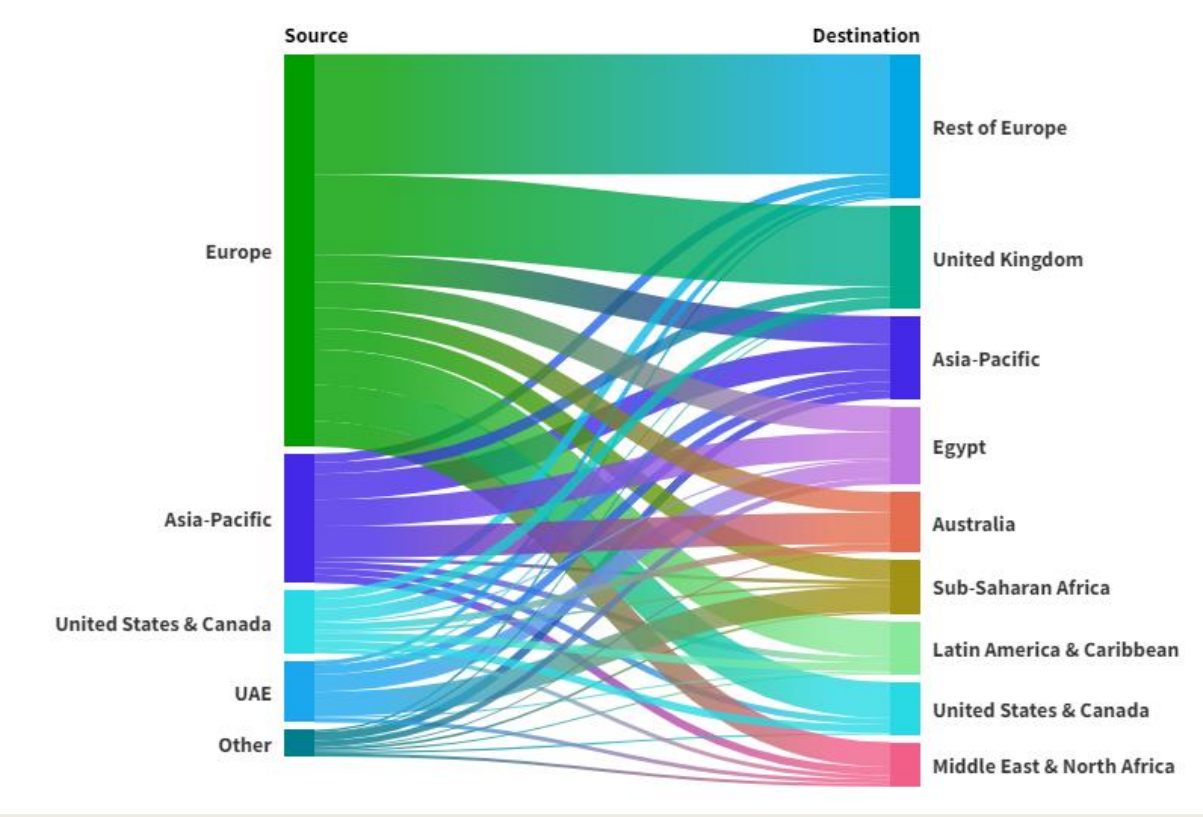
Note: Panel A: Egyptian FDI statistics are calculated on a directional basis. Accordingly, net FDI inflows refer to inward FDI flows (inflows minus outflows within the same relationship), and not the difference between inward and outward FDI as standalone aggregates. FDI inflows refer to foreign direct investment transactions recorded as entering Egypt (e.g. capital injections and reinvested earnings), while FDI outflows refer to transactions recorded as leaving Egypt (e.g. capital withdrawals and loans granted by Egyptian direct investment enterprises to their foreign direct investors).
Source: Panel A: Central Bank of Egypt (2024[18]); Panel B: fDi Markets (2024[19]).

Box 1.2. Foreign investment in Egypt's growing renewables sector

Falling costs have helped to drive a rapid increase in greenfield FDI in renewable energies around the world, growing in importance from 1.2% to 27.5% of global greenfield FDI over 2003-2023. Egypt is at the forefront of this trend: it has become one of the leading global destinations for FDI in renewable energies (Figure 1.5). In total, Egypt is the recipient of 10.6% of global greenfield FDI in renewables, behind only the United Kingdom (13.9%). Much of Egypt's FDI inflows originate in Asia-Pacific, Europe, and the United Arab Emirates (UAE). At the same time, significant new investments in renewable manufacturing in Egypt (which attracted 9.9% of global greenfield FDI in renewable manufacturing over 2019-2023) place it among a small number of countries with the potential to drive new patterns in global supply chains (OECD, forthcoming[20]).

Figure 1.5. Sources of and destinations of greenfield FDI in renewable energies

FDI flows in renewables from source countries/regions to destination countries/regions, 2019-2023

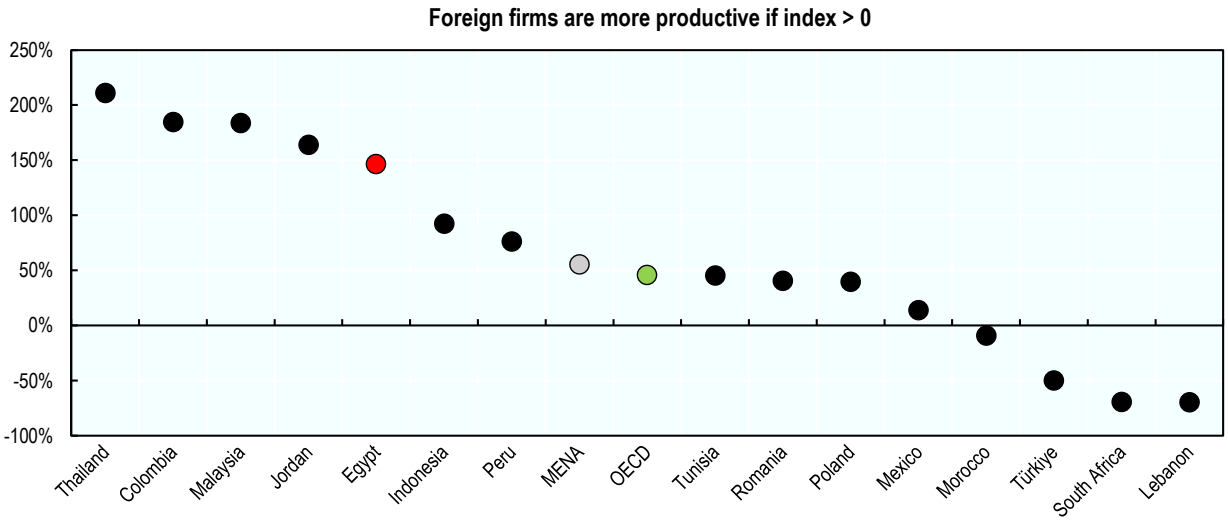


Source: OECD (forthcoming[20])

Egypt attracts relatively high-productivity FDI, which has the potential to enhance aggregate output and competitiveness. However, these high productivity levels present certain challenges. In addition to the concentration of foreign investment in sectors with limited potential for generating positive spillovers, there exists a notable productivity gap between foreign and domestic firms, which may hinder the broader diffusion of productivity gains. On average, foreign affiliates in Egypt are almost 1.5 times more productive than domestic businesses (Figure 1.6). This productivity premium is substantial compared to peer economies and significantly exceeds the averages for the MENA region and the OECD.

The foreign firms driving these high productivity levels are likely to be leader firms that play a central role in driving productivity performance in certain industries in Egypt (OECD, forthcoming[17]). However, the significant productivity gaps are often viewed as an indicator of the limited absorptive capacity of domestic firms. This suggests that the ability of domestic firms to benefit from the presence of higher-productivity foreign firms is constrained. Moreover, despite the substantial productivity premiums in foreign firms, this advantage does not appear to translate into higher wages for workers in foreign firms, as wage levels in both domestic and foreign firms are relatively similar (see Chapter 2).

Figure 1.6. The foreign labour productivity premium is particularly high in Egypt



Note: Foreign ownership is defined in the World Bank Enterprise Surveys as 10% or more foreign ownership. Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21])

There may thus be space to improve upon the capacities of Egyptian firms to absorb positive spillovers. These absorptive capacities are seen in how firms recognise and make use of new knowledge or tools. They are, in turn, determined by a combination of firm-level characteristics such as skills, resources, and technology use, as well as factors in their business environment, such as their access to finance, skills, and innovation assets (OECD, 2022[14]). Weaker competition and firm entry and exit than in similar emerging markets, difficulties in the business environment including limited access to lending from banks, and regulatory barriers all affect private sector capacities in Egypt (OECD, 2024[4]). Chapter 3 provides an in-depth analysis of the policy and institutional framework that supports private sector capacities, particularly of small and medium enterprises (SMEs).

1.4. FDI is prevalent in less innovation-intensive sectors and few companies engage in innovation activities

Innovation creates new economic opportunities in addition to boosting productivity growth. Through the introduction of new products and processes that raise the value of output or increase the efficiency of production, innovation drives productivity improvements. Innovation is often the outcome of research and development (R&D) but may also take place by adopting or adapting technologies and solutions employed by other firms, especially among firms operating further from the technological frontier.

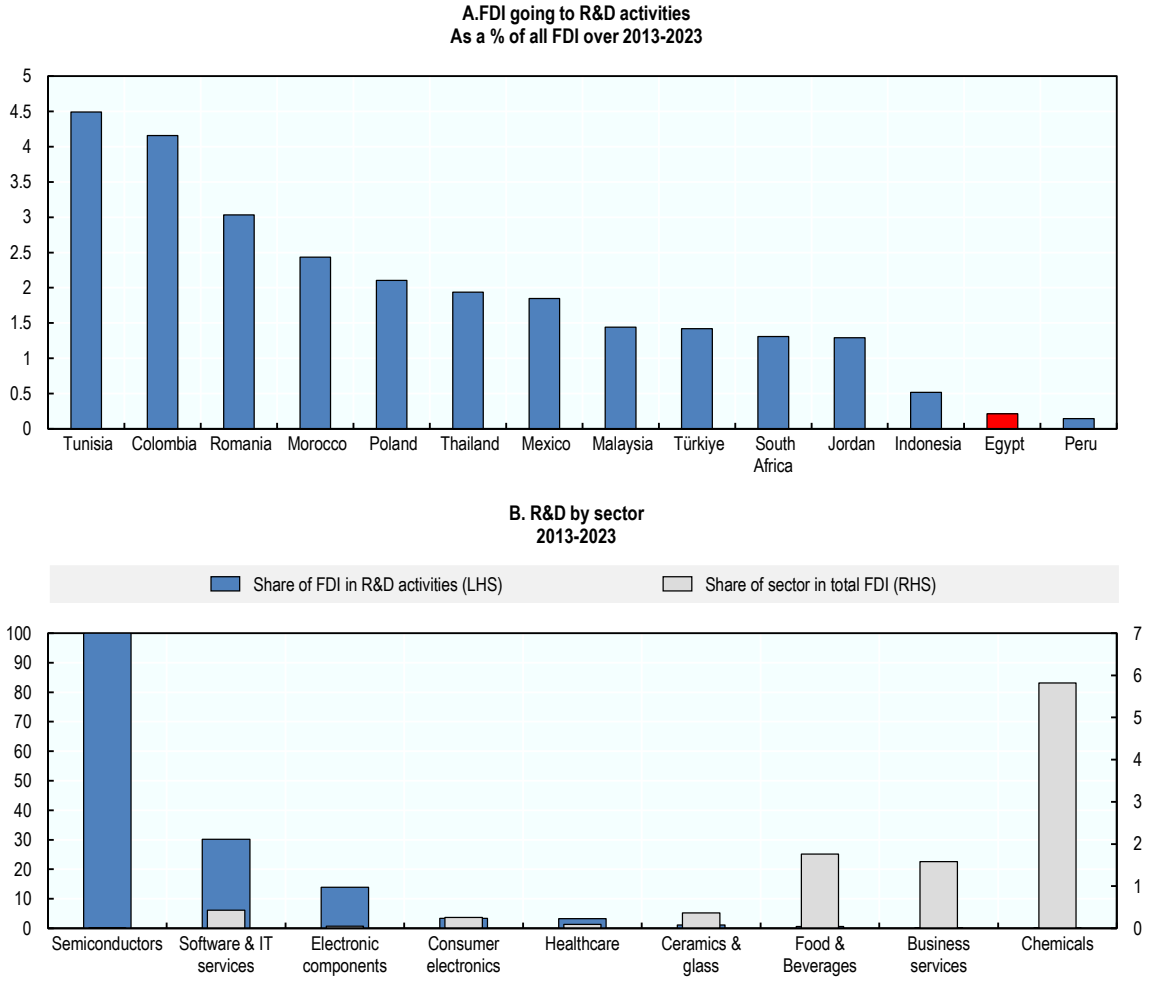
While there is growing attention to innovation in Egypt, further efforts are needed to develop a more resilient and knowledge-based economy. Egypt's total expenditure on R&D has been increasing faster than GDP over the past two decades, with similar increases in innovation outcomes as patent applications of residents and non-residents have grown. However, at just 1.0% of GDP, R&D expenditure remains below the averages for the OECD (3.0%) and the Middle East and North Africa (1.6%) (World Bank, 2022[6]). Notably, the OECD average is pushed higher by a small number of innovation-intensive economies, including South Korea, Japan and the United States. Egypt's relative level of GDP expenditure on R&D exceeds that of some OECD Member countries, including Chile, Latvia, and the Slovak Republic. Furthermore, although post-secondary graduates are somewhat less commonly found in Egypt than in a

number of peer countries (see Chapter 2), many students are interested in technical fields. In 2023, close to one in five tertiary graduates had completed a science, technology, engineering, and mathematics (STEM) programme (UNESCO, 2024[22]). These skills could serve as a foundation for attracting more innovation-driven FDI, as evidenced by the experience of several OECD countries, including Ireland. Ireland, which boasts one of the highest shares of STEM graduates among OECD nations, has successfully attracted substantial FDI in high-value, innovation-driven sectors such as medical devices, pharmaceuticals, and computer software and IT services. This model demonstrates how a highly skilled workforce, particularly in STEM, can serve as a powerful catalyst for drawing foreign investment into sectors that drive technological advancements and productivity growth.

International investment often supports innovation and sectors receiving more FDI tend to see more rapid improvements in innovative practices and outcomes (OECD, 2022[23]; OECD, 2019[10]). Domestic firms may benefit through channels similar to those that allow for productivity spillovers, as well as partnerships between foreign and domestic firms on innovation or knowledge and technology flows (e.g. joint ventures, licensing agreements, research collaborations and R&D and technology alliances). Improvements in innovation may also be led by trade and participation in GVCs, which are in turn affected by foreign investment (OECD, 2022[14]). In Egypt, new policy approaches to investment attraction and support for domestic firms may be needed to realise the potential benefits of FDI. FDI inflows are often not focused on innovation-intensive activities and domestic firms have limited capacities to take advantage of the opportunities presented. For example, investment promotion efforts, including through the use of tax incentives, could explicitly target innovation-intensive activities. Or skills development programmes jointly developed with foreign firms could help better prepare local workers to work for high-tech foreign and domestic companies. Consultations with government stakeholders indicate that General Authority for Investment and Free Zones (GAFI) is implementing a methodology to prioritise sectors based on their alignment with Egypt's long-term development objectives, in collaboration with the World Bank.

Little of the greenfield FDI inflows to Egypt is made in R&D and innovation activities, which accounts for just 0.2% of all inflows over 2013-2023, far below the levels of most comparison countries (Figure 1.7, Panel A). This outcome is likely driven by the sectoral concentration of FDI in low technology-intensive industries, such as oil and construction, which typically offer fewer opportunities for fostering innovation and technological advancement. Furthermore, the sectors where greenfield FDI accounts for a large share of R&D activities are generally not those that account for a large share of greenfield FDI inflows to Egypt (Figure 1.7, Panel B). In the most extreme example, all Egyptian R&D in semiconductors is funded by FDI, though this sector accounted for an extremely small share (0.01%) of total inflows into the country over 2013-2023. On the other hand, greenfield FDI financed almost none of the R&D (0.2%) in the chemicals sector, though investments in this sector accounted for a significant 5.8% of the total.

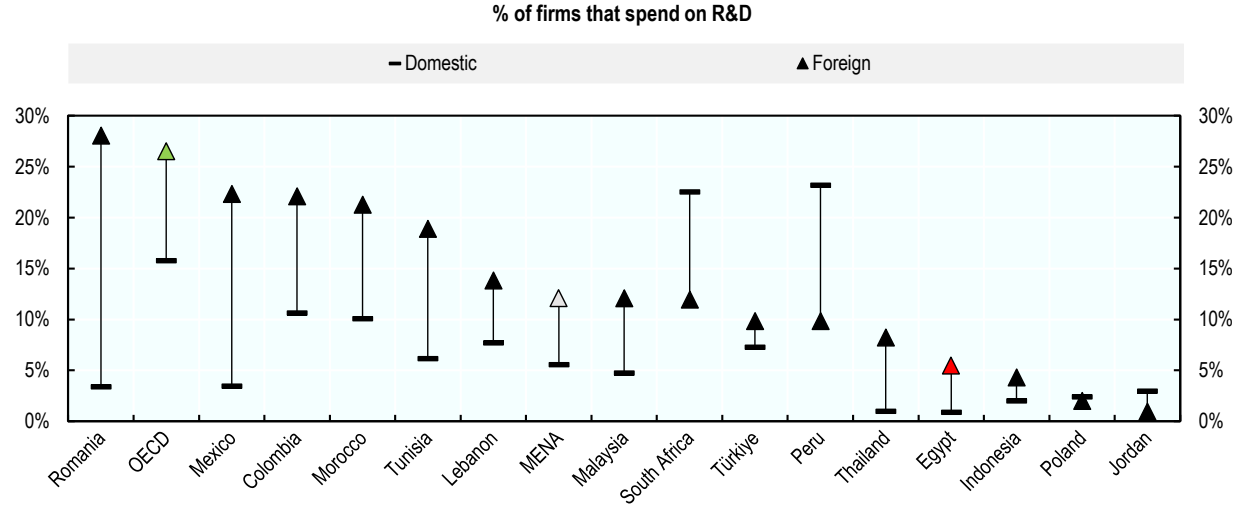
Figure 1.7. A low share of FDI goes to R&D activities



Source: fDi Markets (2024[19])

There is significant potential to foster firm-level innovation, particularly on the extensive margin. However, this potential remains largely untapped, as FDI inflows are predominantly directed away from innovation-intensive sectors. As a result, only a small proportion of foreign affiliates operating in Egypt engage in innovative activities. This trend mirrors the limited allocation of FDI towards R&D, which can be attributed to the concentration of foreign investment in low-technology-intensive industries. In addition to the low levels of aggregate R&D spending, such investments are concentrated and few firms are engaged in innovation in Egypt. Relatively few firms – whether domestic or foreign – have R&D expenditures; in 2023, just 5.5% of foreign businesses and 0.9% of domestic businesses reported R&D spending (Figure 1.8). In comparison, the OECD averages for these rates were 26.5% and 15.8%, respectively. Across MENA, these averages also exceeded Egypt's by a considerable margin, at 12.1% of foreign-owned firms and 5.6% of domestic firms. The low levels of business R&D expenditure can be attributed to a combination of factors, including the characteristics of the investment sector and the policy framework for innovation. This encompasses the incentives available for R&D activities and collaborations, as well as the presence of strong local universities and research centres. Policies aimed at enhancing the contribution of FDI to innovation and fostering collaboration between foreign and local actors, such as local firms, universities, and research centres, are further explored in Chapter 3.

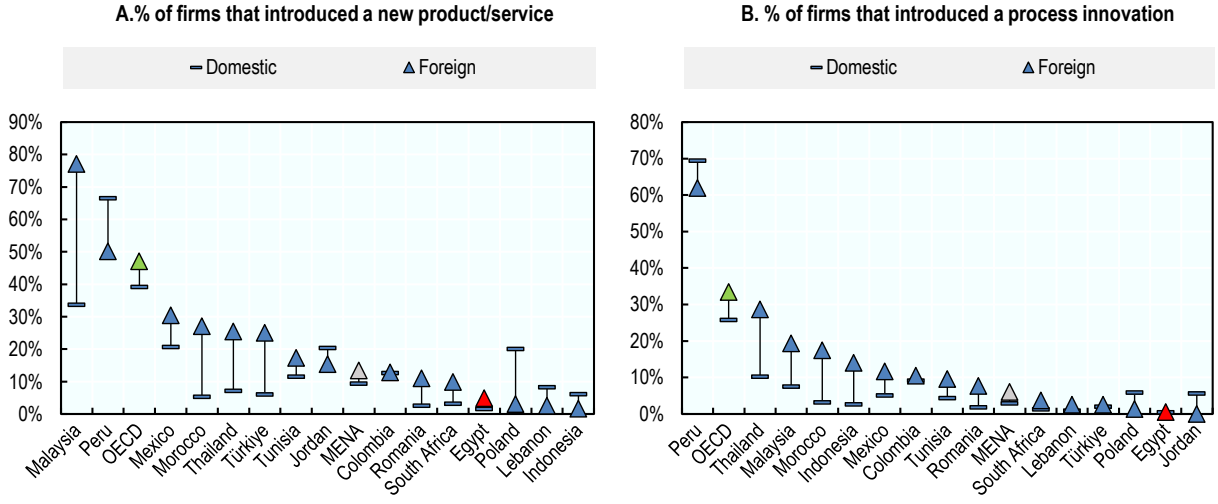
Figure 1.8. Relatively few firms in Egypt invest in R&D



Note: Foreign ownership is defined in the World Bank Enterprise Surveys as 10% or more foreign ownership. Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21]).

Low levels of spending on R&D lead to poor innovation outcomes for firms in Egypt. Just 1.5% of domestic firms and 4.9% of foreign firms reported introducing new or improved products or services, well below the averages of the OECD (39.1% and 47.0%) and MENA (9.4% and 13.4%) (Figure 1.9, Panel A). Similarly, a few firms had introduced new or improved processes regarding manufacturing or offering services, logistics and distribution, or supporting activities. These kinds of innovations were closer to the lower regional average; 0.4% of domestic firms and 5.0% of foreign firms in Egypt and 2.9% and 6.0% across MENA (Figure 1.9, Panel B). Egyptian process innovations were still far less common than among OECD countries, however, where 25.7% of domestic firms and 33.4% of foreign firms had introduced new processes. Attracting more innovation-intensive FDI and addressing the limitations in the capacities of many Egyptian firms implied by this lack of innovation could make a significant difference in promoting the growth of a more diversified and knowledge-based economy.

Figure 1.9. Innovation outcomes of foreign firms in Egypt are weaker than in other countries

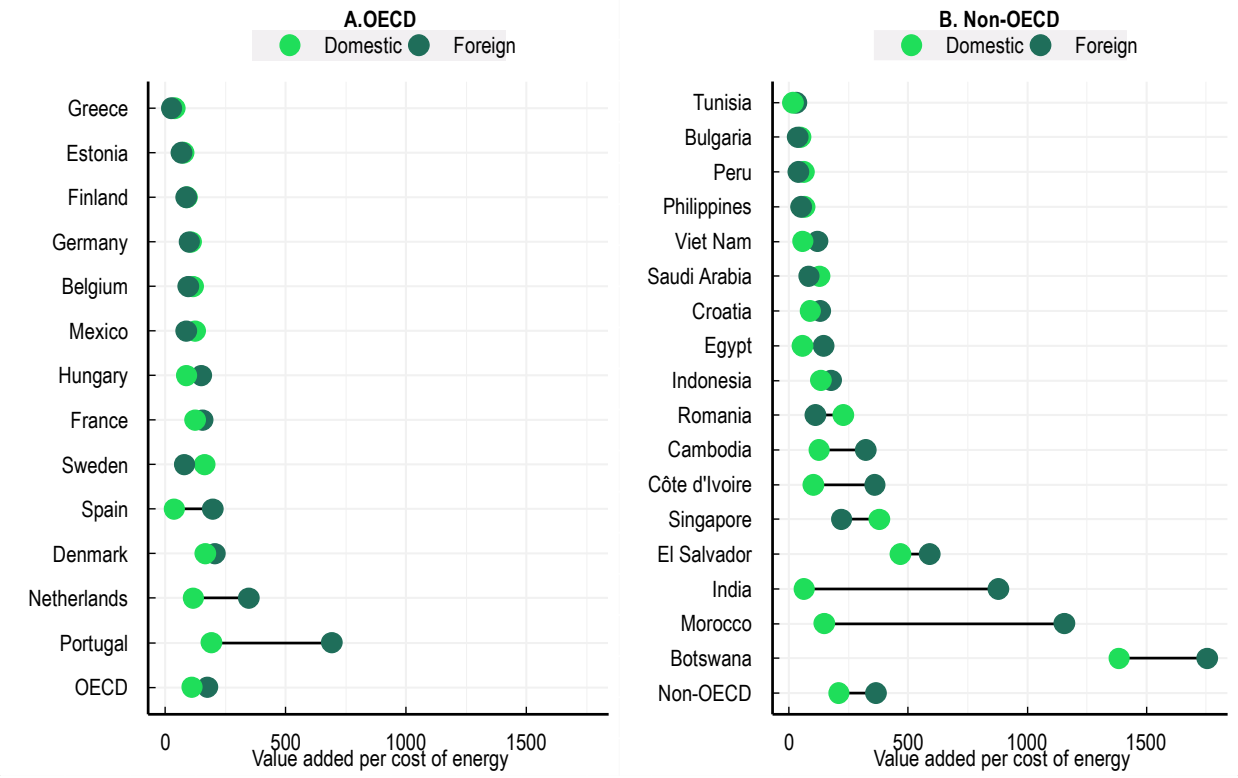


Note: Foreign ownership is defined in the World Bank Enterprise Surveys as 10% or more foreign ownership. Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21]).

As in many other non-OECD countries, foreign firms are more energy efficient than domestic businesses in Egypt, though this difference is somewhat small (Figure 1.10, Panel B). This energy efficiency gap creates opportunities for local businesses, even if Egypt's inflows of FDI are not concentrated in green technologies. Domestic firms can learn from and adopt the cleaner tools and practices used by international firms, particularly as reduced or reformed energy subsidies increase motivations for improved efficiency (OECD, 2022[14]). By improving energy efficiency, domestic companies could enhance their productivity, such as through reduced energy costs, which, in turn, may stimulate their growth and expansion in both local and international markets.

Figure 1.10. Foreign firms are more energy efficient than Egyptian firms

Energy efficiency (value added per cost of energy)



Source: World Bank Enterprise Surveys (2024[21]).

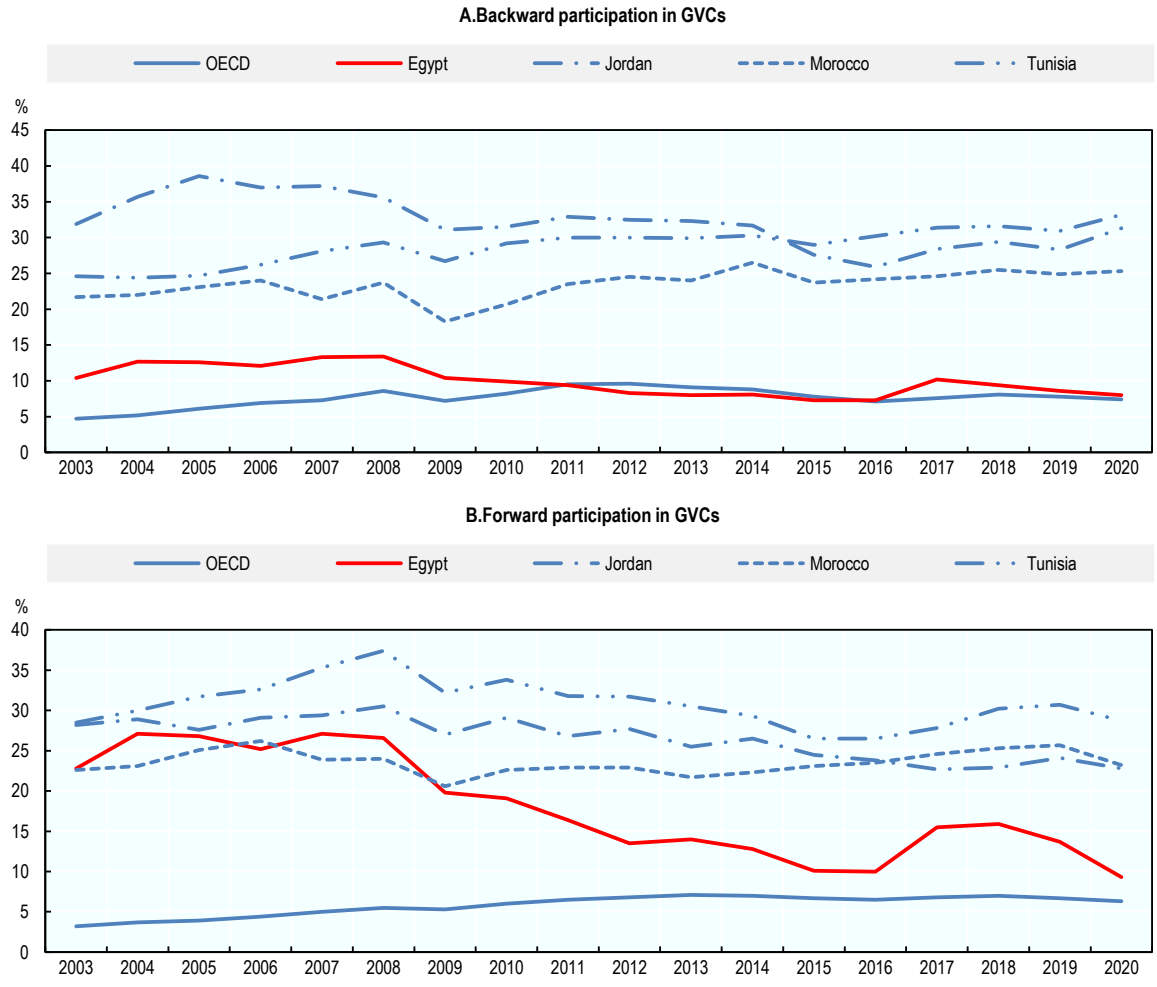
1.5. There is an untapped potential for FDI to increase GVC integration and exports

Global value chains (GVCs) break down stages of production across firms and countries to improve efficiency. While GVCs have been severely disrupted in recent years by the effects of the COVID-19 pandemic and Russia's war of aggression against Ukraine, they continue to play a central role in global trade. Participation in GVCs can offer SMEs opportunities for enhancing productivity and innovation through knowledge and technology spillovers, developing the skills of managers and workers, and raising firm absorptive capacities. Firms active in GVCs – either through their direct involvement in trade or through linkages with the foreign affiliates of multinational enterprises present in their county – may also benefit from increased resilience (OECD, 2023[24]).

Egypt participates less in GVCs than other countries in the region. It has a lower share of backward participation, i.e. measured as the share of foreign value added to gross exports, than several peers. Moreover, this share has declined slightly in the past two decades (Figure 1.11, Panel A). Large countries such as Egypt tend to have low levels of backward participation because they tend to have a larger domestic market for intermediate inputs. However, Egypt's low backward participation could also be driven by high trade costs or restrictions. While Egypt has significantly reduced both non-regulatory and regulatory restrictions on FDI in manufacturing sectors and in several services sectors such as financial services, some barriers on FDI persist in backbone services sectors. According to the OECD FDI Regulatory Restrictiveness Index (FDIRRI), Egypt continues to record limited restrictions in the distribution sector, reflecting statutory limitations in specific sub-activities, notably commercial agency and importer registration, while wholesale and retail trade activities are open to foreign investment (OECD, 2024[25]) (see Chapter 3).

Moreover, Egypt's low backward participation in GVCs is also explained by high FDI flows in sectors with less segmented supply chains, such as real estate and coal, oil and gas. Egypt's level of forward participation in GVCs, i.e. the share of domestic value added to foreign final demand, is also low relative to that of regional peers and has declined even more markedly in the past twenty years (Figure 1.11, Panel B). The presence of high barriers to trade and FDI are factors behind the low level of forward participation.

Figure 1.11. Egypt's level of involvement in GVCs is low



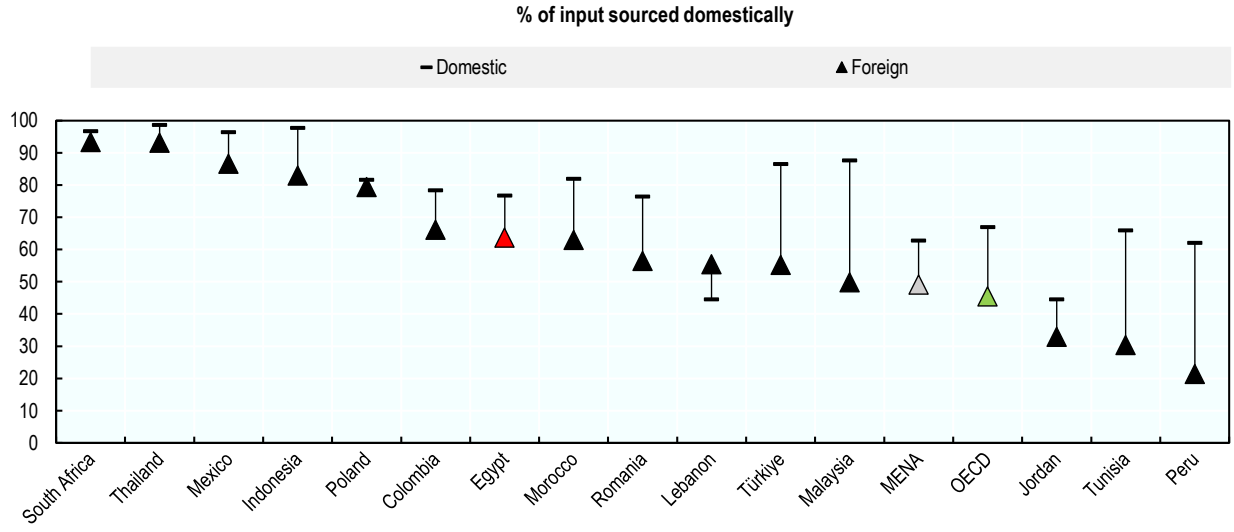
Note: Backward participation in GVCs refers to foreign value added in gross exports and forward participation in GVCs refers to domestic value added in foreign final demand.
Source: OECD TiVA indicators (2023[26])

Recent OECD analysis indicates that Egypt's export performance, particularly within the manufacturing sector, has been lacklustre. Moreover, Egypt shows an untapped manufacturing export potential, as exports represent a lower share of manufacturing gross output compared to other MENA and OECD countries (OECD, forthcoming[17]). FDI has the potential to help drive increased exporting by Egyptian companies, particularly SMEs and startups, and to indirectly engage these firms in international trade through supply chain linkages between foreign and domestic firms. Where productivity or technological spillovers are realised, local businesses that become more competitive may seek growth opportunities in

new markets. Increased exporting by foreign firms can also provide domestic firms with access to global distribution networks and other improvements for trade. At the same time, foreign investment often provides opportunities for SMEs to engage in indirect trade by supplying international entrants producing for export. Multinational firms may build linkages with suppliers established as subsidiaries, through market relationships with independent suppliers, or through contractual partnerships such as joint ventures and licensing agreements (OECD, 2022[14]). This indirect exporting can be part of an incremental process whereby SMEs learn about trade and gradually expand their direct exporting as well (Johanson and Vahlne, 1977[27]).

Linkages between foreign affiliates and domestic firms in Egypt are fairly strong. As is commonly the case, domestic firms in Egypt are more reliant on domestically-sourced inputs than are foreign affiliates; 76.8% of inputs used by domestic firms are sourced domestically, compared with 63.6% of inputs used by foreign firms (Figure 1.12). The scale of domestic sourcing among foreign firms is also relatively high, though. While domestic sourcing accounts for close to two-thirds of the total by these businesses in Egypt, the average shares for MENA (49.1%) and the OECD (45.4%) are close to half.

Figure 1.12. The majority of inputs are sourced from the domestic market



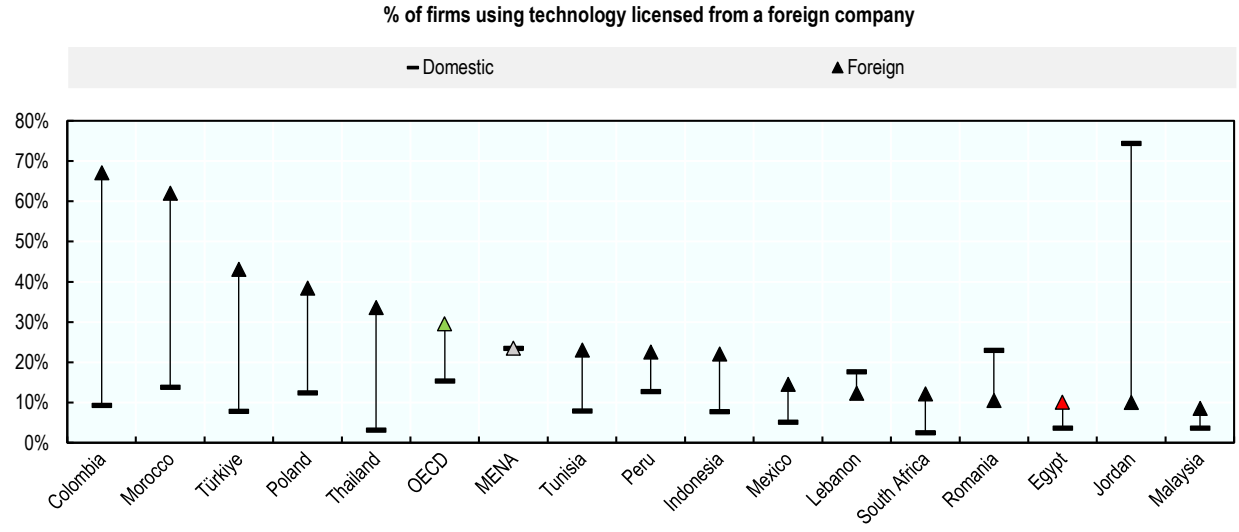
Note: Foreign ownership is defined in the World Bank Enterprise Surveys as 10% or more foreign ownership. Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21])

Despite these linkages and the export orientation of FDI, the sectoral composition of FDI into Egypt is not very supportive of indirect exporting by SMEs or the generation of beneficial spillovers through market connections. Exporting by foreign firms is relatively more important (averaging 7.6% of sales) than it is to domestic firms (averaging 2.7% of total sales). The former are also more than twice as likely to be exporters (World Bank, 2024[21]). However, the nature of the relationships in value chains tends to be dictated by the multinational lead firm (Gereffi, Humphrey and Sturgeon, 2005[28]). While lead firms in knowledge-intensive sectors often transfer knowledge to first-tier suppliers and may create spillovers for other firms, FDI in resource-based sectors tends to produce limited spillovers through supply chain linkages because of the capital intensity and highly specialised nature of these activities (UNCTAD, 2011[29]; Farole and Winkler, 2013[30]).

This unfavourable mix of investment and low levels of innovation more generally leads to few firms in Egypt – regardless of ownership – making use of foreign technologies. Just 3.6% of domestic firms and 10.1% of foreign firms use technology licenses from a foreign company (Figure 1.13). Even foreign affiliates in Egypt, which are more likely to make use of foreign technology, are less likely to do so than the average across domestic firms in the OECD (15.3%) or MENA (23.4%). While technology licensing is not the only means of accessing international knowledge and technology flows that are available to businesses, the scarcity of Egyptian firms engaging in this corroborates other evidence of the presence of barriers to productivity and innovation spillovers from FDI more generally.

More broadly, business partnerships between foreign and domestic firms—beyond technology licensing—can serve as an important conduit for the transfer of technology and knowledge. These collaborations manifest in diverse forms, including strategic alliances, joint ventures, contractual arrangements, franchising, research partnerships, and even informal co-operative frameworks. Recent OECD analysis underscores the pivotal role of such partnerships in Egypt, where foreign affiliate partnerships account for 21% of total business collaborations—substantially exceeding the OECD average of 12% and outperforming regional peers such as Jordan (13%) and Morocco (12%) (OECD, forthcoming[20]). This elevated share highlights the potential of these partnerships to drive innovation diffusion and bolster the capabilities and competitiveness of domestic firms. Strengthening the enabling environment for such collaborations will be crucial for maximising their impact on national innovation systems and long-term economic development.

Figure 1.13. Few firms in Egypt use foreign technology



Note: Foreign ownership is defined in the World Bank Enterprise Surveys as 10% or more foreign ownership. Data for Egypt refer to 2020. Data for the other countries range from 2016 to 2023.
Source: World Bank Enterprise Surveys (2024[21])

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2 The contribution of FDI to job quality and skills development

This chapter examines some of the most pressing challenges facing the Egyptian labour market. It assesses the impact of FDI on job creation, the quality of job opportunities created, particularly in relation to wages and the inclusion of women, and skills development. The analysis offers a comparative perspective between different sectors of the economy and regional counterparts, with a focus on the period from 2013 to 2023.

2.1. Summary

The creation of quality jobs is critical to improving living standards and ensuring sustainable, inclusive growth. In Egypt, however, the link between economic growth and employment has historically been weak, primarily due to the large public sector and insufficient investment in labour-intensive sectors of the economy (World Bank, 2022[1]; OECD, 2024[2]). As a result, unemployment rates remain high, and labour force participation is low, particularly among young people and women. While nominal wages have increased in certain sectors over the past five years, alongside hikes in the minimum wage, real wages remain relatively low (ILOSTAT, 2024[3]). Despite an increase in the pool of educated workers, significant skills mismatches continue to pose challenges. These mismatches—where workers are either underqualified or overqualified for their jobs—result in increased costs for businesses, particularly in terms of reduced productivity and higher recruitment and training expenses. Addressing these issues will be crucial to improving both the quality of jobs and the efficiency of the labour market, which in turn can support broader economic development. The 2025 National Economic Development Narrative focuses on boosting sectors with high employment multipliers and job creation opportunities

Foreign Direct Investment (FDI), particularly through greenfield projects, has made significant direct contributions to employment in Egypt. Between 2013 and 2023, greenfield projects generated 275 598 jobs, marking a notable increase from the 165 390 jobs created in the previous decade. A substantial portion of these new jobs were in the manufacturing sector, although the sector's relative importance for job creation has declined over the past ten years. In contrast, there was a notable rise in job creation in renewable energy and information and communication technology (ICT), both in absolute terms and as a proportion of overall employment growth. This shift reflects the growing importance of these sectors, which could play a key role in shaping Egypt's future labour market and economic landscape.

While Egypt outperforms its peers in terms of the absolute number of jobs created through FDI, it has one of the lowest job creation intensities, meaning the number of jobs created per billion dollars of greenfield investment. In absolute terms, construction is considered among the most labour-intensive sectors, generating substantial employment through large-scale infrastructure and real estate projects. When measured relative to FDI inflows, the job intensity of the construction sector is considered modest. Between 2003 and 2023, Egypt generated only 1 100 jobs per billion dollars of greenfield FDI, ranking last among peer economies. This is well below the OECD average of 2 100 jobs and the MENA average of 1 600 jobs. The low job creation intensity can be attributed to the concentration of greenfield FDI in sectors with lower labour intensity, such as energy and oil (see Chapter 1). Furthermore, the intensity of job creation by FDI in Egypt has declined over time, from 1 700 jobs per billion dollars of FDI in the period 2003-2012 to just 900 jobs per billion dollars in 2013-2023, placing Egypt below both the MENA and OECD averages. However, there has been notable growth in job creation intensity within certain sectors, particularly in software and IT services, which could signal potential areas for future FDI-driven employment growth.

FDI can also influence the quality of job opportunities created within an economy. In Egypt, wage levels in foreign firms are similar to those in domestic firms, despite the higher productivity levels typically associated with foreign investors. This wage discrepancy may be attributed to the concentration of foreign investment in low-skilled or low-innovation-intensive sectors, as well as the presence of economic rents that do not necessarily translate into higher wages for workers. Furthermore, women face even greater challenges in accessing quality jobs. Opportunities for women, whether as employees, managers, or business owners, are often limited in both domestic and foreign firms. This gender disparity highlights the need for targeted policies and reforms to improve women's access to high-quality employment, which could play a key role in fostering more inclusive economic growth. The 2025 National Economic Development Narrative includes policy actions to improve women economic empowerment.

The contribution of FDI to skills development in Egypt could be enhanced. Greenfield FDI is predominantly concentrated in less skill-intensive sectors, such as energy, construction, and oil. The construction sector can nevertheless play a role in absorbing both skilled and semi-skilled labour, particularly during periods of

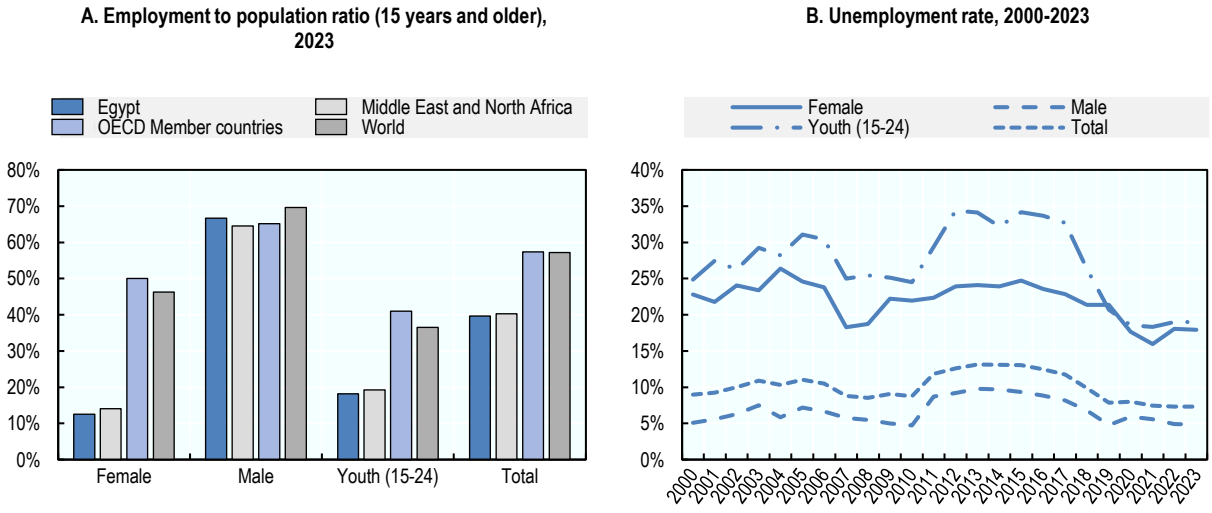
accelerated public and private investment in housing, roads, logistics, and energy infrastructure. Even in manufacturing sectors that attract a significant share of greenfield FDI, such as textiles and apparel, and metals, the proportion of skilled workers is generally low. The chemical sector stands out as an exception, as it both receives a substantial share of greenfield FDI and tends to be more skill-intensive. Furthermore, while foreign and domestic firms in Egypt hire skilled workers at similar rates, foreign firms are far more likely to provide formal training. This disparity suggests that the broader domestic workforce may not be benefiting as much from the skill development opportunities associated with FDI, highlighting the need for targeted policies that encourage greater skill-building initiatives, especially in sectors with higher growth potential.

2.2. Egypt faces major employment challenges, particularly for the youth and women

There has historically been a weak link between economic growth and employment in Egypt. Despite strong overall economic growth, Egypt continues to face significant challenges in generating employment, particularly inclusive opportunities for youth and women. According to the World Bank (2024[4]), the adult employment-to-population ratio in Egypt stands at 39.6%, slightly below the regional average of 40.2%, and far below the OECD Member country (57.4%) and global (57.2%) averages (Figure 2.1, Panel A). National sources place Egypt's adult employment-to-population ratio at 44.2% for 2024, at a slight increase from 43% the year prior.[1] Much of this gap is driven by low participation rates among women and youth aged 15 to 24, where both Egypt and its region exhibit low employment levels.

While youth and female unemployment rates have declined in the past decade, they remain more than double the national average (Figure 2.1, Panel B). Furthermore, the types of jobs women are more likely to occupy are often more precarious. Estimated rates of vulnerable employment, defined as jobs where individuals are either own-account workers or contributing family workers, are higher for women (28%) compared to men (23%) (World Bank, 2022[1]). Additionally, widespread informality in the labour market means that many jobs are low-paid and characterised by poor working conditions (OECD, 2024[2]). Addressing these challenges requires a comprehensive approach that includes policies to enhance job quality, reduce informality, and promote gender equality and youth inclusion in the workforce.

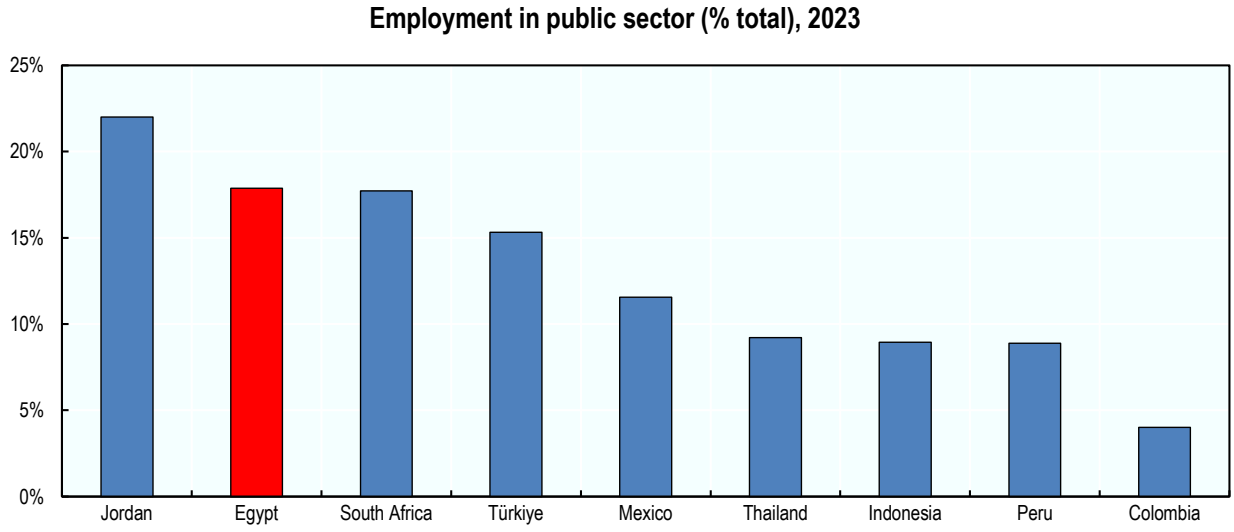
Figure 2.1. Unemployment is high, particularly among women and young people



Note: Panel A is based on data from the World Bank which was harmonised for international comparability. The Central Agency for Public Mobilisation and Statistics places Egypt's adult employment-to-population ratio at 44.2% for 2024.
Source: World Bank (2024[4]).

As in much of the MENA region, the private sector in Egypt competes with a large public sector for employment opportunities (OECD, 2021[5]). The public sector in Egypt plays a significant role in both output and employment, with the employment share standing at around 18% in 2023. This proportion is relatively higher than in many other emerging countries (Figure 2.2). However, this share has decreased in recent years, falling by approximately 7 percentage points over the past decade. This decline follows the introduction of new hiring restrictions in the early 2010s, which were part of efforts to reduce the size and cost of the public sector in Egypt (OECD, 2024[2]).

Figure 2.2. The public sector accounts for a relatively large share of total employment

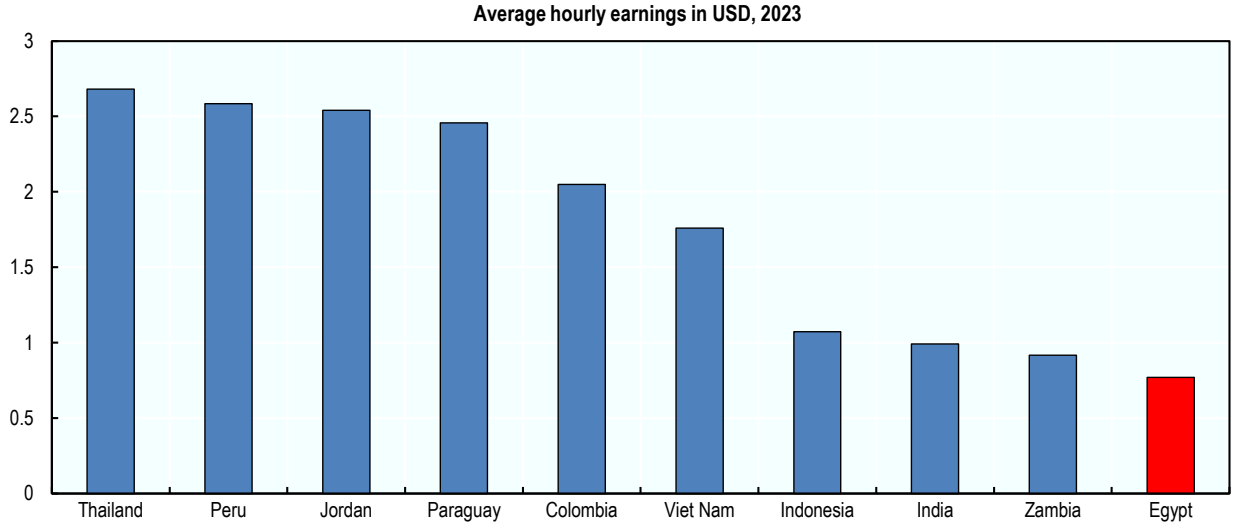


Source: ILOSTAT (ILO, 2024[6]).

Furthermore, much of the private sector's growth has been led by less labour-intensive activities (World Bank, 2022[1]). Egypt's largest sectors by employment are agriculture, forestry, and fishing; trade and vehicle repair; and construction. Employment growth over the past decade (2012-2022) has been most rapid in construction (averaging 12.1% per year) and utilities (averaging 6.6% per year), however. Rising exports have contributed to employment, particularly in labour-intensive industries such as textiles, apparel, automotive components and consumer electronics. Although exporters as a whole still represent a modest share of total employment, reflecting the prevalence of capital-intensive activities (Berg, Robertson and Lopez-Acevedo, 2022[7]), these labour-intensive export sectors demonstrate the potential for export activity to generate jobs, especially for medium- and low-skilled workers. This suggests that more diversified growth – which could be fostered by attracting new kinds of investment – is needed to generate new employment opportunities. This need is made more pressing by the rapid growth of Egypt's working-age population anticipated in the coming decades (OECD, 2024[2]).

Wages in Egypt are low and have not grown in recent years. In fact, at about USD 0.8 in 2023, average hourly earnings in Egypt have declined in nominal terms from a high of USD 1.1 in 2019 and are lower than in many similar economies elsewhere in the region and around the world (Figure 2.3). While recent global disruptions resulting from the COVID-19 pandemic and the Russian war of aggression against Ukraine have certainly had a negative effect on wages, particularly on real wages due to inflationary pressures, longer-term structural factors are also relevant. Extensive informality drags down wages. Approximately 21% of employees earn low pay, which is defined as just two-thirds or less of the median wage. Informal workers are overrepresented among these employees (OECD, 2024[2]).[2]

Figure 2.3. Average wages in Egypt are relatively low

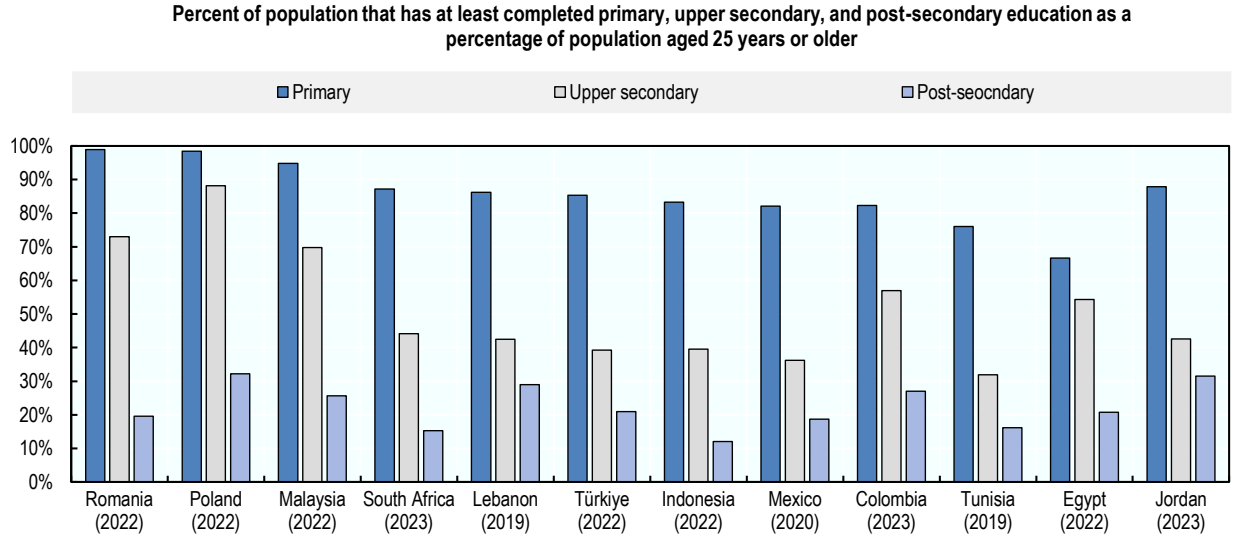


Source: ILOSTAT (2024[3]).

Notable inequalities in earnings are also found across sector, region, and gender. Public sector workers earn more than private sector employees (CAPMAS, 2022[8]). Wages are higher in urban areas and somewhat elevated in Upper Egypt than in Lower Egypt. Women earn less than men across all levels of education, and this gap only increases with higher levels of educational attainment (CAPMAS, 2022[8]). The gender wage gap is significant. Even after accounting for a range of personal characteristics including sector of employment, education, years of experience, and region, a 20% unexplained monthly wage gap remains between men and women (ILO, 2024[9])

The availability of a well-educated workforce, particularly among young people, has increased in Egypt due to the improvement in educational attainment. Egypt's educational attainment at all levels (primary, upper secondary, post-secondary) is comparable to peer countries (Figure 2.4). However, the Egyptian labour market does not always encourage an efficient match between workers and roles (OECD, 2024[2]). According to a 2024 policy brief by the Economic Research Forum (ERF), overeducation – when a worker has a higher level of education than is required for their job - is prevalent among both vocational secondary and university graduates in Egypt. Specifically, 19% of university graduates and 60% of vocational secondary graduates self-reported being overeducated. The study also finds that overeducation is associated with lower job satisfaction and wage penalties compared to well-matched peers (Economic Research Forum, 2024[10]).

Figure 2.4. Educational attainment is somewhat low in Egypt



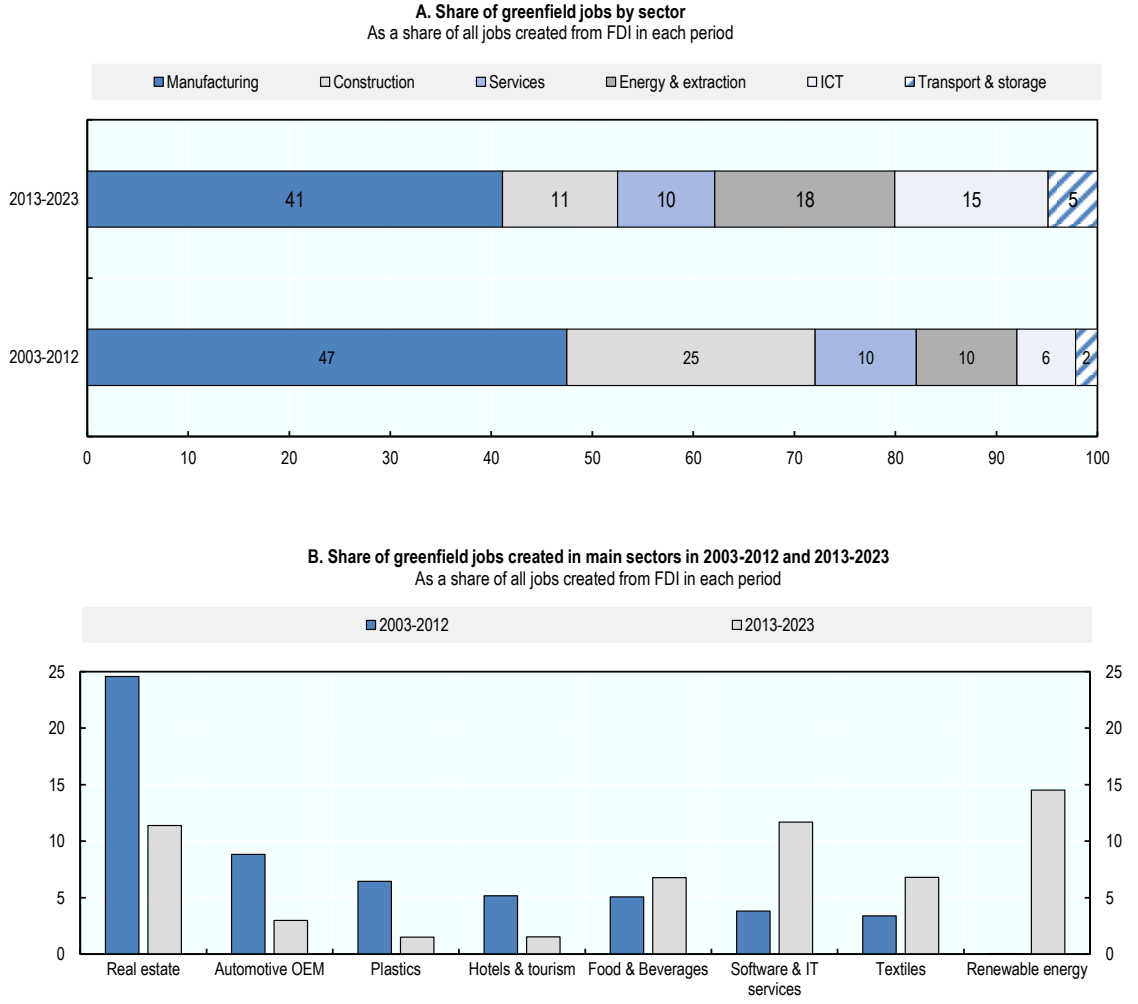
Source: World Bank (2024[4]).

2.3. The contribution of FDI to employment

FDI influences employment in host countries through both direct and indirect channels. Direct impacts stem from employment within foreign-owned enterprises, while indirect effects arise from the broader economic adjustments triggered by the operations of these firms within the host economy. The employment-generating potential of FDI is often sector-specific; for example, investments in capital-intensive industries, such as resource extraction, typically create fewer jobs compared to investments in more labour-intensive sectors like manufacturing. Greenfield investments generally yield positive direct employment outcomes, as new establishments require workforce integration from the outset. In contrast, Foreign Mergers and Acquisitions (M&As) of domestic firms can result in mixed employment effects. In the short term, M&As are often associated with job losses, as they commonly involve restructuring and workforce reductions. However, over the medium to long term, M&As can foster job creation, driven by enhanced operational efficiencies and productivity gains. Indirect effects on employment among domestic firms may occur through local businesses imitating labour-saving techniques used by new entrants or increased demand for their output that leads to employment growth, among other channels (OECD, 2019[11]).

Greenfield FDI is an important driver of job creation in the Egyptian economy. Over 2013-2023, 275 598 jobs were created directly through greenfield projects, a large increase over the 165 390 created in the previous decade. This figure is significant considering that it only provides a partial picture of the employment impact of FDI, as it does not consider employment generated through other FDI entry modes or new hires in existing foreign affiliates. The sectoral contribution of greenfield FDI to job creation has changed over these two periods, however. The share of all jobs created directly from greenfield FDI inflows declined in manufacturing from 47.5% over 2003-2012 to 41.1% over 2013-2023, just as that in construction declined from 24.6% to 11.4% (Figure 2.5, Panel A). In place of these, a greater share of jobs has been created in energy and extraction, ICT, and transport and storage. Renewable energy, in particular, has seen a large increase in the share of jobs created from FDI, from 0.1% over 2003-2012 to 14.5% over 2013-2023 (Figure 2.5, Panel B). Employment is also created indirectly as a result of foreign investment, though the evidence suggests that in Egypt, the extent of this may be relatively small for the total scale of inflows received (Adouelfarag and Abed, 2020[12]).

Figure 2.5. Jobs from FDI are increasingly created in services and renewables

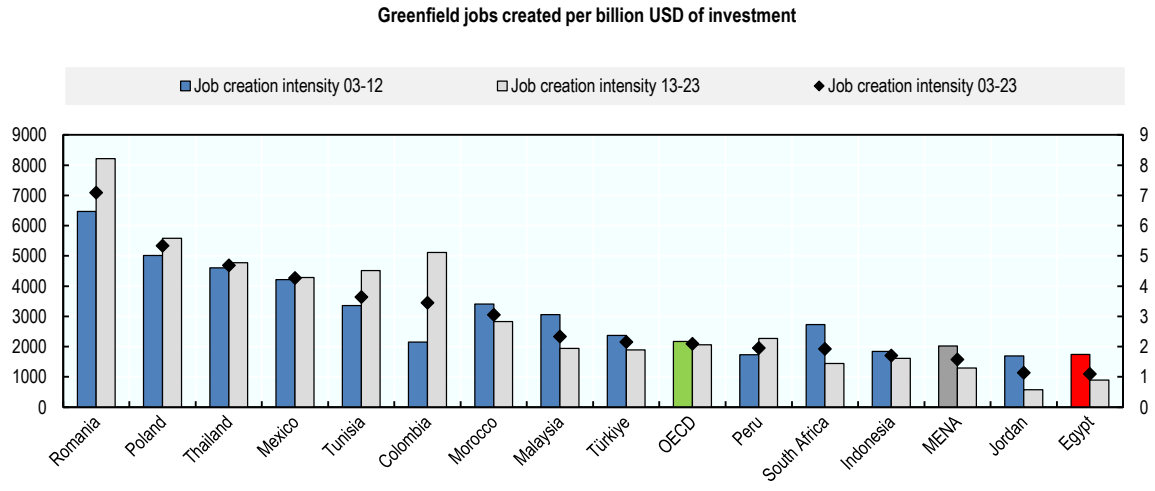


Note: Capex and jobs are estimates.
Source: FDI Markets (2024[13]).

While Egypt performs relatively better than its peers in terms of the absolute number of jobs created through greenfield FDI (or the number of jobs created relative to population), the distribution of this investment is less conducive to broad-based job creation. Specifically, greenfield FDI in Egypt tends to be concentrated in capital-intensive sectors, such as oil and construction, which are less labour-intensive compared to other sectors like manufacturing or services, when measured relative to FDI. In absolute numbers, the construction sector is, however, responsible for an important share of the workforce. As a result, while the volume of FDI inflows is notable, the employment outcomes may not be as significant in terms of job creation across the broader economy.

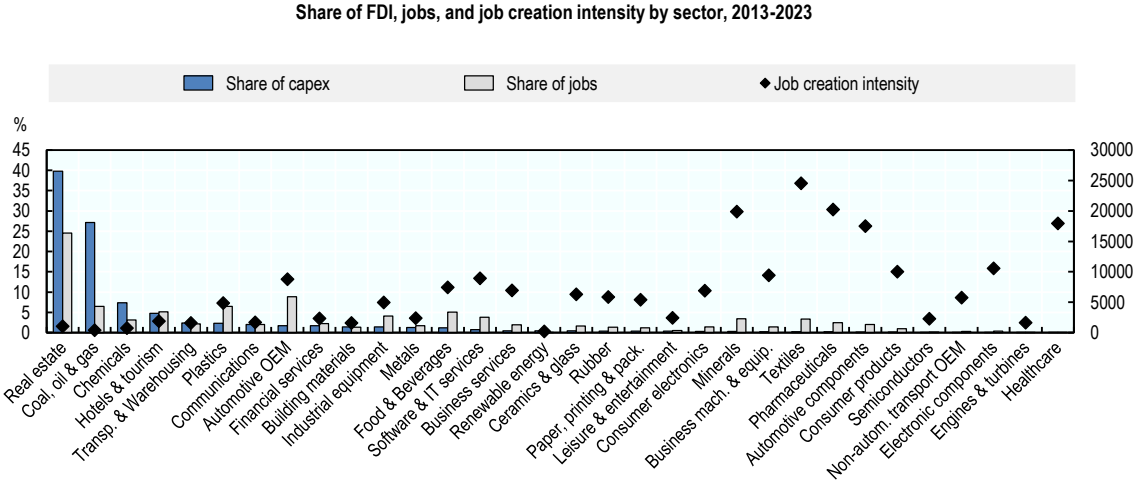
The intensity of job creation – measured as the number of jobs created per USD billion in greenfield investment – declined from 1 700 over 2003-2012 to 900 over 2013-2023 (Figure 2.6). Over the entire twenty-year period, Egypt with 1 100 jobs ranks last among peer economies, below the OECD average of 2 100 jobs and MENA average of 1 600 jobs. This should not be surprising, given the profile of recent inflows of greenfield FDI into Egypt, which have been highly concentrated in a few capital-intensive sectors, such as energy and construction (Figure 2.7). These investments do not directly generate large numbers of jobs and often lead to limited linkages formed with the domestic economy, which could lead to indirect employment generation in domestic suppliers. The MENA region also saw a decline in the intensity of job creation through FDI, likely also due to large investments in capital-intensive sectors such as energy and construction.

Figure 2.6. Job creation intensity in Egypt is relatively low compared to peer countries



Note: Capex and jobs numbers are estimates.
Source: FDI Markets (2024[13]).

Figure 2.7. Greenfield FDI is concentrated in sectors with the lowest job creation intensity



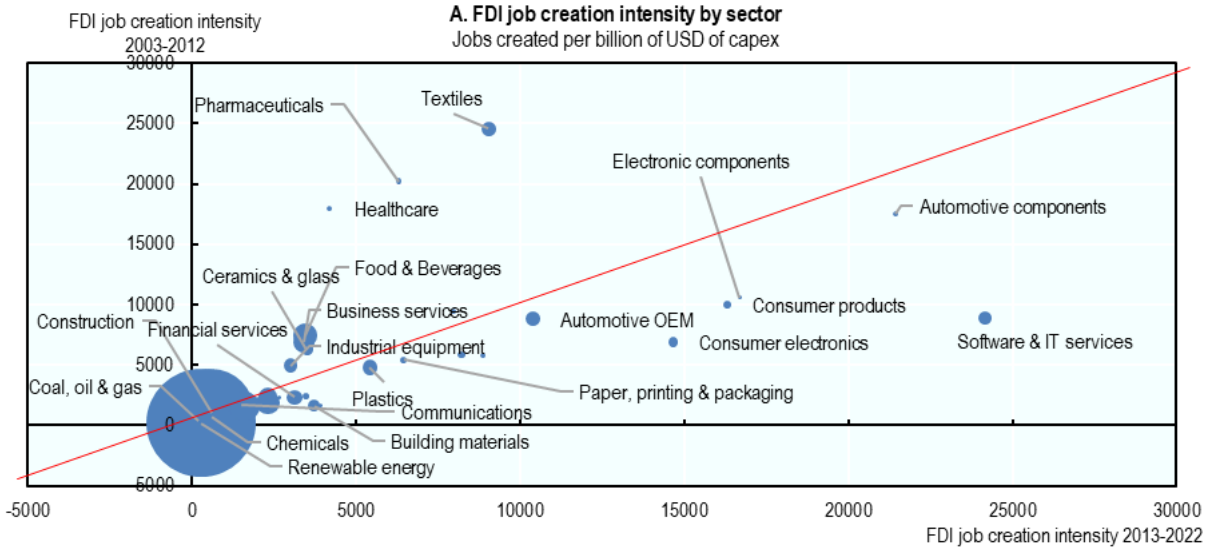
Note: Capex and jobs are estimates. Job creation intensity refers to the number of jobs created per USD billion in greenfield FDI.
Source: FDI Markets (2024[13]).

The intensity of job creation through FDI is not a static characteristic of economic sectors, but is subject to change as a result of technological developments, changes in the business environment, and shifts in demand, among other factors (Saurav, Liu and Sinha, 2020[14]). Indeed, global trends are also affecting the intensity of employment generation through FDI; technological change and structural shifts in the composition of investment around the world are leading to fewer jobs being created for a given amount of investment (Box 2.1).

In Egypt, some technology- and capital-intensive sectors have large increases in the employment generated relative to foreign investment. Between 2003-2012 and 2013-2023, FDI job creation intensity increased strongly in software and IT services (170% increase), engines and turbines (137% increase), and building materials (132% increase) (Figure 2.8). These sectors receive lower shares of FDI, however;

together, they account for less than 1% of Egyptian FDI inflows over 2013-2023 (Financial Times, 2024[13]). Also relevant to overall employment generation in Egypt, changes in job creation intensity were mixed across the sectors that are major attractors of FDI; between these two decades, the intensity of job creation in renewable energy increased by 41% but decreased in construction and in coal, oil, and gas by 45.9% and 58.0% respectively.

Figure 2.8. Job creation intensity by sector



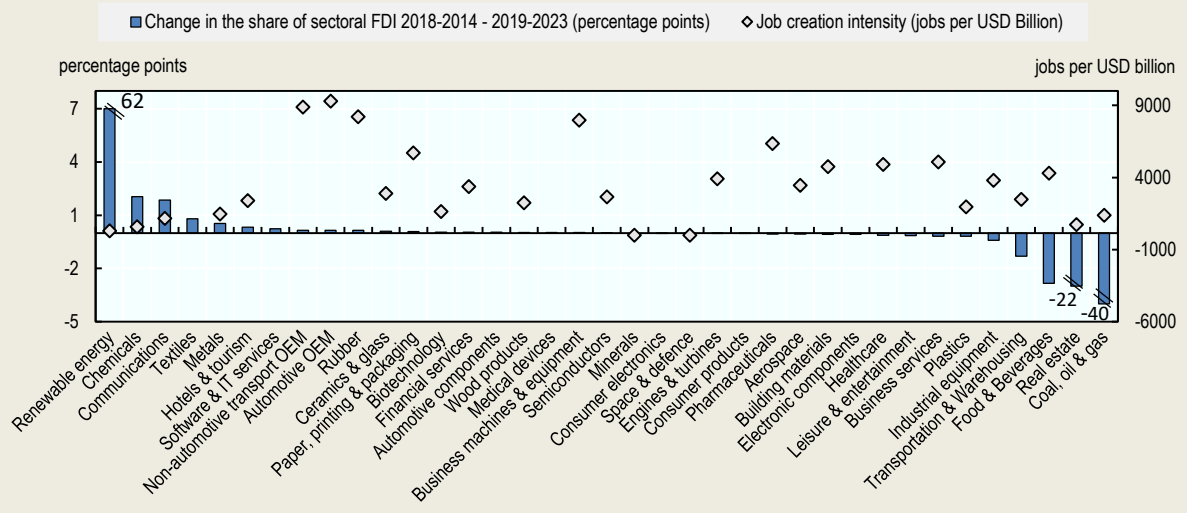
Note: The size of the bubble reflects the sector's share in total FDI during 2003-2023. The energy sector is excluded.
Source: fDi Markets (2024[13]).

Box 2.1. The green and digital transitions are reshaping the contribution of FDI to job creation

The job creation intensity of greenfield FDI declined in most world regions between 2014-2018 and 2019-2023. Across non-OECD Member countries, the number of jobs directly created per USD million in greenfield FDI fell from 2.9 to 2.6 between these two periods. South Asia is a notable exception to this trend, where it has increased by 23.6% owing to a significant growth in investment in labour-intensive software and IT services, communications and business services. To a lesser extent, the MENA region is the other exception; the job creation intensity of greenfield FDI has remained roughly constant.

Global trends are reshaping the linkages between investment inflows and employment. In particular, increasing automation and digitalisation in all economic sectors is reducing job creation intensity. Sectors that experienced a relative increase in FDI (e.g. renewables and semiconductors) have had, on average, a lower job creation intensity than sectors that experienced a relative decline in FDI inflows (e.g. real estate, the automotive sector and food, and beverages) (Figure 2.9). The energy sector in general is not very labour-intensive; it accounted for 35% of FDI in non-OECD countries between 2019 and 2023 but created only 4% of new jobs from FDI. Although investment in renewable energy and other areas supporting the green and digital transitions may not create as many jobs as older forms of investment, it has the potential to create higher-quality and more stable jobs.

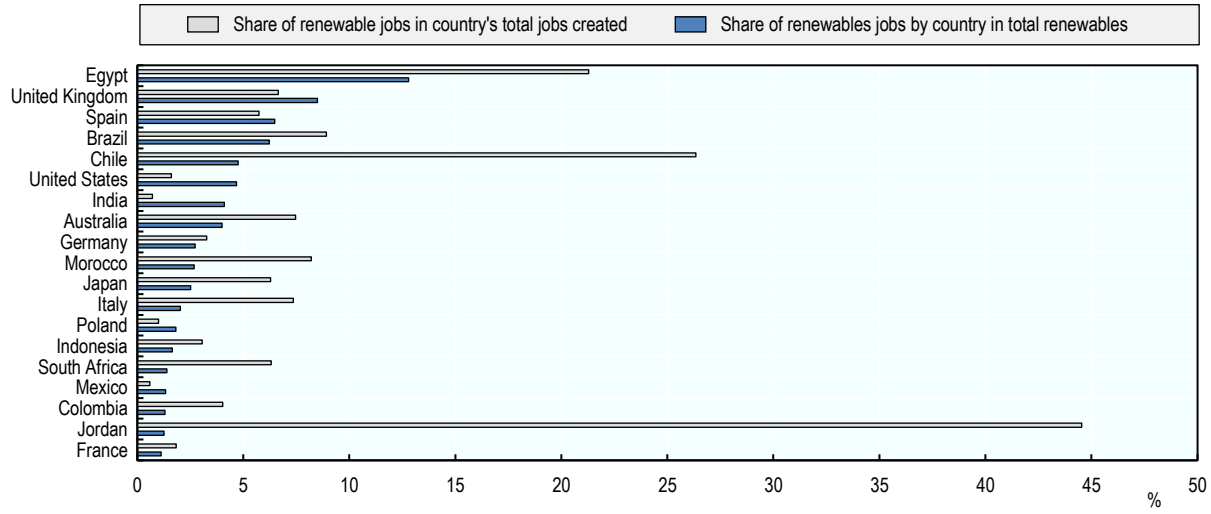
Figure 2.9. FDI in developing countries increased in sectors with low job creation intensities



Source: fDi Markets (2024[13]).

Egypt has attracted a growing share of FDI in renewable energy in the past decade (Box 2.2). Given its capital intensity, greenfield FDI in renewable energy tends to create fewer jobs than investment inflows in other sectors. Globally, less than 0.6 jobs per USD million are directly created through greenfield FDI in renewables, making it the sector with the lowest job creation intensity (OECD, forthcoming[15]). Thanks to its significant attraction of investment in renewable energy, however, Egypt accounted for 12.8% of jobs created globally from greenfield FDI in renewables over 2019-2023 (Figure 2.10). In addition, this investment has been sufficiently large relative to other inflows in the country, such that 21.3% of all jobs created in Egypt from greenfield FDI over this period were in renewables.

Figure 2.10. Egypt is one of the countries with the largest number of jobs created from FDI in renewables



Source: fDi markets (2024[13]).

Box 2.2. The just transition and green skills

Just transition requires the creation of quality jobs in greener activities as lower-emission activities increase their contributions to economic growth. This has been a challenge in many economies, including among OECD Member countries, where workers displaced from shrinking GHG-intensive work face relatively large earnings losses. Re-skilling and upskilling policies are therefore critical in helping workers to adjust to the emergence of new lower-emissions jobs.

Additional skills are needed among Egyptian workers in order to attract the needed investment and to foster employment generation. These include knowledge and skills required to work with green technologies and infrastructure. Egypt's Integrated Strategy for Sustainable Energy for 2008-2023 includes commitments to skill development, including through the creation of centres of excellence within the Ministry of Education and Technical Education in reforming technical education programmes. In addition to strengthening the relevance of these programmes, it will be important to develop and implement participatory and inclusive national strategies on skills and so establish an institutional framework for the effective governance of training and skill development.

Source: OECD (forthcoming[15]); AUC/OECD (2024[16]); ILO (2018[17]).

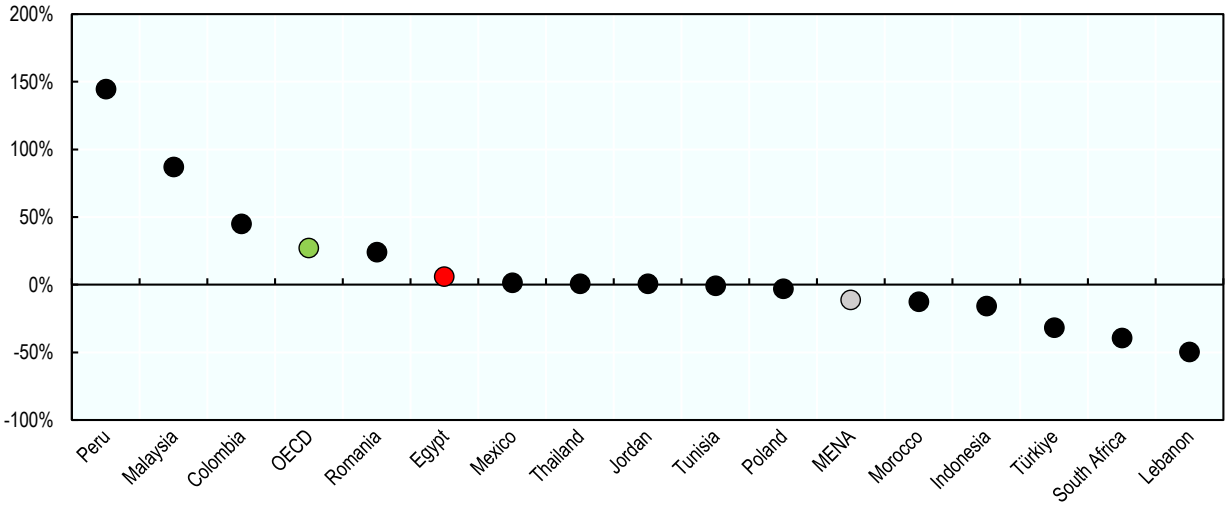
2.4. The contribution of FDI to job quality

Quality jobs pay well, are relatively stable, and offer safe and supportive conditions for work. The OECD Job Quality Framework, for example, measures quality across three dimensions: earnings quality, labour market security, and the quality of the working environment (OECD, 2019[11]). Job quality has direct impacts on workers' incomes, as well as indirectly affecting their health and productivity (Saint-Martin, Inanc and Prinz, 2018[18]). FDI inflows can affect the quality of employment by increasing wages and improving non-wage working conditions such as job security and labour standards, though these benefits may be unevenly distributed in the host economy or dependent on the characteristic of investing forms and local context (see, for example (Hijzen et al., 2013[19]), (Bloom, Van Reenen and Sadun, 2016[20])). Major issues regarding job quality in Egypt include depressed wages and gender imbalances.

Foreign firms operating in Egypt do not exhibit significantly higher wage levels compared to domestic firms, which suggests limited potential for these companies to exert upward pressure on wages in the host economy. Generally, foreign firms tend to pay wage premia because of their higher productivity, use of higher-skilled labour, larger size, or greater product market power. Larger wage premia tend to be found where a greater share of foreign investment is made in high-wage industries and wage premia tend to be smaller at the lower end of the wage distribution (OECD, 2019[11]). Despite a significant productivity premium (see Chapter 1), foreign firms in Egypt on average pay similar wages to domestic businesses; at 5.9%, the foreign wage premium in Egypt is negligible (Figure 2.11). The concentration of foreign investment may explain this apparent discrepancy, as most FDI is made in sectors with relatively high productivity levels despite not being skill- or innovation-intensive.

Figure 2.11. In Egypt, foreign and domestic firms pay similar wage levels

Foreign firms pay higher wages if index >0, 2023 or latest year available

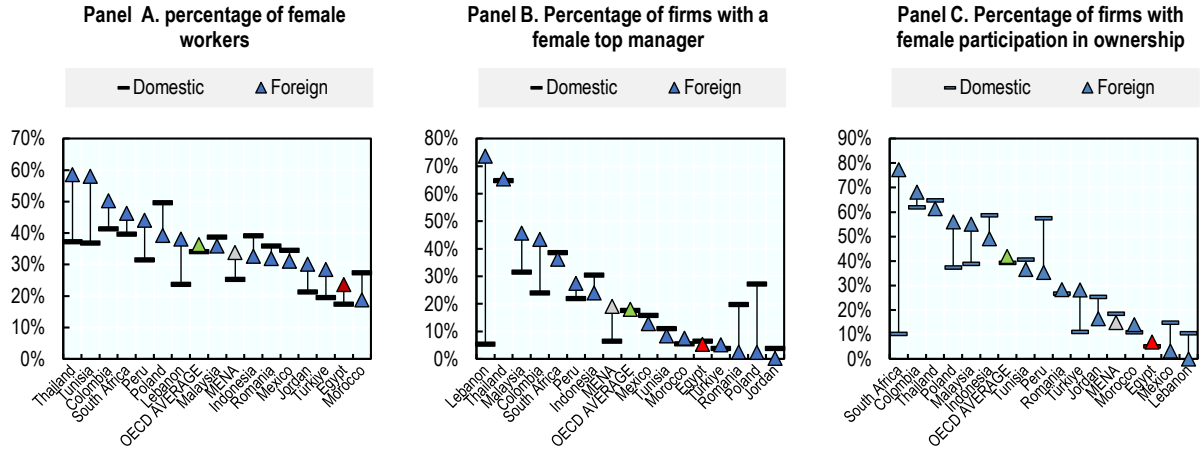


Note: Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21]).

Gender equality represents a critical dimension of both the quality and inclusiveness of employment. The impact of foreign firms on gender outcomes can be multifaceted. These firms influence gender dynamics not only through their direct employment practices but also via the value chains they establish with local enterprises, the competitive and imitation effects they generate among domestic firms, and the patterns of labour mobility between foreign and domestic businesses. By shaping these various channels, foreign investment can play a significant role in advancing gender equality in the workplace, although the extent of this impact will depend on sectoral and contextual factors (OECD, 2022[22]).

Despite broader trends, the direct impact of FDI on female labour force participation in Egypt remains limited, with foreign firms contributing relatively few opportunities for imitation or labour mobility effects within local businesses. While foreign enterprises in Egypt are somewhat more likely than domestic firms to employ female workers or have female owners, domestic businesses outperform foreign firms in terms of female representation in senior management positions (Figure 2.12). However, substantial potential remains to enhance women's involvement in both foreign and domestic enterprises. Across key dimensions—such as workforce participation, management roles, and ownership—Egypt lags behind many of its peer economies, with female engagement rates significantly lower. Structural barriers, including gender imbalances in employment and entrepreneurship, the disproportionate burden of unpaid care and domestic work, and entrenched social norms, continue to limit women's ability to contribute more fully to economic growth and development (OECD/ILO/CAWTAR, 2020[23]) (Box 2.2). To promote women's entrepreneurship, Egypt could consider developing programmes that enable women-owned businesses to access export markets and expand internationally, while ensuring that existing technical programmes are monitored and evaluated for effectiveness (OECD, forthcoming[24]).

Figure 2.12. Both foreign and domestic firms have space for much greater levels of involvement by women



Note: Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21]).

Box 2.3. Harnessing FDI for gender equality and women's economic empowerment in Egypt

One of the chapters of the forthcoming Women's Economic Empowerment Review, prepared under the OECD-Egypt Country Programme, provides an in-depth analysis of the impact of FDI on gender equality and women's economic empowerment in Egypt's labour market. The chapter also examines the institutional and policy frameworks that shape FDI's influence on gender outcomes and identifies key reforms to enhance its positive impact. Key findings include:

- **Gender impact of FDI is limited and uneven**: FDI has not fully translated into better gender equality outcomes. Most FDI flows into male-dominated sectors such as oil extraction, manufacturing, and ICT, where women's participation is very low. This reflects broader legal, cultural, and societal norms that constrain women's access to certain sectors and types of employment.
- **Geographic concentration risks to exacerbate pre-existing gender inequalities:** FDI is concentrated in only 7 out of Egypt's 27 governorates—mainly urban centres—accounting for 90% of greenfield FDI and 80% of the jobs it creates. Women face greater obstacles than men in relocating for work, such as limited access to safe and affordable transportation and accommodation. This geographic concentration further limits women's ability to benefit from job opportunities generated by foreign firms.
- **Foreign firms offer better jobs, but gaps remain in leadership:** Compared to domestic firms, foreign firms employ a higher share of women, particularly in sectors like garments. They also offer better working conditions, including higher average wages and more permanent contracts. They are less likely, however, to appoint women to top management roles—highlighting a leadership gap.
- **Fragmented institutional landscape and weak co-ordination**: Investment policymaking in Egypt involves multiple institutions with overlapping mandates. However, co-ordination with gender equality bodies—particularly the National Council for Women (NCW)—is weak. Equal Opportunity Units (EOUs) exist in some ministries but lack co-ordination with each other and

with the NCW. The NCW and gender-relevant ministries are excluded from high-level investment policy discussions (e.g. Supreme Council for Investment), limiting gender mainstreaming in investment policy.

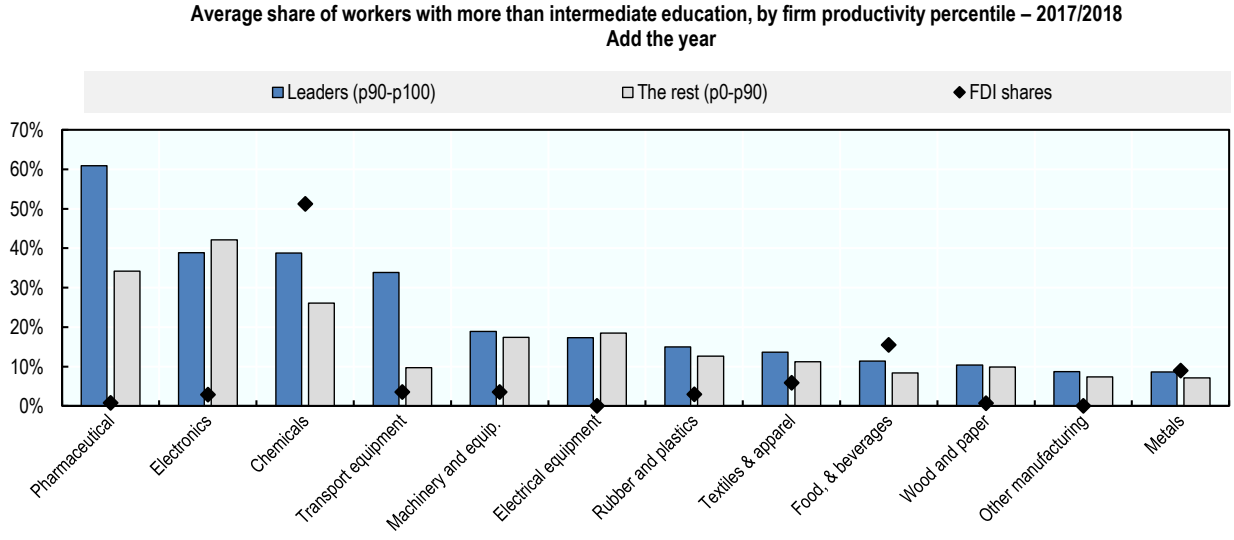
- **Legal reforms provide a foundation, but gender impact is unclear:** The 2017 Investment Law improved legal clarity and introduced a new tax incentive regime based partly on sectoral targeting. Some incentivised sectors (e.g. garments, chemicals) have significant female employment. However, there is no mechanism to monitor or assess whether these incentives improve gender outcomes.
- **Lack of transparency in investment promotion efforts:** Entities in charge of investment promotion (GAFI, IDA, and SCEZ) focus on attracting investment in sectors relevant to women's employment (e.g. textiles, healthcare, education). However, their strategies, objectives, and results are not publicly disclosed, making it difficult to evaluate their effectiveness or impact on gender labour market outcomes**.**
- **Weak implementation of international gender standards**: Egypt was the first Arab and African country to adhere to the OECD Guidelines for Multinational Enterprises in 2007, but its National Contact Point (NCP) has only recently become functional and has begun engaging in promotional and awareness-raising activities. Egypt also participates in international investment agreements with gender provisions, but follow-through remains limited.

2.5. The contribution of FDI to skills development

Skills development is a key driver of inclusive growth and a critical factor in improving the economic prospects of Egypt's population, particularly among vulnerable groups. As noted earlier, Egypt faces substantial challenges in addressing skill gaps within its labour market. Despite advances in educational attainment, significant mismatches between the skills possessed by the workforce and those demanded by employers continue to create inefficiencies. These mismatches impose costs on both domestic and foreign firms, hindering productivity and limiting the potential for sustainable economic growth.

In Egypt, greenfield FDI tends to be concentrated in less skill-intensive sectors, such as energy, construction, and oil. Even within manufacturing, industries that attract significant shares of greenfield FDI, such as textiles and apparel, as well as metals, tend to have a lower proportion of skilled workers compared to other sectors (Figure 2.13). A notable exception to this trend is the chemical sector, which not only receives a significant share of greenfield FDI but also boasts a relatively high proportion of skilled labour, highlighting a more skill-intensive nature of investment in this area. The construction sector can also contribute to absorbing skilled workers during periods of accelerated public and private investment in infrastructure.

Figure 2.13. Some skill-intensive manufacturing sectors attract significant shares of FDI

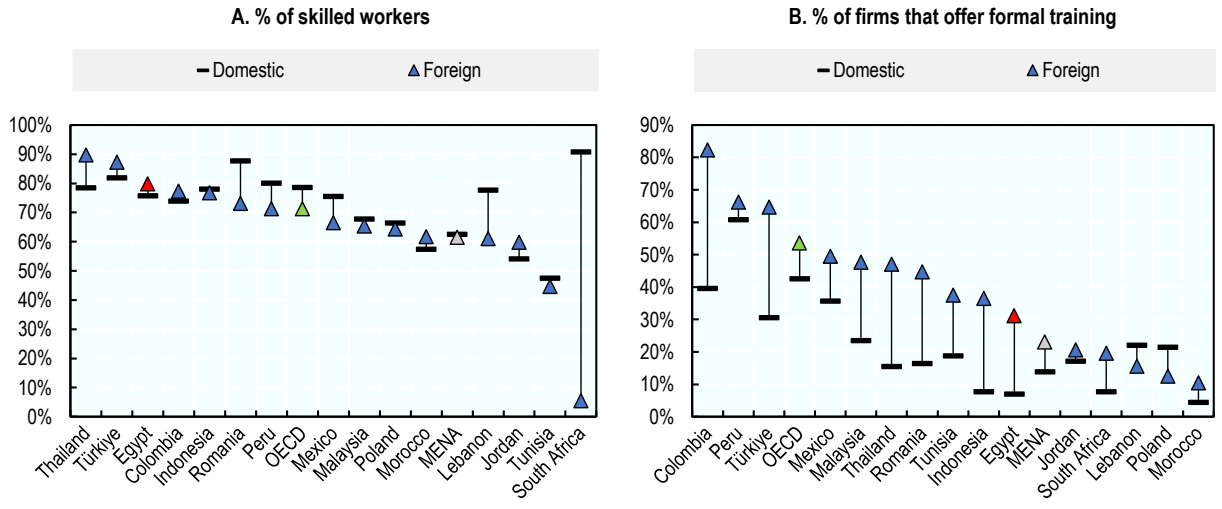


Note: Leaders are defined as firms in the top decile of the log labour productivity distribution in each manufacturing industry. Firms with one worker are excluded.
Source: OECD MultiProd database (2024) and Egypt Economic Census 2017-2018.

In Egypt, both foreign and domestic manufacturing firms employ a relatively high proportion of skilled workers compared to similar economies. According to firms' own estimates, skilled workers account for 75.7% of employment in domestic firms and 79.7% in foreign firms (Figure 2.14, Panel A). This similarity is not unexpected, given the comparable wage levels between foreign and domestic firms. Additionally, the overall composition of FDI inflows into Egypt tends to favour sectors that do not typically require high levels of education for a significant portion of their workforce. However, it is important to note that manufacturing firms with higher concentrations of skilled workers generally tend to be larger, more innovative, and more export-oriented than those with lower skill intensity (Abdelgouad, 2016[25]).

It is rarer for Egyptian firms to provide workers with continuous learning opportunities, while on-the-job training is much more common among foreign firms. Only 7% of domestic firms offered staff training programmes, below the OECD (42.6%) and MENA (13.9%) averages (Figure 2.14, Panel B). Foreign firms in Egypt are much more likely to offer formal training; 31.1% of these businesses do so, exceeding the regional average of 23.1%.

Figure 2.14. Foreign firms contribute to the skills upgrading of Egyptian workers



Note: Data for Egypt refer to 2020. Data for other countries refer to years between 2015 and 2023.
Source: World Bank Enterprise Surveys (2024[21]).

This difference is not unique to Egypt; foreign firms are often more likely to provide in-house training than their domestic counterparts in peer countries. There is some evidence that domestic firms exposed to foreign firms that provide training are motivated to do similarly, through a combination of competitive pressure and imitation effects (Blomström and Kok, 2001[26]). On the other hand, as a result of low levels of technological intensity, these imitation effects might be more limited among Egyptian businesses. In addition, on-the-job training is particularly important in innovation- and technologically intensive activities, as rapid change in these areas tends to be a motivator for firms to invest in continuous skill development (OECD, 2019[11]). Since many Egyptian firms do not operate in these areas (see Chapter 1), there may be less motivation to invest in training.

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Notes

[1] The total labour force in Egypt was estimated at 32 million individuals in 2024, with 26 million male workers and 6 million female workers, according to the Central Agency for Public Mobilisation and Statistics.

[2] In 2024, the minimum wage was raised both in the public and private sectors.

3 Policies to boost FDI-SME linkages and productivity spillovers

This chapter assesses the policy and regulatory framework influencing the impact of foreign direct investment on productivity and innovation in Egypt, focusing on the potential for knowledge and technology spillovers from foreign multinationals to small and medium-sized enterprises. Policy recommendations are provided to promote and attract FDI with strong spillover potential, improve the capacity of Egyptian SMEs to absorb new knowledge, and strengthen the linkages between the two.

3.1. Summary of findings and policy recommendations

Foreign direct investment (FDI) can significantly contribute to productivity and innovation in host economies by facilitating knowledge and technology spillovers. When multinational enterprises (MNEs) establish buyer-supplier linkages with domestic firms, they often introduce advanced technologies, production processes, and management practices that local firms may not have previously accessed. Business linkages can take various forms, including buyer-supplier relationships along local value chains or more formal arrangements such as strategic partnerships, joint ventures, and R&D collaborations. Knowledge spillovers can enhance productivity by exposing local firms to higher performance standards and innovation practices. Over time, these interactions can contribute to broader industrial modernisation and the development of a more competitive, innovation-driven economy. However, such spillovers are not automatic, as MNEs may be cautious about sharing proprietary knowledge due to concerns over intellectual property rights or strategic competition. Public policies and institutional arrangements play a critical role in creating an environment conducive to these spillovers, by fostering collaboration, enhancing local firms' absorptive capacities, and ensuring that foreign investments are aligned with national development priorities.

Although FDI has made significant contributions to the economy, more can be done to realise its potential as a driver of economic diversification, which will be key to supporting economic growth and stability in Egypt. Attracting larger inflows of FDI, changing the mix of FDI inflows to better support growth and development, and more effectively leveraging foreign investment can play a major role in supporting Egypt's national development goals. Economic diversification and upgrading driven by international investment in this way contributes to priorities such as those outlined in Egypt's Vision 2030 strategy for a strong and innovative economy, inclusive growth, and sustainable development. More could be done through improvements to institutional co-ordination and capacities, in addition to policies more directly addressing the needs of investors and small businesses. These reforms should build upon the existing governance structure in attracting investment, developing the green economy, strengthening SME capacities, and fostering spillovers from FDI.

3.1.1. Recent reforms are improving Egypt's potential to attract investment

Egypt has made considerable progress in improving the attractiveness of its business environment to international investors and has largely capable institutions managing key aspects of FDI promotion, administration, and policy. There is nevertheless room for improving policies and institutional arrangements in order to attract larger inflows of FDI that can be better leveraged to create positive spillovers for the domestic economy. Egypt has recently enhanced transparency by publishing a detailed and legally grounded list of sectoral restrictions on FDI. While restrictions remain relatively high in certain sectors, further reforms to reduce discretion in decision making on new investment projects could support a more open and predictable investment environments. Efforts to review and modernise bilateral investment treaties, pursued in collaboration with international partners, also aim to strengthen alignment with international good practices and sustainable development objectives.

Closely related to FDI policies, some uncertainties in the business environment can be managed through policy reforms. Stronger protections for intellectual property rights (IPRs) – including more effective enforcement – would increase confidence in making investments in Egypt and locating research and development and other innovative activities there. Investor confidence could also be bolstered through the implementation of measures addressing corruption perceptions. The issuance in 2018 of the Public Contracts Law No. 182 was a step forward on transparency and fairness in public procurement, though full implementation and the removal of procurement exemptions for state-owned enterprises (SOEs) remain key to reducing opportunities for large-scale corruption. Building on this, the 2023 issuance of Law No. 159, which removed tax and fee exemptions for SOEs and public institutions and ended preferential treatment for government-affiliated companies across all legal forms, represents significant progress

towards greater transparency and fairness in public procurement, though continued efforts are needed to mitigate corruption risks.

Effective investment promotion should be guided by a clear investment promotion strategy covering the work of the General Authority for Investments (GAFI) and other organisations active in FDI, SME development, and innovation. Monitoring and evaluation could be further emphasised. This is especially true for tax and other incentive programmes, which should be reviewed regularly to evaluate their effectiveness in drawing in new investment. The ongoing development of Egypt's National FDI Strategy (2025-2030), in collaboration with the World Bank Group, demonstrates a positive step towards a more structured, transparent, and impact-driven investment promotion in Egypt. The strategy includes fined policy priorities, quantifiable KPIs, and a comprehensive M&E framework that is aligned with international good practices.

At a more fundamental level, many of the challenges faced in Egypt in attracting FDI to drive economic development and diversification are related to institutional factors and the co-ordination of government bodies working on FDI and related topics. Along with reforms to other aspects of investment promotion, the identification of high-potential sectors where FDI can help to drive growth – such as higher-value-added manufacturing sectors – and the alignment of promotion efforts with these priorities would help to more effectively attract and leverage investment. Achieving such alignment will require continued strengthening of co-ordination between the institutions involved in investment policy. GAFI, which operates under a dual mandate of policy development and investment promotion, plays a key role in institutional co-ordination. Recent reforms, such as the creation of a dedicated Promotion Sector, streamlined licensing procedures, and improved co-ordination with line ministries, are important steps towards reinforcing GAFI's capacity as an effective co-ordinator and provider of investment promotion services. Any future reform process should also consider how to best structure GAFI as an effective co-ordinator and provider of investment promotion, including whether these responsibilities should be separated from its policy roles.

Egypt's strong potential to develop the green economy generally and the green hydrogen sector in particular has been recognised by investors. Recent policies such as the adoption of the Green Hydrogen Strategy have established a strong basis for attracting green and low-carbon FDI. Further consideration should be given to what is needed to continue to grow the sector and to realise the potential contribution of domestic firms. Public-private partnerships and incentives can be used to encourage the needed investments. Tailored support for small businesses will also help them to engage in this new and relatively risky sector.

3.1.2. Policies addressing SME capacities have been implemented, but there is room to create a more supportive business environment

Realising the full potential of FDI, including productivity spillovers and diffusion of innovation, requires that domestically owned businesses have capacity to form linkages with foreign-owned firms and to absorb new knowledge and technology. This requires broader institutional co-ordination on capacity-building activities, as well as policy reforms addressing constraints on SMEs and entrepreneurship and competition in Egypt.

The success of small and medium-sized enterprises is critical to economic diversification and upgrading in Egypt and will contribute to inclusive growth. Increasing favourable financing, for example, can help SMEs overcome financial barriers and support knowledge diffusion, especially for growth-oriented firms (OECD, 2025 forthcoming[1]). In Egypt, raising awareness of available incentives and systematically evaluating their effectiveness could increase uptake and ensure more firms benefit from government and non-government initiatives. Recent reforms have created new forms of assistance for smaller firms, removed administrative barriers and created incentives for the establishment of new businesses and formalisation of informal firms, and allowed more flexibility in the structure and financing of SMEs. Unfortunately, these policy changes have not fully addressed many of the main concerns of small and new businesses. Recent reforms to

simplify administrative procedures – including those implemented under the 2017 Industrial Permits Act and the introduction of an e-platform for firm registration by GAFI – could be taken further by limiting the number of required procedures and introducing one-stop shops for business registration and applications for other licenses and permits. Minimising interventions by regulators in cases with genuine need would reduce costs for both firms and regulators. In addition, an accessible and transparent platform for public-private dialogue would aid in the design of more effective policies in these areas.

Connections between foreign-owned and domestically-owned firms are essential to realising productivity spillovers and other benefits of foreign investment. Egypt's zone-based approach to attracting FDI has helped to draw in investment and promoted the growth of new sectors but has also created enclaves with little connection to the domestic economy. Targeted forms of assistance and policy reforms may be considered alongside improved planning as means of fostering stronger linkages that support beneficial spillovers.

Supplier development programmes, directories of SME suppliers, and matchmaking services may all have a role to play in reducing search costs for international businesses looking to source inputs from Egyptian producers. Public-private dialogue should include foreign-owned firms and domestic SMEs with the goal of identifying barriers to the development of linkages and the formation of lasting solutions. Additional attention may need to be paid to the enforcement of health and safety, labour, and environmental regulations in zones. More generally, decisions on the future development of special economic zones – including the creation of new zones and the expansion of existing zones – should be guided by rigorous assessments using clearly defined metrics, such as employment creation, local procurement linkages, technology and skills transfer, and the competitiveness of local firms. Analytical methods such as cost-benefit analyses, econometric impact evaluations, firm-level surveys, and value chain analyses can further help policymakers understand the extent to which SEZs contribute to local economic integration compared with attracting FDI outside these zones. By aligning the development of special economic zones with regional development priorities, special economic zones can achieve these goals and attract international investment.

A dedicated national strategy on leveraging FDI to promote linkages with domestic SMEs and other national development priorities – including regional development goals – could be useful in focusing diverse efforts across relevant government ministries and agencies. Even in the absence of such a strategy, improved data collection on linkages with foreign-owned firms and zones would strengthen capacities for delivering effective policy solutions. Zone planning could also be better aligned with national and local development priorities. The 2025 National Economic Development Narrative frames investment as a pillar of Egypt's development strategy and sets the strategic priorities that the forthcoming National FDI Strategy should operationalise.

Box 3.1. Policy recommendations

- **Streamline institutional roles and improve co-ordination among government agencies involved in investment promotion and SME development.** Egypt's government framework for investment and SME policies is relatively fragmented which reduces transparency and at times creates overlaps in mandates. Consider streamlining institutional roles and establishing interinstitutional networks, working groups, shared information exchange platforms and centralised investment portals to address co-ordination gaps in the promotion and facilitation of knowledge-intensive investment.
- **Finalise and implement Egypt's National Foreign Direct Investment Strategy (2025–2030), ensuring it is supported by a robust monitoring and evaluation framework to attract quality FDI aligned with Egypt's development goals.** The strategy, currently being developed in collaboration with the World Bank Group, should serve as a key pillar of Egypt's

investment reform agenda and be aligned with Egypt Vision 2030. It should outline clear policy priorities, target sectors, governance arrangements, and an M&E framework based on international good practices. A well-articulated strategy and M&E framework will support policy alignment, enhance co-ordination across institutions, and ensure productivity and innovation spillovers.

- **Continue efforts to strengthen GAFI's capacity to target and prioritise investments with high innovation and technology transfer potential.** GAFI should build on the sector prioritisation framework developed under the National FDI Strategy (2025-2030). Building on the comprehensive investment targeting and prioritisation framework can further equip GAFI with the tools needed to prioritise investments in high-value-added and innovation-driven sectors, such as ICT, advanced manufacturing, and green technologies. Targeted investments should focus on fostering high-tech solutions and increasing economic complexity. Develop sustainability and innovation scoring mechanisms to guide investment targeting and regularly review sectoral priorities based on global and domestic economic developments. GAFI should also consider developing dedicated units to facilitate green and high-tech investments and promote collaboration between foreign and local firms. In parallel, the recent establishment of a unified Intellectual Property Authority offers an opportunity to enhance IP protection and commercialisation, supporting efforts to attract knowledge-intensive FDI.
- **Strengthen supplier linkages by establishing a comprehensive database and enhancing matchmaking services in collaboration with government entities involved in SME development.** GAFI should consider collaborating with local chambers of commerce, private sector stakeholders, MSMEDA and the IMC to develop a comprehensive, online database of verified local suppliers across priority sectors. This platform would provide foreign investors with detailed profiles of Egyptian SMEs and enable virtual matchmaking to reduce transaction costs. These efforts would enhance local integration of foreign investors, increasing productivity spillovers and supporting SME development.
- **Integrate MNE-SME linkage programmes into business support services offered in zones.** Clarify land governance procedures and streamline institutional responsibilities to improve investor access and facilitate integration of zones into local economies. Under the Inter-ministerial Group on Entrepreneurship led by MPEDIC, GAFI could consider enhancing business development services within zones by introducing dedicated matchmaking initiatives and supplier databases to connect MNEs with local SMEs in co-ordination with IDA, MSMEDA, and IMC. Complementary measures, such as technical support, workforce training, and incentives for local sourcing, should be prioritised to foster value-added linkages and maximise spillover benefits.
- **Streamline SME access to business development services and ensure that these are aligned with the product and service quality standards required by foreign MNEs.** Extend MSMEDA's online platform to provide a comprehensive mapping of business support services offered by the government, private sector, NGOs, and development partners. Consider connecting MSMEDA's enhanced portal with GAFI's electronic platform, as well as the Hub for Advisory, Finance and Investment (HAFIZ platform), to create a more cohesive and integrated digital ecosystem for SMEs and entrepreneurs.
- **Support and further expand supply chain and cluster development programmes implemented by IMC towards knowledge-intensive activities and industries with weak supplier capacities.** Several government agencies (e.g. EDA, IMC, MSMEDA) provide export development services that promote international exposure and networking of SMEs abroad, but they fall short of developing robust supplier capacities—such as product quality standards, certification, and accreditation—that would enable them to join the supplier networks of foreign investors domestically. Policy emphasis could be placed on developing comprehensive action

plans for the development of industrial clusters and business networks and leveraging existing programmes implemented by IMC, EDA and MSMEDA.

- **Ensure that innovation policies include priorities and specific measures fostering R&D collaborations with foreign MNEs in knowledge-intensive sectors.** Collaborative initiatives currently implemented by ITIDA and TIEC could be further supported and leveraged to enhance the involvement of SMEs and startups in R&D partnerships, facilitate technology transfer, and expand matchmaking efforts. Emphasis could also be placed on supporting high-technology and knowledge-intensive activities through public-private partnerships connecting universities and R&D centres.

3.2. The institutional framework supporting FDI-SME linkages and spillovers

Governance of foreign investment and its linkages and interactions with the rest of the economy needs to take into account local contexts and objectives. The policy mix – including financing, technical support, regulation, rewards and incentives – and responsible institutions should operate in complementary ways to support progress (OECD, 2023[2]). Achieving the goals set out in the Vision 2030 plan for increased GDP growth rates and reduced unemployment will require new approaches to growth and development in Egypt. This will include attracting more foreign direct investment into high-potential sectors and better realising its spillovers for the domestic economy. The institutions and policies in place have undergone a number of reforms in recent years that demonstrate a commitment to better realising the potential of FDI, though co-ordination challenges and unaddressed concerns from the private sector about the transparency of and accessibility to business support programmes, clarity in tax policies and consistency in regulations remain. Addressing these issues would require ensuring a predictable and transparent tax regime, streamlining administrative processes, and creating a more consistent regulatory framework across different ministries. Such measures, paired with proactive dialogue between government entities and both domestic and foreign investors, can help build a more supportive business environment and encourage sustained investment.

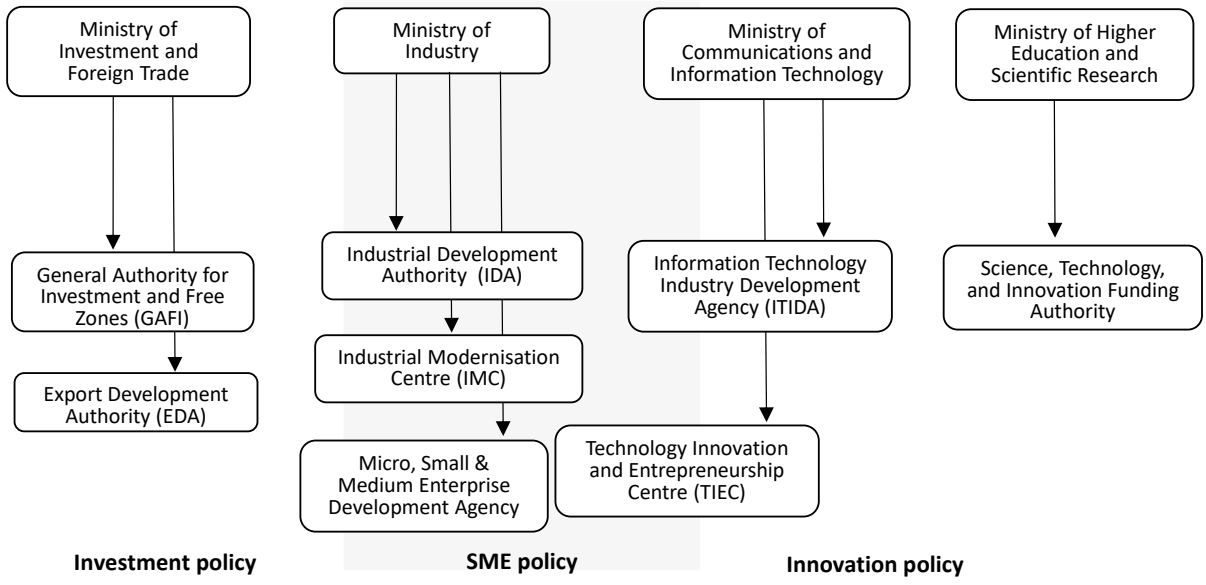
3.2.1. The fragmentation of the institutional environment and frequent organisational reforms may weaken investment promotion efforts in support of productivity and innovation

A number of public institutions are closely involved in attracting foreign investment and efforts to leverage its benefits for economic growth and development in Egypt (Figure 3.1). However, a lack of transparency and predictability in the implementation of policies on investment and regarding the business environment more generally affects investment. Both institutional factors and policy design contribute to these uncertainties, as limited institutional capacities hinder effective implementation and authorities are given significant discretion in applying rules and providing incentives to businesses. For example, institutional challenges such as unclear mandates and overlapping responsibilities among investment-related agencies can create confusion for investors. Discretionary decision making—for instance, in granting licenses, allocating land, or providing incentives—may contribute to perceptions of unpredictability or inconsistency in how regulations are applied. In particular, barriers to transparency and predictability negatively affect investment decisions (OECD, 2015[3]). This can raise the costs of investment as perceived by investors and can create unfair conditions for competition, as well as creating opportunities for corruption.

Addressing these institutional and governance challenges is essential for building a more transparent and investor-friendly environment. Targeted reforms could include the adoption of digital systems (e.g. e-licensing platforms and automated land allocation) to reduce administrative discretion, as well as capacity-building programmes for investment-related agencies to strengthen their ability to implement policies

consistently. Establishing clearer internal accountability mechanisms and performance metrics can further enhance institutional effectiveness and reduce opportunities for corruption. Addressing these institutional weaknesses by clearly defining agency roles, improving co-ordination among entities, and reducing discretionary decision making could significantly enhance policy consistency and investor confidence. Any new sectoral or incentive-based strategies should be designed with attention to administrative feasibility and institutional capacity, ensuring that their implementation does not inadvertently increase complexity or administrative burdens. In this regard, aligning investment promotion policies with clearly defined criteria, published procedures, and transparent oversight will be essential to ensure that support measures are effective, consistently applied, and conducive to a level playing field for all investors.

Figure 3.1. Public institutions involved in investment, SME, and innovation policy



Source: Authors' compilation, using national sources.

Egypt's institutional framework for investment promotion has seen several reforms in recent years, reflecting the government's commitment to enhancing its investment ecosystem. The General Authority for Investment and Free Zones (GAFI) remains the central body responsible for managing investment matters, with an extensive mandate that includes policy development, regulatory reform, special economic zone management, and investment promotion and facilitation. The dissolution of the Ministry of Investment in 2019 and the transfer of oversight responsibilities to the Prime Minister's office offered an opportunity to elevate the political visibility of investment issues and potentially strengthen GAFI's policy advocacy role. However, the agency's broadened responsibilities in both promotional and regulatory domains also introduced challenges related to strategic focus and operational clarity. The 2024 government reshuffle, which reinstated a dedicated Ministry of Foreign Trade and Investment, marked a renewed effort to provide more coherent ministerial oversight of investment affairs. GAFI's return under this ministry could support a more focused institutional architecture and better alignment between investment policy and promotion functions.

Notable efforts have been made to ensure continuity in investor services and to improve the investment climate, even amid changes to the institutional setup. While past restructurings may have led to some temporary complexity and diluted focus, the recent establishment of the Ministry of Foreign Trade and Investment offers a valuable opportunity to consolidate strategic direction and reinforce investor confidence. By clearly defining institutional roles and responsibilities, Egypt can build a more streamlined

and responsive investment framework. A mandate that enables GAFI to prioritise core functions—such as investment promotion, facilitation, and aftercare—while the Ministry leads broader policy co-ordination, would reduce overlap and promote operational efficiency. These steps can help ensure that Egypt's investment institutions are well-equipped to attract and retain long-term, high-quality investments aligned with the country's development priorities.

While GAFI holds a wide range of responsibilities on investment policy, other organisations' areas of work intersect with those of GAFI on investment promotion and on the leveraging of investment inflows to improve economic growth prospects. The Industrial Development Authority (IDA) which operates under the Ministry of Industry is involved in investment promotion in industrial sectors, particularly in industrial zones. IDA's role in managing industrial land further gives it a key role in FDI attraction. Similarly, the Industrial Modernisation Centre, which reports to the same ministry, designs and implements promotional and capacity-building programmes to improve the productivity of the Egyptian economy, including by promoting private investments in industrial sectors, supporting cluster development and business networking between foreign and domestic firms.

In addition to the work of these institutions on investment policy and promotion, the potential for Egypt to benefit from FDI's productivity spillovers is strongly affected by government ministries and agencies involved in SMEs and private sector development, as well as those active in innovation. These government entities often play a dual role in promoting knowledge-intensive investments in niche areas (e.g. digital technologies) or highly innovative sectors, and in strengthening the innovative and productive capacities of Egyptian enterprises so that they can become successful suppliers and partners of foreign multinationals (OECD, 2025, forthcoming[4]).

The Micro, Small and Medium Enterprise Development Agency (MSMEDA) was established in 2017 as a focused agency responsible for SME development. MSMEDA develops policies and strategic plans to strengthen SMEs and entrepreneurship through its roles in co-ordination and the delivery of support programmes. These include the development of marketing skills and facilitating collective bargaining with suppliers. Among other priorities, the agency works on promoting regional development in Upper Egypt in particular. The Export Development Authority (EDA) under the Ministry of Trade also supports Egyptian enterprises, including small and medium-sized suppliers, to improve their export capabilities and meet international standards on product and service quality. Indirectly, the business environment for SMEs is affected by the Egyptian Competition Authority, particularly through its recent leadership of the standardisation of public procurement and reforms of state-owned enterprises (SOEs). The Central Bank of Egypt is also involved in supporting SME and entrepreneurship development through its NilePreneurs initiative and policies to expand access to finance, which include relaxed rules for banks' lending to small businesses and other incentives.

At the centre of Egypt's innovation system, which underpins the capacities of the domestic economy to benefit from knowledge and technology spillovers from foreign-owned firms, is the Ministry of Higher Education and Scientific Research (MHESR). As the ministry responsible for co-ordinating action on innovation, it develops the National Strategy for Science, Technology, and Innovation. Much of the policy work on innovation also falls under the purview of the Ministry of Communications and Information Technology (MCIT). The Ministry and its agencies are focused on the development of the Egyptian ICT sector and broader digitalisation of the economy, including through the promotion of ICT investments, the granting of incentives for ICT companies that seek to export digital services, and the development of digital innovation hubs involving Egyptian startups and multinational tech companies (OECD, 2025, forthcoming[4]). The Technology Innovation and Entrepreneurship Centre (TIEC) promotes R&D, innovation, and entrepreneurship in the ICT sector. Its work is complemented by that of the Information Technology Industry Development Agency (ITIDA), which provides programmes and policy advice in addressing the needs of the ICT sector, in addition to promoting its outputs in domestic and international markets.

3.2.2. While high-level strategic oversight of investment policies is strong, co-ordination among government agencies could be further improved

As in many MENA economies, Egypt's governance framework for fostering FDI productivity spillovers reflects the active involvement of a wide range of government agencies responsible for investment, SME development and innovation policies. While this diversity of actors can create co-ordination challenges and complexity for investors, it also offers a foundation for more integrated and tailored support services. (see Box 3.2). The increased dispersion of investment promotion, innovation and SME support services and overlapping mandates among agencies also increases the likelihood of duplication of policy efforts (OECD, 2022[5]; OECD, 2023[2]). The recent establishment of the Ministry of Investment and Foreign Trade, alongside the continued role of GAFI, presents an opportunity to strengthen coherence across mandates and better harness synergies. Recent reforms demonstrate a clear policy ambition to improve strategic oversight of investment and business climate policies. Further strengthening co-ordination mechanisms and communication channels among implementing agencies could build on this momentum and enhance the overall effectiveness and transparency of investor support.

The creation of the Supreme Council for Investment in 2023 marks a significant step in reinforcing strategic oversight and high-level co-ordination of investment policy. Operating under the direct supervision of the President of the Republic, and involving senior representatives of several ministries, special economic zones and business associations, the Council provides an institutional platform to align investment priorities across sectors and regions. Similarly, in the area of entrepreneurship policy, the establishment of the Inter-Ministerial Group on Entrepreneurship in September 2024, chaired by the Minister of Planning, Economic Development, and International Cooperation (MPEDIC), reflects the government's commitment to advancing a dynamic entrepreneurial ecosystem. Supported by four targeted working groups focusing on policy frameworks and finance, co-ordination of initiatives, global market access, and linking startups to development challenges, along with a Technical Committee chaired jointly by MPEDIC and GAFI, this body aims to streamline processes, enhance collaboration, and ensure effective implementation of entrepreneurship-supporting policies.

Such permanent and formalised bodies can contribute to improving the effectiveness of efforts to attract FDI and foster linkages between foreign and domestic firms where they are used effectively (OECD, 2022[5]). The inclusion of high-ranking officials, while potentially enhancing political clout, may not be sufficient to address the challenges arising from overlapping mandates. The Government of Egypt could consider the establishment of interinstitutional networks, teams and working groups at the level of implementing agencies for specific investment promotion and facilitation functions (e.g. knowledge-intensive investment promotion, supplier linkages). Such an approach would require, however, clarity about the official mandates, roles and responsibilities of government entities which are currently involved in investment promotion and more broadly the provision of business and innovation support services.

GAFI is well-positioned to play a leading role in enhancing inter-agency co-ordination across Egypt's investment and entrepreneurship ecosystem. Recent initiatives—such as co-operation protocols signed with ITIDA and the Financial Regulatory Authority, and improved licensing co-ordination under new IDA regulations—reflect encouraging steps toward more integrated policy implementation. The creation of GAFI's Permanent Unit for Supporting Entrepreneurship and Startups further signals a strong commitment to fostering a dynamic entrepreneurial environment. The responsibilities of the unit have recently been merged into the newly established Inter-Ministerial Group on Entrepreneurship, led by MPEDIC. This consolidation is a positive step toward streamlining institutional responsibilities and strengthening co-ordination across agencies involved in SME and entrepreneurship development. Ensuring clarity in roles and effective collaboration between MPEDIC, GAFI, MSMEDA, and TIEC will be critical to delivering coherent and complementary support services that meet the evolving needs of Egypt's entrepreneurial ecosystem and enhance its attractiveness to global investors.

The role of private sector and civil society groups in supporting policy design and implementation could be expanded upon and would be particularly relevant in supporting the pursuit of sustainable and inclusive growth through the leveraging of foreign investment in the country. These organisations can facilitate consultation and policy dialogue as well as provide services to members. The private sector is represented and supported by a number of general business associations, such as the Federation of Egyptian Industries (FEI), Alexandria Business Association, Egyptian Junior Business Association, and Egyptian Businessmen's Association, as well as associations targeting specific groups, such as the Egyptian Business Women Association. Similar roles are also provided by the country's labour unions, educational institutions, civil society groups, and other non-governmental actors.

Channels for private sector engagement in investment policymaking are in place and offer a solid foundation for deeper collaboration. Initiatives such as the bi-annual National Dialogue, the Egypt Tomorrow Economic Reform platform, and GAFI's direct consultations with investors already support policy responsiveness. The recent establishment of the National Committee on Business Readiness further strengthens the institutional framework for structured public-private dialogue. The Committee includes representatives from all relevant ministries and regulatory agencies, supported by a technical secretariat and thematic working groups aligned with the ten reform topics under the B-READY framework. Moreover, the working groups hold structured consultations with private sector stakeholders, including business associations and investors, to jointly develop legal reforms, support digital transformation, and improve procedural efficiency. Formalising and scaling up these mechanisms would help ensure more structured and transparent engagement with non-governmental stakeholders. Enhanced public-private dialogue can play a critical role in identifying and addressing policy bottlenecks, supporting reform priorities, and fostering an enabling environment that delivers inclusive and sustainable development.

Box 3.2. Co-ordination on investment promotion and facilitation: the Invest in Holand Network

The Netherlands Foreign Investment Agency (NFIA) operates as a department in the Ministry of Economic Affairs and Climate Policy while its activities take place under the umbrella of the Netherlands Enterprise Agency (RVO). In 2021, there were 28 NFIA offices abroad, including own premises in countries of strategic importance for FDI attraction, as well as agency representatives located across the Dutch embassies and consular offices. Although the agency has no subnational offices, it manages the Invest in Holland Network, which comprises 14 organisations, including regional development agencies, city administrations and other non-profit entities. The network aims to provide a continuum of support services to foreign investors and connect them with the right public and private sector partners depending on the type and location of their investments. The Invest in Holland Strategy 2020-2025 describes the policy areas for which the network operates jointly while indicating that each partner is free to undertake complementary investment promotion activities in line with their own priorities. In the period 2015-2019, approximately 1 800 investment projects were successfully completed with the help of the Invest in Holland Network, with a total investment value of EUR 12 billion and having created or maintained approximately 57 000 jobs.

The network is co-ordinated through the National Acquisition Platform (NAP), which is chaired by the NFIA Commissioner, and includes representatives of each organisation. Members meet once per quarter to discuss on the basis of joint short-term activity plans, take stock of progress in achieving FDI targets and evaluate the implementation of the Invest in Holland Strategy. Throughout the year, members benefit from networking and knowledge-sharing events as well as brainstorming meetings on how "working together" can be further simplified. To ensure consistency in the quality of services provided to foreign investors, the Invest in Holland Academy has been established to provide courses and seminars for new employees who join one of the 14 organisations as well as for more senior members and investment promotion staff located in the Dutch diplomatic missions abroad.

Investment prioritisation takes place through inter-agency Focus Teams that work on promoting investments in high-priority activities (ICT, Agri food, Life sciences and health, sustainable energy). Focus Teams hold regular meetings with companies and research institutions operating in various industries with the aim of identifying new investment opportunities. They are also responsible for monitoring the business climate and bringing opportunities and threats to the attention of policymakers. For instance, in 2019, the Focus Team ICT, with NFIA and 5 regional partners, developed various value propositions, drew up target lists and visited conferences and events to generate new investment leads. Thanks to these efforts, a total of eight high-quality ICT investment projects were attracted in 2019.

The increased attention that investment generation activities receive in the Netherlands is reflected in the annual resources dedicated for that purpose. Roughly 70% of the NFIA resources are spent to find and guide potential initial investments, 20% of them are spent to find and guide potential follow-up investments (i.e. maintaining and expanding activities), 5% is spent for the role of the NFIA in the Invest in Holland network (i.e. co-operation between regional partners) and 5% to collect feedback from foreign companies on opportunities for improvement of the business climate.

Source: OECD based on NFIA (NFIA, 2020[6]), Evaluatie van de NFIA 2010-2018, https://open.overheid.nl/repository/ronl-2342ca2e-27ee-4da1-a407-ea24af4d63ad/1/pdf/bijlage-evaluatie-van-de-nfia.pdf and NFIA (NFIA, 2020[7]), Invest in Holland Strategie 2020-2025, https://open.overheid.nl/repository/ronl-1b3f0055-62a6-4757-80e7-7f32236d8f43/1/pdf/bijlage-invest-in-holland-strategie.pdf

3.2.3. An overarching investment promotion strategy and robust M&E framework will be necessary to target quality FDI in line with Egypt's development objectives

Specific measures to promote and facilitate investments can be successful if they take place within the context of, and not substitute for, a coherent and well-articulated strategic framework that takes full account of a country's policy priorities and implementation capacity (OECD, 2020[8]). Egypt does not currently have a national strategy for investment promotion. The scope and implementation of investment policies is primarily linked to the 2017 Investment Law, which addresses specific aspects of investment regulation, and the Egypt Vision 2030 strategy, which provides the government's strategic priorities to promote sustainable development. While these documents provide a few elements of a strategic framework, they fall short of laying out a long-term and country-wide vision for inward investment attraction. The 2025 National Economic Development Narrative frames investment as a pillar of Egypt's development strategy. It articulates priority sectors, competitiveness goals, state–private sector roles, and the importance of regulatory reform and macroeconomic stability for investment. The Narrative sets the strategic priorities that the forthcoming National FDI Strategy should operationalise.

Identifying policy priorities, clear-cut targets and effective governance arrangements through a well-articulated strategy for investment promotion would be a pre-condition for the Government of Egypt to undertake more targeted action on strengthening FDI-SME linkages and spillovers. GAFI is currently in the process of developing a Foreign Direct Investment Strategy with the support of the World Bank. This is a step in the right direction since such a strategic document would allow to create an integrated vision across government that includes quantifiable targets, policy pillars (e.g. innovation-related FDI promotion, green investments, MNE linkages with local suppliers), related programme actions, and clearly defined roles for all the institutions involved in its implementation. The strategy should include a detailed description of communication channels and co-ordination mechanisms as well as a set of quantifiable performance indicators that allow the tracking of investment promotion activities and the collection of data on their impact (see Box 3.3 for more examples). Setting the strategy in motion will require increased attention on the issues of policy alignment and co-ordination as well as the use of robust monitoring tools to identify policy inefficiencies and take corrective action. GAFI should also ensure that the issue of FDI's productivity spillovers and potential for knowledge-intensive linkages be mainstreamed into the strategy and accompanied by specific measures and policy initiatives.

The implementation –and subsequent evaluation– of the FDI Strategy will require a comprehensive monitoring and evaluation (M&E) framework that will enable GAFI to display a clear track record of its accomplishments and inform future resource allocation and strategic decisions. The monitoring and evaluation of investment promotion activities are important to manage FDI attraction and facilitation on the basis of results and to ensure, on the one hand, that investors are satisfied and, on the other hand, that the IPA learns from experience and provides value for money (Sztajerowska and Volpe Martincus, 2021[9]). GAFI could consider developing and using a broader range of Key Performance Indicators (KPIs) that will help get a better understanding of the types of firms and investments that benefit from public support (e.g. metrics on number and value of investment projects), the activities of the Directorate (e.g. number of meetings, participants, inquiries and visits), and the sustainability-related impacts of supported investments (e.g. jobs created, R&D projects, projects related to green energy) (OECD, 2020[8]). These indicators are common among OECD IPAs. IPAs tend to rely predominantly on metrics relating to the type of projects supported and the IPA activities undertaken, but many IPAs put attention on sustainability-related indicators (Sztajerowska and Volpe Martincus, 2021[9]). The Hungarian IPA, for instance, uses indicators on jobs and skills (e.g. number of new employees, number of firms supported with training subsidies), productivity and innovation (e.g. number of R&D projects, number of suppliers recommended) and exports (e.g. trade balance) while IDA Ireland goes even further by monitoring the gender balance within its portfolio of clients.

Box 3.3. The reform of Chile's National FDI Promotion Strategy

In 2022, Chile's Inter-ministerial Committee for the Promotion of Foreign Investment adopted a new national strategy on FDI promotion, which places foreign investment at the epicentre of Chile's economic transformation agenda. The strategy identifies the low degree of FDI diversification, high concentration in natural resources and limited FDI flows into manufacturing as key challenges for the Chilean economy. It also explicitly reflects Chile's emerging policy priorities relating to FDI diversification and sustainable development by proposing to build the country's strategic framework for investment promotion around four key themes, namely FDI growth, economic transformation, sustainability and impact.

The strategy revises InvestChile's investment prioritisation framework, which has so far focused on the targeting of a limited number of sectors and suggests instead a flexible approach that relies on 17 criteria linking investment projects to specific activities and performance outcomes. For instance, the agency has been tasked with targeting investment projects that are aligned with the SDGs and responsible business conduct (RBC) standards; contribute to addressing global challenges such as digital transformation, the climate crisis and technological disruption; foster business linkages with local supplier ecosystems; and support the development of highly skilled human capital, quality jobs and technology transfers to the local economy, amongst others.

The implementation of this new framework relies on several action plans that are developed and executed annually by InvestChile and the various ministries that make up the interministerial committee. The plans will include specific actions, establish objectives and identify target markets and performance criteria that investment projects should fulfil. A novelty of the action plans is that their objectives and actions will also be linked to concrete proposals for policy initiatives and government reforms to address potential regulatory barriers or underdeveloped capacities in the Chilean economy. This is expected to strengthen InvestChile's policy advocacy role by monitoring foreign investors' perception of the country's investment climate and proposing changes to improve investment policy.

Source: OECD based on (OECD, 2023[10])

3.3. The regulatory framework for attracting productivity-enhancing investment

3.3.1. Egypt's economy is open to foreign direct investment

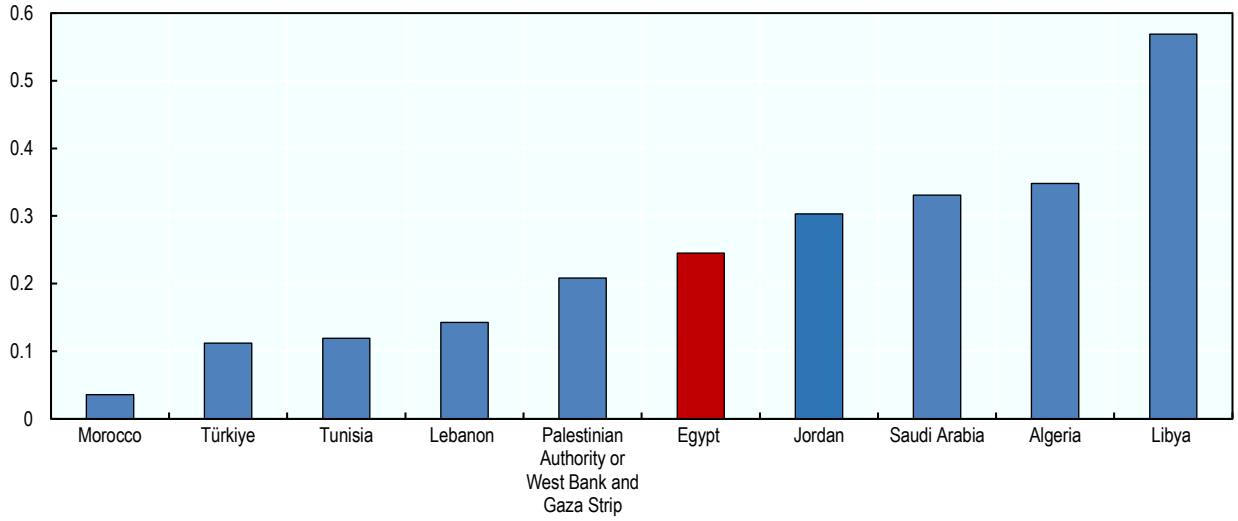
The type of FDI that a country attracts, and the extent to which foreign firms can contribute to sustainable development, depend in part on the regulatory environment for FDI and the legal framework governing market entry and conduct. Openness to FDI may not only affect productivity and competitiveness in sectors directly receiving investment but also those in downstream industries that benefit from potentially better access to high-quality inputs and services domestically (OECD, 2022[5]).

Openness to FDI is a prerequisite for realising positive spillovers in the local economy, though these benefits are also shaped by factors such as the type, motives, country of origin, and sector of investment, as well as the size of the investing firm and degree and structure of foreign ownership (OECD, 2023[2]). Egypt has one of the least restrictive regulatory regimes for FDI in the MENA region. Compared to a broader range of economies, it remains moderately open (Figure 3.2). Across all jurisdictions covered by the OECD FDI Regulatory Restrictiveness Index (FDIRRI), Egypt's level of restrictiveness has continued to decline, reflecting steady progress in liberalising its investment regime (OECD, 2024[11]).

Since Egypt's earliest entry in the FDIRRI in 1997, overall FDI restrictiveness has fallen except for a temporary increase between 2019 and 2020. This increased openness has mostly occurred in the tertiary sector, while recent reforms in other areas have also contributed to improving the investment climate, including the partial lifting of restrictions on foreign ownership of desert land. In particular, there have been significant reductions in restrictions on FDI in the financial services sector (between 1997 and 2006), followed by the distribution, wholesale and retail trade sectors (between 2016 and 2017). On the other hand, restrictions measured in media, radio and TV broadcasting increased considerably between 2019 and 2020. Manufacturing sectors have largely been liberalised, and most remaining restrictions are concentrated in backbone services sectors. Within services, Egypt remains classified among the more restrictive economies covered by the FDIRRI reflecting statutory limitations in specific sub-activities of the distribution sector, such as commercial agency and importer registration, while wholesale and retail trade activities are fully open to foreign investment. However, recent reforms, including the liberalisation of importation for trading, have further reduced restrictions, confirming a continued trend toward greater openness (OECD, 2024[11]).

Figure 3.2. OECD FDI Regulatory Restrictiveness Index in selected MENA economies, 2024

OECD FDI Regulatory Restrictiveness Index, 2024 (open=0; closed=1)



Note: The OECD FDI Regulatory Restrictiveness Index (FDIRRI) covers statutory restrictions in 22 economic sectors, grouped into four policy areas: foreign equity limits, screening and approval, restrictions on key foreign personnel, and other operational restrictions. Other aspects of the investment climate (e.g. regulatory transparency, state monopolies, or preferential treatment for selected investors) and measures taken for reasons of public order or essential security are not covered. Each policy measure is scored from 0 (fully open) to 1 (fully closed), with sectoral scores aggregated using standard weights to reflect economic relevance. Data reflect regulations in force as of end-December of the 2024. For further details on the methodology, please refer to our latest methodological note.
Source: OECD FDI Regulatory Restrictiveness Index database, 2024.

3.3.2. Policy reforms to streamline the regulatory environment for business have accelerated in recent years, yet more could be done on SOEs and IPR protection

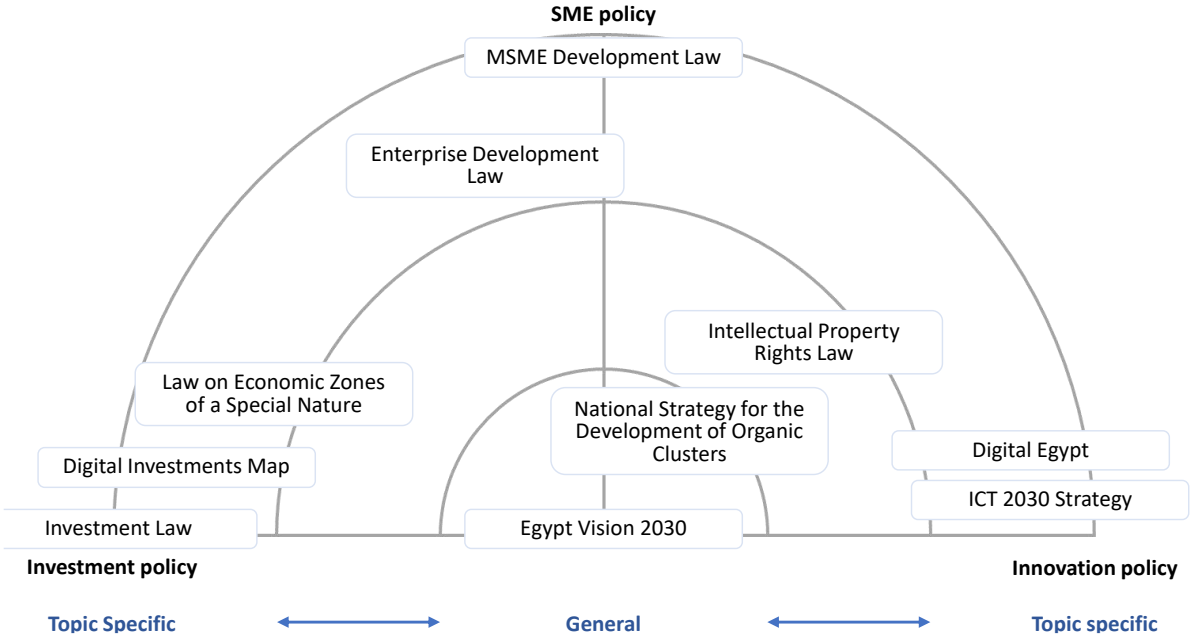
Egypt has undertaken several important reforms in recent years to improve its regulatory environment for investment, SMEs, and innovation (Figure 3.3). These efforts have contributed to a more favourable business climate and are expected to support greater FDI inflows and more effective use of investment to stimulate growth and productivity. Continued policy implementation and co-ordination, particularly in areas identified as priorities by the private sector, will help to fully realise the benefits of these reforms and further strengthen Egypt's competitiveness.

The 2017 Investment Law marked a major milestone in improving the governance of FDI and clarifying the conditions under which investors operate in Egypt. It removed most restrictions on foreign ownership and introduced new incentives targeting investment in less-developed regions, reinforcing efforts to promote more inclusive economic development (OECD, 2020[8]). Together with the 2015 Law on Economic Zones of a Special Nature, the Investment Law also rationalised tax incentives, contributing to improved fiscal outcomes and a more level playing field. Importantly, firms must now demonstrate contributions to innovation, technology transfer, skills development, or local sourcing in order to qualify for additional incentives, reflecting a strategic orientation toward higher-quality and more impactful investment. The 2022 Prime Ministerial Decree further reinforced this direction by prioritising investment projects with strong potential for technology diffusion and local industrial development (OECD, 2020[8]).

While these reforms represent important progress, there is still scope to improve transparency and administrative efficiency in the investment incentives system. Even with the changes implemented by the Investment Law, officials still have significant discretion over the application of tax breaks. Transparency in their use could be further improved for greater accountability. A commitment to national treatment of

foreign investors is clearly stated in the Investment Law, though some restrictions on the entry and operation of foreign-controlled firms are also included, such as a prohibition on operating in the Sinai Peninsula and additional regulatory requirements for firms doing business in restricted sectors. Interviews conducted with private sector representatives as part of this Review also stressed the complexity of the current investment incentives framework in Egypt. In several cases, while applications for incentives are submitted, their processing and granting is significantly delayed by the Ministry of Finance. While incentives may help direct certain investment projects towards higher value-added activities, they can also bring negative consequences in terms of revenue forgone, economic distortions, and increased bureaucracy. Egypt could consider undertaking regular evaluations of incentive programmes to ensure that their targeting and design remains effective.

Figure 3.3. Laws relevant to investment, SMEs, and innovation



Source: Authors' elaboration.

Revisions made to several laws on the business environment in recent years have allowed firms more flexibility in their organisation and operations, facilitating the establishment and growth of smaller firms in particular. The 2018 revision to the Companies Law allowed for the establishment of a wider range of corporate structures, expanding the flexibility afforded to small businesses. Smaller firms were also the main beneficiaries of the Law on Restructuring, Preventive Reconciliation and Bankruptcy in Egypt in 2018. The Bankruptcy Law introduced a new alternative restructuring mechanism for bankrupt firms and expanded the roles of courts in managing bankruptcy processes; bankruptcy laws are critical in fostering fairness and allocative efficiency that supports aggregate productivity growth (OECD, 2015[3]). In 2015, the introduction of the Collateral Registry Law established an electronic collateral registry and made it easier for businesses to access financing by using movable assets as collateral. Licensing procedures have been streamlined through the Law on Streamlining Industrial Establishments Licensing 2017, fostering entrepreneurship and formalisation of informal firms. Licensing and other administrative burdens can be troublesome, despite recent reforms. The costs these requirements impose on small firms are disproportionately higher, due to their limited resources (OECD, 2024[12]; World Bank, 2020[13]).

The “Golden License” programme introduced under the 2017 Investment Law, aims to streamline investment procedures and enhance Egypt’s attractiveness for strategic investments. It provides qualifying investors with a single approval that exempts them from further licensing requirements and may grant additional benefits, including tax incentives, fee reductions, and customs exemptions. The license can be issued by the General Authority for Investment and Free Zones (GAFI) or directly by the Cabinet, and is available for projects that contribute to key national priorities—such as industrial development that reduces import dependence, or innovation and technological advancement.

To facilitate access and improve administrative efficiency, Egypt has recently launched a dedicated Golden License e-platform, offering investors a more transparent and accessible application process. While the mechanism holds strong potential to attract investment in high-value-added sectors, its effectiveness will depend on continued efforts to enhance its implementation. This includes clarifying the scope of benefits available to license holders, ensuring consistent recognition by local authorities, and increasing transparency in the evaluation of applications. Strengthening co-ordination among relevant entities and publishing clear eligibility criteria can further boost investor confidence. Ultimately, the Golden License represents a promising step toward a more investor-friendly environment and should be part of broader reforms to reduce regulatory burdens and promote a more coherent investment climate.

Egypt’s domestic business environment continues to be shaped by the significant presence of state-owned enterprises (SOEs), which in many cases operate under conditions that are not aligned with market principles. SOEs are present in a wide range of sectors and benefit from various privileges, such as preferential access to land, finance, and utilities, which are not available to private firms. These conditions contribute to an uneven playing field and can undermine competition, particularly for small businesses and new market entrants. While these effects are particularly evident in utilities and network industries, they are also felt across other parts of the economy (World Bank, 2014[14]). Anecdotal estimates suggest that public sector entities may account for a substantial share of GDP, underscoring the importance of ongoing efforts to clarify the role of the state in the economy and promote competitive neutrality. The State Ownership Policy has started a process of SOE reform in Egypt.

Competition policy has been improved upon, creating opportunities for SMEs and private sector development more generally. The Egyptian Competition Authority (ECA) has been increasingly active against anti-competitive practices (World Bank, 2019[15]). And while SOEs have been placed on a more level playing field with other firms, they still disrupt normal competition and can thus crowd out private sector investment. Announced in December 2022, the State Ownership Policy has had as its goal a reduction and reform of government ownership in a wide range of sectors, though additional transparency on how this will be carried out would help investors to prepare for its effects on private firms. Strengthened corporate governance standards for SOEs should also be prioritised. The priorities in its implementation have not been entirely clear, however, and further steps could be taken to also ensure that these businesses operate on principles closer to those of private businesses in order to improve efficiency and the fairness of competition. Reforms to the rules by which SOEs operate will be most needed. This includes strengthening corporate governance standards for SOEs and transparency on financial assistance provided to SOEs. The recent adoption of the Law on the Regulation of State Ownership in Companies and the establishment of the State Ownership Policy Implementation Unit are important steps in this direction, as they aim to enhance transparency, accountability, and performance across SOEs and supports Egypt’s broader goals of crowding in private investment, improving competitiveness, and rationalising the role of the state in the economy.

By reassuring investors, protection of IPRs is important in attracting FDI and in encouraging their engagement in local research and development activities (OECD, 2015[3]). On paper, Egypt’s legal framework provides the property rights protections expected by international investors. IPRs are protected in Egypt under the 2002 Intellectual Property Rights Law and other legislation, and the 2014 Constitution reaffirmed the requirement of the state to protect IP “in all fields”. Egypt is also party to a number of international agreements on intellectual property protections. While intellectual property rights (IPRs) in

Egypt are fairly strong, they lag behind other countries in the region (Figure 3.4). The enforcement of these protections has been perceived by the private sector as being insufficient, however. A specialised body created by the new Constitution and other key institutions lacks the resources and capacities to fulfil their mandates (OECD, 2020[8]). To address these issues, Egypt could strengthen enforcement capacities by increasing funding and specialised training for personnel in IP institutions, streamlining procedures for reporting and responding to violations, and raising public and business awareness about the economic importance of IPRs. Furthermore, aligning domestic enforcement practices more closely with international standards could bolster investor confidence and encourage greater engagement in innovative activities.

Box 3.4. Policy initiatives to foster a transparent investment climate: country examples

Mauritius

Amendments to the Economic Development Board Act adopted by the Mauritian government in 2020 focused on increasing transparency and empowering the country's IPA, the Economic Development Board (EDB), to act as a policy advocate. These changes allowed companies to report challenges in obtaining licences, permits, authorisations, or clearances, with the reported obstacles and subsequent actions taken published for transparency, reflecting a commitment to addressing issues proactively and ensuring a transparent and responsive regulatory environment. To enhance feedback from the business sector, a Business Obstacle Alert Mechanism (BOAM) is currently under development. It will allow any investor or business to report obstacles encountered during investment activities for resolution by the competent authority, in line with the IFD's focal point provision, which encourages interactions between investors and local administrations through the establishment of focal points and stakeholder consultations. The BOAM offers a unified channel for companies to address business and investor-related issues beyond trade. It ensures confidentiality for reporting parties while maintaining transparency by anonymously publishing all complaints, statistics on reported challenges, and updates from relevant institutions online. The BOAM is poised to contribute significantly to policymaking activities, providing government agencies and trade support institutions with an updated database of obstacles faced by economic operators. This data-driven approach allows for informed decision making to address emerging challenges in the business environment.

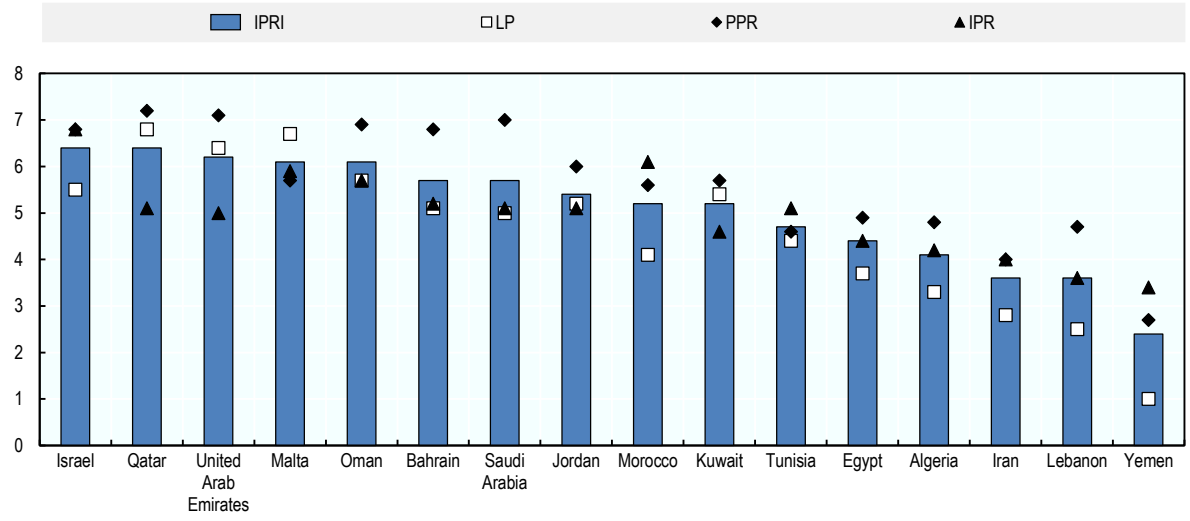
Bulgaria

In order to defuse concerns about weak governance and potential risks of corruption, significant legislative and regulatory changes have been introduced in Bulgaria to enhance the performance, transparency and integrity of SOEs. For example, in 2017, Bulgaria introduced new provisions in the Accountancy Act, according to which enterprises, including all SOEs, are required to draw up non-financial declarations describing environmental, social, employee, human rights and anti-corruption policies (Article 48, Accountancy Act). The Law on Public Enterprises adopted in 2019, further specifies that SOE board members cannot hold a "senior public office" or be a member of a political cabinet or a municipality's secretary. The state ownership regulations for fully corporatised SOEs and the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Act (CCUAAA) also contain disposition on anti-corruption and integrity in SOEs boards and provide a definition of conflict of interest as well as a requirement that board members sign a "Declaration of Assets and Interest", which is to be regularly updated (Article 22 of the state ownership regulations). Certain SOEs are also obliged to develop internal regulations for potential conflicts of interest within their boards.

Source: OECD elaboration

Figure 3.4. International Property Rights Index in Middle East and North African countries, 2023

From 0 (lowest quality property rights system) to 10 (highest quality property rights system)



Note: The Intellectual Property Rights Index is calculated as the average of three components measuring the legal and political environment (LP), physical property rights (PPR), and intellectual property rights (IPR).
Source: Property Rights Alliance (2023), International Property Rights Index 2023, https://www.internationalpropertyrightsindex.org/countries.

Beyond domestic policies, international trade and investment agreements can also facilitate innovation and technology transfer (see Box 3.5). International investment agreements (IIAs), including bilateral investment treaties and investment chapters in free trade agreements (FTAs), directly affect the regulatory environment in which foreign firms operate and create benefits to a covered class of beneficiaries, as well as corresponding obligations for the host economy. Many IIAs concluded in the past decade, but not by Egypt, cover broader policy areas beyond investment protection, including the relationship between investment and sustainable development or the establishment of linkages between FDI and domestic enterprises. Among others, certain new IIAs seek to foster international co-operation on science, technology and innovation policy and strengthen the capacities of SMEs to engage in international trade and investment (OECD, 2022[5]; OECD, 2024[16]).

Box 3.5. Strengthening FDI-SME linkages through international investment agreements

IIAs increasingly pay specific attention to sustainable development-related concerns, including by seeking to strengthen linkages between foreign investors and domestic enterprises, particularly SMEs, while targeting investment co-operation towards knowledge-intensive sectors.

- **Investment Protocol to the African Continental Free Trade Agreement (AfCFTA)**: The Protocol seeks to encourage "acquisition and transfer of appropriate and relevant technology in Africa". To this end, it makes explicit reference to a wide range of measures that states can implement to promote the development of domestic enterprises, such as supporting the establishment of linkages with local firms, supply chains, industries and institutions with a view to "strengthening local capabilities", developing "human resource capacity and training, research and development", and "promoting transfer of technology, skills and know-how, innovation and other benefits". The Protocol also recognises the role of incentives in supporting sustainable development-related objectives, noting that the parties may adopt incentives to promote "technical assistance, technology transfer, technology and research and development".
- **WTO Investment Facilitation for Development (IFD) Agreement**: The WTO IFD Agreement seeks to create stronger linkages between FDI and domestic enterprises through several measures. First, the Agreement encourages the parties to "implement programmes that strengthen the capabilities of local suppliers, especially micro, small and medium-sized enterprises, to meet sourcing demands of investors of other Members/Parties". By doing so, the Agreement promotes the establishment and implementation of supplier development programmes at the domestic level, which seek to increase the capacity of local labour force to anticipate and meet the needs of foreign investors. In addition, the Agreement encourages the parties to "promote the establishment of one, or more, domestic supplier database(s)", specifying that these should be made available online, kept regularly updated and be searchable by sector or industry, company, product or service, location, certifications.

Implementing the provisions of IIAs such as the Investment Protocol to the AfCFTA and the WTO IFD Agreement at the domestic level has the potential to enhance the contribution of FDI to local productivity and innovation. Domestic suppliers' databases, for example, are a key tool to break down information barriers and facilitate technology transfer and spillovers between foreign and local firms. Countries could also undertake targeted investment co-operation activities in knowledge-intensive sectors with high potential for innovation and productivity growth – such as renewable energy, clean technologies, IT services, advanced manufacturing, and financial technology – under existing IIAs. By strengthening the efforts in the implementation of investment facilitation and sustainable development provisions, economies such as Egypt could contribute to ensuring that investment is directed towards areas critical for their economic transformation while fostering innovation-driven linkages between foreign and domestic firms.

Source: OECD (2024[16]), *Strengthening Sustainable Investment through International Investment Agreements*, OECD Publishing, Paris, https://doi.org/10.1787/a8729c98-en.

3.3.3. Investment promotion could be further aligned with Egypt's strategic goal to strengthen the productivity and competitiveness of its economy

Investment promotion policies are key in supporting the transfer of knowledge and technology from foreign firms to domestic enterprises. These policies aim to attract FDI into sectors that are more productive, innovative, and possess strong absorptive capabilities, enhancing the potential for spillovers (OECD,

2023[2]; OECD, 2022[5]). IPAs are key players in bridging information gaps that may otherwise hinder the realisation of productive investments, and their potential sustainable development impacts. Most IPAs prioritise certain types of investments over others, by selecting priority sectors, countries or investment projects, and allocating resources accordingly. In Egypt, GAFI plays a key role in promoting the country as an attractive investment destination and generating leads and investment projects that contribute to productivity and innovation (OECD, 2020[8]). Based on the results of the OECD IPAs Survey, GAFI identifies the implementation of the Sustainable Development Goals (SDGs) and potential reconfiguration of GVCs due to trade policy developments as key policy priorities that guide their investment promotion activities, along with a number of specific concerns related to navigating domestic and global economic developments (OECD, 2022[17]). The attention paid to leveraging FDI for sustainable development is reflected in the agency's reported contribution to 12 SDGs (Table 3.1). In comparison, OECD Member countries' IPAs report that they contribute to 5.5 SDGs on average.

Table 3.1. GAFI's policy priorities related to the Sustainable Development Goals

Sustainable Development Goals	Relevant activities and initiatives implemented by GAFI
Goal 1. End poverty in all its forms everywhere	• Providing incentives for development-focused investments • Fostering investment in less-developed regions
Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture	• Supporting agricultural investment, including by offering income tax exemptions for reclamation and farm projects
Goal 3. Ensure healthy lives and promote well-being for all at all ages	• Fostering sustainable development and responsible business conduct under the new Investment Law • Providing information, awareness-raising, and incentives on corporate social responsibility
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	• Fostering sustainable development and responsible business conduct under the Investment Law (2017) • Providing information, awareness-raising, and incentives on corporate social responsibility
Goal 5. Achieve gender equality and empower all women and girls	• Ensuring equal investment opportunities for men and women in the Investment Law (2017) • Jointly establishing programmes such as the Fekretak Sherketak Entrepreneurship Center to support women entrepreneurs • Establishing a business facilitation office for women at the Investors Service Centers • Supporting capacity development of women-led and small businesses
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all	• Prioritisation of foreign investment in renewable energy, including providing targeted incentives
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	• Establishing a permanent unit in the Council of Ministers specialised in proposing policies, laws, and regulations promoting the growth of emerging firms • Providing training for entrepreneurs, in co-operation with international partners
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	• Providing incentives to industrial activities that have the potential to drive local development • Establishment of new investment zones for targeted manufacturing sectors
Goal 10. Reduce inequality within and among countries	• Establishing initiatives to strengthen investment ties with Egyptian expatriates
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable	• Promoting investment in new urban development, including the new administrative capital and New Alamein
Goal 13. Take urgent action to combat climate change and its impacts	• Fostering investment in renewable energy • Establishing clean energy projects in free zones
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	• Enhancing the clarity and accessibility of laws and regulations • Providing training to employees on anti-corruption protocols • Implementing digital tools and sources of information

Source: OECD survey on IPA monitoring and evaluation, and prioritisation.

GAFI's investment targeting approach is based primarily on the goals established in the Egypt Vision 2030 national strategy, which aims to increase domestic value added and address the trade deficit. A range of economic criteria are used in identifying specific sectors and activities such as their contribution to employment and exports, growth rate, relative importance in GDP and value added, and integration in GVCs, along with consideration of sectors' potential use of clean energy and contributions to health and education goals. And a wider range of key performance indicators (KPIs) – measuring productivity and innovation; job creation, quality, and skills; low-carbon transition; exports; and digitalisation – are used in selecting priority investments (OECD, 2022[17]). In terms of identifying countries from which investments may be prioritised, established trade and investment relationships and economic size are the main criteria used by GAFI (OECD, 2022[17]). Despite the use of these sector- and country-specific criteria, GAFI's investment targeting and prioritisation approach is dynamic, with sectors and activities being frequently adjusted to reflect global and domestic macro-economic developments.

Amidst macroeconomic instability in recent years, GAFI's investment targeting and prioritisation strategy reflected the pressing need to stabilise Egypt's economy. Faced with high inflation, currency volatility, and fiscal deficits, the agency adopted a broad approach, aiming to attract export-intensive investments across all sectors rather than focusing on specific high-value industries. This strategy was designed to strengthen foreign currency reserves, support job creation, and maintain economic activity, prioritising volume and immediate impact over sectoral specificity. While this approach succeeded in sustaining FDI inflows during economic uncertainty, it led to a dispersion of resources that limited strategic alignment with sectors critical for long-term productivity and innovation. Moving forward, balancing broad-based investment promotion with targeted sectoral focus will be essential for enhancing technology transfer, fostering innovation, and increasing Egypt's competitiveness in the global market.

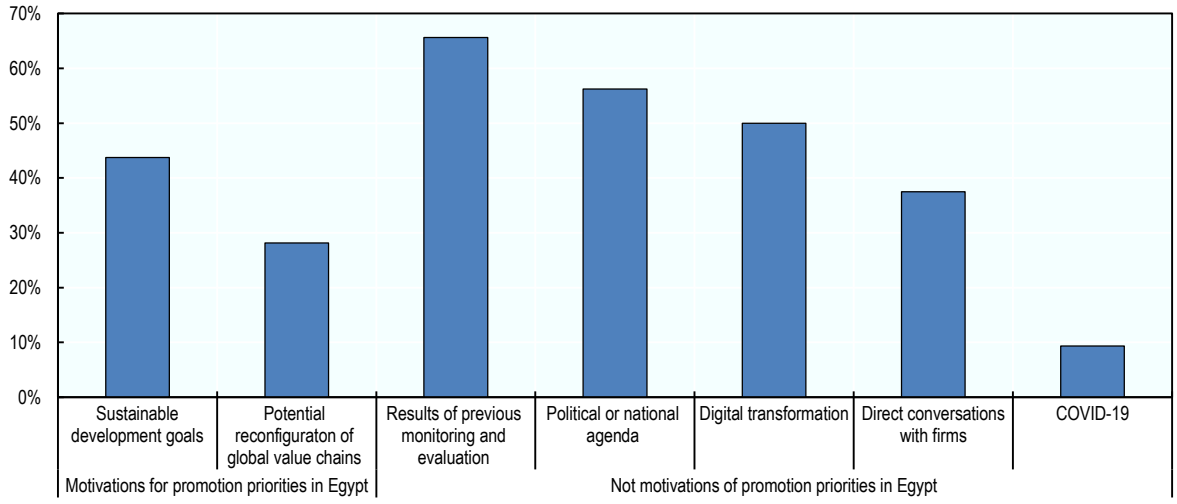
GAFI should consider developing a comprehensive investment targeting and prioritisation framework that will go beyond short-term macroeconomic considerations to also include the proactive targeting of activities, sectors, and investment projects that contribute to productivity growth and innovation. Investment targeting and prioritisation can be a difficult function as it requires clearly defined criteria, strong co-ordination mechanisms to ensure alignment with the government's sectoral strategies, and the ability to adapt existing investment promotion tools and focus on some firms and investment projects more than others (OECD, 2020[8]). Numerous OECD IPAs have also developed dedicated sustainability scoring mechanisms (SSM), i.e. sets of predefined sustainability-related criteria beyond the sheer sector of operation of the investor, to guide their prioritisation efforts. Over 40% of OECD IPAs had such a mechanism in place by September 2022 (at the time of OECD survey on the subject) and several other agencies are working on its implementation (see Figure 3.5). Detailed and clearly defined prioritisation criteria should be included in the forthcoming Foreign Direct Investment Strategy that GAFI is currently developing with the support of the World Bank. While having a clear list of priority activities can be helpful, it should be the result of consultations with key stakeholders in the business community and specialised bodies that have thorough knowledge of challenges and opportunities in specific industries. It is important that the elaboration of the priority list be given due attention and subject to regular reviews, especially as it can translate into special treatment such as in the form of faster replies to inquiries and tailored investment facilitation solutions.

Policy alignment and co-ordination with investment promotion programmes run by other government agencies should also be strengthened. Currently, the Industrial Modernisation Centre (IMC) has identified 12 industrial sectors, which are actively promoted to strengthen their competitiveness and attract foreign investment. IMC's promotional activities include the organisation of road-shows and business fora, producing investor guides for specific industrial sectors and disseminating information about potential investment opportunities. The agency has established an online platform (https://invest.imc-egypt.org/en) designed to showcase and promote investment opportunities within the selected industrial sectors, providing detailed information on various projects, available incentives and regulations affecting investment decisions. This sectoral focus aligns with Egypt's Industrial Development Strategy, which aims to position

the country as a leading industrial economy in the MENA region by 2025. The strategy emphasises sectors that can enhance industrial performance and serve as export hubs for medium-technology manufactured products. Given the similarity with the work that GAFI is currently undertaking to develop a strategic framework for its investment promotion activities, GAFI should ensure that sectors and activities identified under the forthcoming FDI Strategy are aligned with those promoted by IMC in the framework of the Industrial Development Strategy.

Figure 3.5. Motivations for promotion priorities in Egypt and OECD Member countries

Percent of OECD Member countries for which it is a motivating factor



Source: OECD survey on IPA monitoring and evaluation, and prioritisation.

3.3.4. FDI in Egypt's growing green economy provides opportunities for innovation and technology transfer

The green economy is set to drive economic growth and improved sustainability in Egypt, and the environmental dimension is central to the Egypt Vision 2030 strategy. As outlined in the Ministry for Electricity and Renewable Energy's 2035 Integrated Sustainable Energy Strategy, Egypt plans to more than double the share of electricity generated from renewable sources over the next decade. The expansion of green hydrogen production for domestic use and export complements these goals and has emerged as a key policy priority for the Government of Egypt. These strengths are acknowledged in the National Green Hydrogen Strategy, which sets ambitious goals for growth in production in the coming years.

FDI will be needed to further boost economic activity in Egypt's growing green economy, providing the required capital, along with access to international knowledge and technology in this emerging area. Investment promotion and incentives are being used to attract this investment. As noted in the previous section, sustainability goals are among the priorities set by GAFI in attracting new investment. The Green Hydrogen Incentives Law issued in 2024 provides for tax incentives including tax credits on revenues and tax exemptions for the purchase of some equipment and inputs for new projects or the expansion of existing projects. Green hydrogen projects are also eligible for the Golden License and other benefits available to investments in prioritised sectors. Further efforts are being made to green the National Investment Plan, including introducing environmental language into the General Planning Law and producing the Environmental Sustainability Standards Guide, along with mainstreaming of sustainability at the local level, in financing and monitoring, and in capacity building targeting public employees (Helmy,

2023[18]). The new National Council for Green Hydrogen and its Derivatives is headed by the Prime Minister to support the sector's development. Relevant ministers and agency heads are also members of the council. The signing of seven agreements with international developers on green hydrogen and related projects in February 2024 are expected to lead to USD 40 billion in inward investment over the next decade.

The development of the green hydrogen industry and the broader green economy in Egypt presents significant opportunities for fostering innovation and facilitating technology transfer. As Egypt positions itself as a regional leader in renewable energy, investments in green hydrogen production can act as a catalyst for technological advancements, driving innovation across related sectors such as energy storage, sustainable transportation, and industrial processes. This growth creates fertile ground for partnerships between local enterprises and international firms, enabling the transfer of cutting-edge technologies and expertise to the domestic market (OECD, 2023[10]). Such collaborations can help bridge technological gaps, enhance the capabilities of local SMEs, and build a skilled workforce proficient in green technologies.

Given the early stage of the green hydrogen sector's development, tailored policy approaches are likely to be needed to encourage its growth and to leverage international investment to strengthen the innovative capacities of Egyptian enterprises (see Box 3.6) (IEA, 2021[19]). As with the rollout of wind and solar energy facilities in the last decade, growing the industry will need a skilled workforce, simultaneous demonstration projects, public-private partnerships, and time-limited financial support to lower production risks and ensure investor confidence. Egypt's national strategies and associated regulatory licensing reforms and financial support schemes are a step in the right direction; yet, further policy emphasis could be placed on facilitating green R&D investments and fostering partnerships between foreign multinationals, domestic firms and Egyptian universities. Public-private partnerships (PPPs) can be further encouraged to connect universities, research institutions, and industry players in advancing hydrogen technology solutions. Collaborative efforts between universities and the green hydrogen industry can ensure that educational curricula align with practical industry demands, equipping graduates with the skills required to drive innovation domestically. GAFI's role in promoting and facilitating green investments could be further enhanced by establishing a dedicated green investment unit and organising dedicated marketing campaigns. Highlighting Egypt's commitment to green transformation, available incentives, and the strategic opportunities in renewable energy sectors could raise awareness among global investors. Showcasing success stories and existing green investment projects in Egypt would further strengthen the country's image as a favourable destination for sustainable investments.

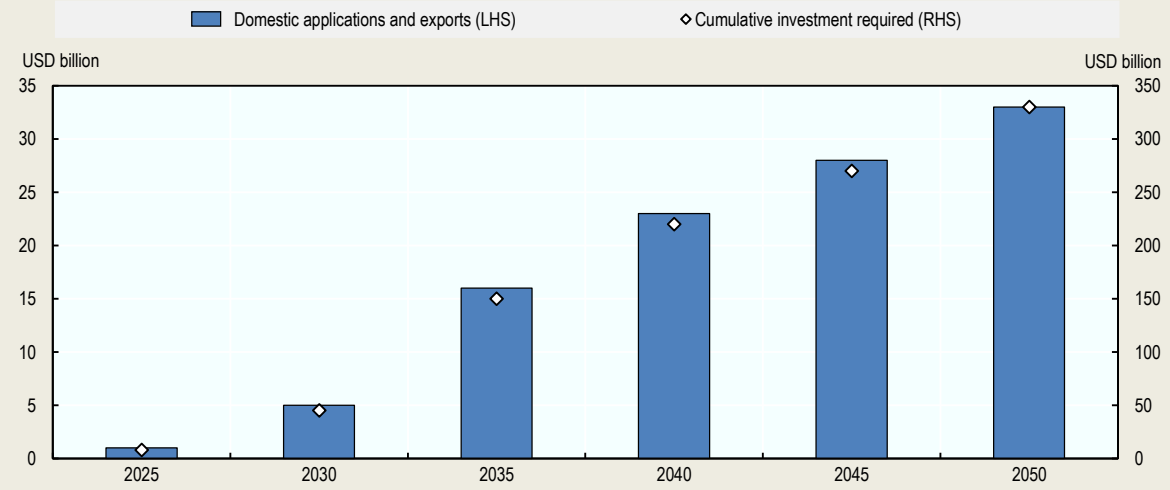
Box 3.6. Lessons from Chile's plan for growing the green economy and green hydrogen sector

Creating an enabling environment for green and low-carbon investment has been an important and longstanding policy priority for the Government of Chile. Recent initiatives have focused on setting low-carbon transition targets and long-term policy strategies that send investors, including foreign ones, strong signals regarding the government's climate ambitions (OECD, 2023[10]). Chile is the first Latin American country that made emission targets legally binding through its 2022 Framework Law on Climate Change. The law establishes the requirement to develop a national multi-sector climate strategy that will define specific measures to achieve carbon-neutral emissions and sets out sectoral reduction targets that should be achieved through action plans developed by the respective sectoral ministries. It also defines specific policy instruments to achieve these objectives, including the development of a climate financing strategy by the Ministry of Finance and a law that define.

The Government of Chile has made its priority to create an enabling framework for attracting investment in the green hydrogen industry. A national strategy was adopted in 2021 setting ambitious targets for the development of the industry, including for Chile to produce the cheapest hydrogen in the world by 2030 and to be among the world's three largest exporters by 2040 (Figure 3.6). Specific measures have been identified to speed up green hydrogen use in the domestic market and identify opportunities for

future exports. Measures include a USD 50 million round of finance for green hydrogen projects to create an early demonstration experience for potential investors (Ministry of Energy, 2020[20]). At the end of 2021, CORFO approved six project proposals for the establishment of production plants that are expected to enter operation by 2025 and attract investments of USD 1 billion. The strategic framework was complemented with the adoption of a 2023-2030 Action Plan which defines the roadmap for the sustainable development of the industry, focusing on clarifying the institutional framework, developing the local value chain for green hydrogen production, and strengthening the necessary infrastructure and territorial readiness.

Figure 3.6. Estimated Chilean green hydrogen sector growth to 2050



Source: (Ministry of Energy, 2020[20]), National Green Hydrogen Strategy. Ministry of Energy. Santiago, https://energia.gob.cl/sites/default/files/national_green_hydrogen_strategy_-_chile.pdf

3.3.5. Investment facilitation services could be more focused on connecting foreign investors with Egyptian suppliers and encouraging local sourcing of inputs

Investment facilitation and aftercare services can be instrumental in encouraging greater embedding of foreign affiliates in local economies and building relationships that contribute to greater use of local SME suppliers (OECD, 2023[2]). They often involve accompanying investors in their project definition, ensuring that they identify local suppliers and clients, providing additional assistance once the project is implemented and encouraging expansions and reinvestments through aftercare. Business linkages between foreign multinationals and domestic firms can be an important channel for the transfer of technology, knowledge, and skills (OECD, 2023[2]). Business linkages can take many forms. They may involve buyer-supplier arrangements along local value chains or formal strategic partnerships such as joint ventures, contract manufacturing, and R&D collaborations.

In Egypt, investment facilitation services are primarily provided by GAFI's Investor Services Centres, which are strategically located across Egypt and designed to streamline and facilitate the investment process for both domestic and foreign investors. The centres assist investors in their company incorporation and registration, acquiring required licenses and permits from relevant authorities, offering guidance on legal and regulatory compliance, facilitating government approvals and offering up-to-date information on investment opportunities, sectoral analyses and insights into Egypt's economic environment (OECD, 2020[8]). Beyond the initial investment phase, the centres also provide ongoing support to investors addressing any challenges that may arise during business operations and facilitating expansions or modifications. GAFI is making it easier for investors to find information on investment opportunities across the country. Since 2018, the online Investment Map has provided a centralised source of information on

investment opportunities across the country. An updated version of the site offers additional information for potential investors and allows them to submit and follow up on their proposals. Investors' access to land is facilitated through the Map's clear indications of the governing authorities for available plots.

While the centres primarily focus on the initial stages of investment facilitation by providing regulatory and administrative support, there is no clear indication that they have a structured or dedicated service specifically for connecting foreign investors with local Egyptian suppliers. In co-operation with the local chambers of commerce and private sector stakeholders, ISCs could consider creating a comprehensive database of verified local suppliers across various sectors to provide foreign investors with reliable information on potential partners. This could be done through an online portal integrated with ISC services where foreign investors can search for and connect with local suppliers, view profiles, and set up virtual meetings for preliminary discussions. This would help MNEs by reducing their transaction costs while providing opportunities for local businesses. These databases are often industry-specific and sometimes focus on priority sectors for FDI attraction.

While certain business fora and B2B meetings are organised by GAFI's headquarters, the frequency of industry-specific networking events, supplier fairs and B2B introductions could increase, creating structured opportunities for Egyptian firms to meet with foreign multinationals. GAFI's efforts to strengthen FDI-SME linkages will require sufficient resources and dedicated staff that are trained to identify the sourcing needs of foreign investors and steer FDI projects towards locations with the greatest potential for supporting supplier linkages (see Box 3.7 for more examples). To this end, GAFI's aftercare services could be further strengthened to bridge information gaps and facilitate information exchange about domestic supplier networks and the quality of specialised inputs provided by Egyptian firms. Evidence shows that long-lasting foreign investors, by knowing the local context better, are more inclined to use domestic suppliers instead of sourcing internationally. Aftercare can thus support the double purpose of better anchoring foreign investors in the local economy and enhancing their positive spillovers.

In this respect, GAFI could collaborate with IMC, which has long-standing experience and expertise in promoting and encouraging the sourcing of locally produced inputs in industrial sectors. IMC already implements matchmaking initiatives aimed at import substitution by showcasing imported items that foreign multinationals currently rely on but could potentially source locally. IMC organises exhibitions where they display imported goods and components, emphasising details about each product – such as the demand volume, product specifications, and quantities required –, attracting local suppliers, particularly SMEs, who may have the capacity to manufacture or provide these components. The programme allows local suppliers to express interest in producing these items and creates a direct link between the demand (from companies currently importing these goods) and potential domestic suppliers. GAFI could co-ordinate with IMC to ensure that its clients operating in manufacturing sectors have priority access to these services, particularly in industries with strong supplier capacities.

If Egypt wants to diversify into high-tech and knowledge-intensive activities, including by attracting more FDI in these sectors and creating linkages with domestic enterprises and R&D entities, it needs to invest in a broader set of workforce skills. As part of its investment facilitation services, GAFI could further promote activities in alignment with the existing skills base and provide appropriate information to investors on labour market characteristics. Costa Rica's IPA has helped create an online platform, "The Talent Place", that provides detailed up-to-date information regarding in-demand occupations, skills required to apply and links to resources to obtain certifications (see Box 3.8). In Ireland, the IPA, IDA Ireland, has partnered with Skillnet Ireland, the Irish public agency responsible for skills development, to facilitate foreign investors' access to Skillnet's talent development programmes and provide them with tailored coaching and mentoring to assess their talent needs. Sometimes, foreign MNEs create their own training centres, and many IPAs support them by ensuring that trainings are recognised by the relevant authority. GAFI could consider co-ordinating the implementation of such programmes with government entities responsible for skills development, particularly in the areas of R&D and digital skills.

Box 3.7. Promoting value chain linkages between foreign and domestic firms

Portugal

In Portugal, the national investment promotion agency, AICEP, and the SME Competitiveness and Innovation Agency, IAPMEI, jointly implement the Supplier Clubs programme, which is a good example of how public policy can mobilise actors across the business ecosystem to help local SMEs collaborate with foreign affiliates. The programme combines matchmaking services to help foreign and domestic firms identify collaboration opportunities and agree on jointly implemented projects; business consulting and training programmes provided by foreign affiliates to their suppliers based on an assessment of their performance; and financial support through EU-funded incentive schemes to help SMEs upgrade their technological capabilities for the implementation of the agreed joint projects. As part of its aftercare services, AICEP implements two programmes that help foreign investors identify local suppliers, targeting traditional SMEs as well as young innovative start-ups. Several matchmaking platforms and local supplier databases are also in place to bring down information barriers and allow foreign and domestic firms to identify local sourcing and partnership opportunities. For instance, AICEP has developed a new platform, which relies on AI technology to deliver customised matchmaking services, while the National Innovation Agency (ANI) operates the Business and Technology Exchange platform, which serves as a single access point for Portuguese technology offers and requests.

Slovak Republic

The Slovak investment promotion agency, SARIO, provides matchmaking services through several programmes that target foreign firms and their affiliates, including the flagship Business Link events and the Slovak Matchmaking Fairs, which are implemented under the auspices of the Ministry of Economy. Several sourcing and co-operation events are also organised throughout the year as part of the National project "Support of the internationalisation of SMEs 2017-23", geared to help SMEs access global value chains (GVCs). Many of these matchmaking services target FDI-intensive sectors, focusing in particular on manufacturing (e.g. engineering, automotive, transport, chemicals, and energy). In recent years, investment facilitation and aftercare services have focused on encouraging foreign and domestic firms to collaborate on the implementation of R&D and technology-based projects. SARIO has established an Innovation Services Platform, which connects some of its most technologically advanced foreign clients with innovative Slovak firms to undertake R&D. An Exports Academy also operates within SARIO, organising seminars, practical trainings and knowledge exchange workshops to help the Slovak entrepreneurs improve their sales strategies.

Malaysia

Malaysia offers various incentives to encourage linkages between foreign investors and local SMEs. Under the Industrial Linkage Programme, investors can claim tax deductions for costs involved in supporting local suppliers, including training, product development and testing, and factory auditing to ensure local supplier quality. A Global Supplier Programme offers financial and organisational support to MNEs, if specialists from their foreign affiliates are seconded to local firms (up to two years) for the purpose of local upgrading. The programmes in Malaysia have influenced Intel in its decision to use SME suppliers. Intel is reported to have developed a model for supporting supplier development and upgrading: potential suppliers are selected based on the quality of their management; human resources; technical, materials and process capabilities; and cost competitiveness. They are then provided with training and opportunities to supply the affiliate and ultimately, the global Intel network.

Source: OECD elaboration based on the FDI Qualities Policy Toolkit

Box 3.8. Leveraging knowledge-intensive FDI for human capital development

Tailored skills development programmes for foreign investors in Ireland

In 2022, Ireland's investment promotion and skills development agencies, IDA Ireland and Skillnet Ireland respectively, launched a strategic talent development partnership. The partnership aimed at supporting FDI companies that are looking to attract and retain talent by offering them access to tailored skill development initiatives implemented across Skillnet Ireland's 73 networks nationwide. The programme combined the IDA's business development and support services for foreign MNEs with Skillnet Ireland's talent development expertise and delivery network to help drive companies' growth. Before the official launch of the partnership, the two agencies successfully piloted the programme by helping a selected number of foreign MNEs put together a strategic training and development plan to meet their business objectives. The programme involved coaching and mentoring to help companies assess their talent needs. External consultants were also assigned to work with them and help them address skill gaps and identify strengths and opportunities for further improvement. By the end of 2022, more than 20 companies had gone through the programme across different sectors such as financial services, biopharmaceuticals, aviation communications, manufacturing and software development. Skillnet Ireland has previously teamed up with IDA Ireland and Technological University Dublin to develop its Transform programme, an accredited course designed to help companies equip their staff with automation and tech skills. The programme has had notable success for Dell Technologies in supporting the company to enhance the talent capacity of 600 members of its Ireland-based workforce and has resulted in the development of 190 business innovation projects. In 2021, Skillnet invested EUR 1 million to bring the programme to a wider network of businesses. This supports businesses in their adoption of digital transformation and propels their workforce to embrace digitisation as it applies to leadership, strategic business models and advancing human digital capital capabilities.

Costa Rica's approach to linking FDI promotion to upskilling and reskilling programmes

Costa Rica has developed a range of targeted initiatives to support digital skills development and attract FDI by ensuring a workforce aligned with investors' needs in Industry 4.0. In collaboration with Coursera, the government has helped over 23 000 Costa Ricans gain skills critical for FDI sectors such as cybersecurity, AI, and data science, by providing free access to over 50 learning paths tailored to Industry 4.0 competencies. Coursera and the government designed these courses specifically to align with the demand for high-tech roles in multinational companies, providing a robust foundation in technical skills that are attractive to investors in tech and digital sectors.

In addition to digital upskilling programmes, the "Crystal Ball" platform provides information on high-demand certifications, online training, and specialised tools for digital sectors. It connects students with internships in tech fields such as engineering and R&D, with a 30-40% internship-to-hire conversion rate, thereby linking skilled candidates with multinational firms. This initiative is part of broader efforts to create a digital-ready workforce that appeals to global tech companies. The government collaborates with educational institutions and industry leaders to align academic offerings with market demands. Programmes like Talent Up and Tools for Success target both high school graduates and unemployed Costa Ricans, providing training in technical fields and bilingual skills essential for employment in multinational corporations. These partnerships are critical in maintaining a steady pipeline of skilled talent for sectors like MedTech, smart manufacturing, and IT services.

Source: OECD elaboration.

3.3.6. The role of industrial and free zones could be further leveraged to enhance knowledge spillovers on local economies

Land governance is an area of particular need for both institutional and policy reform. Clarifying procedures and institutional responsibilities regarding investors' access to land would make a significant difference in facilitating investment in new productive capacities (Box 3.9). The current complexity and lack of transparency risk discourage investors and may prevent FDI inflows from best supporting regional development priorities. While the modernisation of the land cadastre is an important step towards improved clarity on land ownership, further steps to centralise responsibility for or enhance co-ordination on the allocation of land to investors are still needed.

Egypt operates several types of economic zones, including **Free Zones** (public and private) that provide tax and customs incentives primarily for export-oriented businesses, and **Special Economic Zones (SEZs)** with unique regulatory frameworks designed to attract foreign investment. Additionally, Egypt has **Qualified Industrial Zones (QIZs)**, which enable duty-free access to the U.S. market under specific local content requirements, **Investment Zones** that promote private sector infrastructure development, and **Technological Zones** focused on fostering innovation and growth in information and communication technology (ICT). Economic zones in Egypt can become a vital tool for fostering business linkages between foreign MNEs and the local economy, particularly with Egyptian suppliers operating inside the zones or in their immediate vicinity.

Box 3.9. Access to land can be a barrier to investment

The lack of clarity on the governance of land can be a barrier to international investment. This has significant impacts on the contribution of FDI to growth and development; access to land is a key concern in attracting and leveraging investment (Abdelkader et al., 2022[21]). The process for property registration for foreign investors was eased under the Investment Law. However, foreign investors are constrained in how they can own, use, and sell land, with exemptions possible for properties in touristic and new development areas, with the approval of the Prime Minister or the Cabinet of Ministers. Land on the Sinai Peninsula, however, cannot be owned or leased by foreign-owned firms or individuals.

Challenges in institutional co-ordination on land governance further complicate investment decisions. The division of responsibility among public institutions – including the ministries of Agriculture and Land Reclamation, Housing, Trade and Industry, Tourism, Interior, and Environment, among several others; public agencies; and governorates – responsible for the management of Egypt's large areas of publicly-owned land is outlined in dozens of laws and executive orders. Institutional complexity and motivates reliance on informal institutions to manage land use in some areas.Clarifications in the Investment Law ease some of these challenges when it comes to selling or leasing land to investors. In particular, the centralisation of interactions with investors on land acquisition under the General Authority for Investment and Free Zones has addressed some of these issues in recent years, though differences in land governance across sectors remain a challenge for investors to navigate. A comprehensive mapping of public land ownership, building upon the improvements made with the Investment Map, may be worth considering.

Without a strategic approach that aligns zones with national SME and export goals, however, there is a risk that these zones could remain isolated enclaves, serving mainly as export hubs with limited integration into the local economies. Inward FDI in these zones has tended to be biased towards firms that limit their involvement with the local economy in part because this makes it easier to move to more attractive locations when necessary (Adel Sayed Mohamed, 2022[22]) (Azmeh, 2014[23]). Where linkages form between zones and the domestic economy, they tend to be confined to the sourcing of lower-value-added inputs, which limit opportunities for beneficial spillovers to the Egyptian economy (OECD, 2020[8]).

Firms operating in the more than 100 industrial parks, which are owned and managed by IDA, also benefit from incentives defined in the Investment Law, as well as additional incentives offered by IDA and (in some parks) MSMEDA. The first industrial parks were established with liberalising reforms in the 1970s to foster industrialisation and upgrading. In addition to these zones and parks, Egypt has 21 investment zones for foreign investment, two special zones (Suez Canal Economic Zone and Golden Triangle Economic Zone) established under Law No. 83 of 2002 On Economic Zones of a Special Nature, 13 qualified zones with preferential market access for exports to the United States, and technology zones focused on the information and communication technology sector.

Egypt's zones implement a combination of incentives to strengthen local sourcing and enhance value-added within industrial zones. In private free zones, at least 30% of production inputs must be sourced locally, while Qualified Industrial Zones (QIZs) require that 35% of exported products be produced domestically to qualify for duty-free access to the United States (OECD, 2020[8]). Public free zones offer a 7% tax refund on locally sourced intermediates, which is reduced to 3% for imported inputs, encouraging cost-effective local procurement. Additionally, to facilitate business linkages, regulatory requirements are relaxed for local firms supplying goods to duty-free zones, such as free zones and special economic zones (SEZs). While goods sold to these zones are classified as exports and subject to typical trade rules, some administrative exemptions—like waivers on registration in the exporters' registry—ease local suppliers' access to zone markets. These measures could collectively encourage local sourcing while promoting integration between MNEs and the local economy; yet complementary initiatives that go beyond incentives and also include technical support and information provision may be needed to fully leverage the potential for knowledge and technology transfer.

FDI-SME linkages programmes and matchmaking services could be integrated into the support provided to foreign multinationals within the zones. This is particularly relevant for the industrial zones, industrial complexes and industrial parks developed and managed by the Industrial Development Authority (IDA). In many of these zones and parks, the IDA offers basic operational and maintenance services (e.g. security, cleaning, electricity, telecommunications networks), while business development services are provided on an ad hoc basis and indirectly by inviting external experts to make presentations and give seminars. However, most of these zones do not have dedicated matchmaking or networking services and do not operate a local suppliers database or other business development services. Strengthening business co-operation between MNEs in zones and local suppliers also requires policies to enhance local suppliers' capabilities and improve workforce skills to support effective collaboration. GAFI which has knowledge of the needs of foreign MNEs could co-ordinate with zone authorities and agencies responsible for SME upgrading and supply chain development such as IMC, IDA and MSMEDA to ensure that business development and matchmaking services become part of the support provided to MNEs located in zones.

Box 3.10. Types of industrial and special economic zones in Egypt

Zones in Egypt have emerged as key drivers of economic growth and, similar to other emerging markets, host significant manufacturing operations. They have effectively attracted foreign investment, enhanced integration into global value chains (GVCs), and generated employment opportunities. Estimates suggest that zones hold around 10% of Egypt's FDI stock, account for nearly half of non-oil exports, and provide employment for roughly 2% of the workforce. However, each zone type presents unique features and results, shaped by the specific development goals embedded in its legal and institutional frameworks.

- **Free Zones:** These are designated areas where businesses enjoy exemptions from customs duties and taxes, primarily aimed at boosting exports. Egypt hosts several public free zones, including those in Alexandria, Damietta, Ismailia, Keft, Media Production City, Nasr City, Port Said, Shebin El Kom, and Suez.
- **Special Economic Zones (SEZs):** Established under Law No. 83 of 2002, SEZs offer unique regulatory frameworks and incentives to attract foreign investment. Notable examples include the Suez Canal Economic Zone (SCZone) and the Golden Triangle Special Economic Zone (GTZone).
- **Investment Zones:** These zones are designed to encourage private sector participation in infrastructure development and management, offering incentives such as tax exemptions and simplified procedures. They focus on specific industries or sectors to promote regional development.
- **Technological Zones:** Aimed at fostering innovation and technological advancement, these zones provide infrastructure and incentives for businesses in the information and communication technology (ICT) sector. They support research and development activities and the growth of tech startups.
- **Qualified Industrial Zones (QIZs):** Established through agreements with the United States, QIZs allow products manufactured in these zones to enter the U.S. market duty-free, provided they contain a specified percentage of inputs from Egypt and Israel. This arrangement aims to boost exports and foster regional co-operation.
- **Industrial Zones:** These are areas designated for industrial activities, providing infrastructure and facilities to support manufacturing and related services. They aim to decentralise industrial development and promote economic growth across various regions.

Source: OECD based on (OECD, 2020[8])

3.4. Strengthening the capacity of Egyptian SMEs to collaborate with foreign multinationals

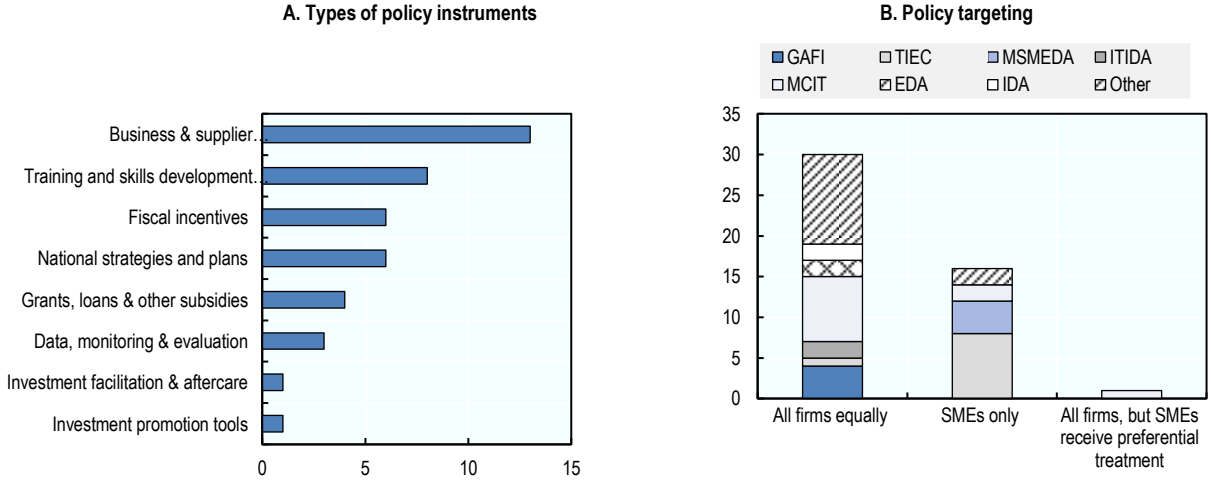
While foreign MNEs can drive knowledge and technology spillovers, the extent of these benefits depends on the capacity of domestic firms, particularly SMEs, to absorb and utilise them. SMEs with strong productive capabilities are also a critical factor influencing foreign MNEs' investment location decisions, as investors prioritise regions with robust local supplier networks and entrepreneurial ecosystems (OECD, 2023[2]). To attract FDI that is deeply integrated into the local economy, Egypt should focus on creating a business environment conducive to both foreign and domestic firms, supported by targeted SME development policies to enhance their absorptive capacities and foster successful partnerships with foreign investors. Priorities for SME development in Egypt are creating a shift towards more productive sectors, reducing the size of the informal sector and increasing the innovation and export performance of SMEs.

3.4.1. Improving the absorptive capacities of Egyptian SMEs will require streamlining access to business development services

Policies targeting SMEs productivity and innovation are mostly implemented through technical support and governance, such as plans, monitoring and evaluation mechanisms, and co-ordination measures. More specifically, business and supplier development services and training and skills development services were the most common types of policy instruments (Figure 3.7, Panel A). Although many policies are intended to benefit SMEs in particular, most formally apply to all firms equally (Figure 3.7, Panel B). Improvements are being made to the policy environment and offers of support to small businesses. Institutional reform – in particular the creation of MSMEDA – is enhancing policy co-ordination and coherence on small business development, which had long been a significant barrier in the sector (OECD/European Union/ETF, 2018[24]). There are plans to expand the Ministry of Education's support for workplace training to better serve the needs of SMEs. Access to finance remains a barrier to SMEs' enhanced competitiveness. Despite the established microfinance sector – facilitated by the 2014 microfinance law and subsequent 2020 amendment to the law – limited access to credit and financial services hinder the operations and growth potential of Egypt's sizeable SME sector (ILO, 2017[25]). Recent efforts to address this have included a direction from the Central Bank of Egypt (CBE) for banks to allocate at least 25% of their total loans to SMEs as well as interventions by the CBE and the Financial Regulatory Authority to create new opportunities through non-bank financial services. Reforms addressing the deeper roots of banks' perceptions of risk are needed as well, addressing contract enforcement and the efficiency of bankruptcy procedures (OECD, 2024[12]).

Figure 3.7. Types of policy instruments and policy targeting

Number of policy initiatives



Note: Individual policy measures may have multiple instruments and targets.
Source: Authors' compilation.

MSMEDA, established in 2017, is the designated entity responsible for MSME development in Egypt, and plays a key role in co-ordinating SME policy across the government, under the Prime Minister's supervision. However, to perform this co-ordination role across ministries and with private and non-governmental stakeholders more effectively, MSMEDA needs to be strengthened in terms of its resources and powers for the policy co-ordination task and in its capacities for policy monitoring and evaluation. MSMEDA is also responsible for designing and implementing support programmes, overseeing MSME-

related regulations, and executing the MSME Law 152/2020, with funding from its own services and international grants rather than the government budget. Complementing MSMEDA's role, a Permanent Entrepreneurship and Start-ups Unit was established in the Prime Minister's Office in 2023 to support start-ups and promote a conducive regulatory environment, led by GAFI and involving multiple ministries. Egypt's MSME and entrepreneurship policy is inherently cross-cutting, with several ministries and entities—such as the Ministry of Communications, Ministry of Higher Education, Central Bank, Financial Regulatory Authority, and Egypt Entrepreneurship and Innovation Centre (EEIC)—playing crucial roles in defining and implementing policy, building an inclusive entrepreneurial ecosystem, and providing education, training, and incubator support. Various business development services are also provided by IMC, GAFI's Entrepreneurship Development Unit, and TIEC, each focusing on different aspects of business development such as access to finance, marketing, sales, cluster development, and start-up support.

MSMEDA has a network of 33 Regional Branch Offices covering all the governorates and comprising MSMEDA's One-Stop-Shop Units, partnership system with intermediaries (700 NGOs and about 1 900 bank branches) and community development partners. Targeting potential entrepreneurs, existing enterprises that aim to expand, the unemployed, young graduates from technical, vocational and higher education, unskilled and semi-skilled youth. With a special focus on youth & women, marginalised and vulnerable groups (female-headed households, disabled-owned MSMEs) and innovative high–growth sectors and value chains.

MSMEDA's regional offices are well-positioned to lead efforts in fostering linkages between FDI and local SME suppliers, leveraging their deep local knowledge and networks within their governorates. By identifying potential foreign multinationals and suitable SME partners and implementing tailored linkage mechanisms, these offices can play a pivotal role in integrating local SMEs into the supply chains of foreign investors (OECD, 2023[2]). While some regional offices already facilitate matchmaking and networking between smaller and larger businesses—such as partnerships between milk and cheese producers or quarry and cement industries in El Minya—, these initiatives do not necessarily involve foreign investors. Achieving this would require granting MSMEDA's regional offices greater autonomy, increasing their resources, and expanding staff capacity. Additionally, MSMEDA's regional offices could collaborate with GAFI's regional Investor Services Centres to collectively identify foreign multinationals and Egyptian suppliers with collaboration potential. Accompanying these enhancements with targeted training, particularly in diagnostic tools to assess SME and entrepreneur needs, would strengthen their ability to support productive and sustainable business linkages (OECD, 2022[5]).

MSMEDA is collaborating with relevant stakeholders to develop a National MSME and Entrepreneurship Strategy, setting a roadmap for the sustainable growth of the sector. The Micro, Small, and Medium Enterprise Development Law (Law No. 152 of 2020) and its Executive Regulations were introduced to establish a legislative and regulatory environment conducive to entrepreneurship, following an extensive process of public-public and public-private consultations led by MSMEDA. The law includes a unified definition of micro, small, and medium enterprises, newly established enterprises (start-ups), and informal economy enterprises, which clarifies eligibility for various policy supports. It also provides tax and non-tax incentives for both new and existing businesses, simplified licensing procedures, quotas and financial incentives for industrial land allocation for SMEs, quotas and procedures for government procurement from micro and small enterprises, and temporary licensing for formalising enterprises. In addition, it mandates that the public budget allocated to SME and entrepreneurship policy support should be between EGP 1.5 billion and 0.3% of GDP. Moreover, initiatives under the Central Bank of Egypt's Financial Inclusion Strategy (2022-2025) expand MSME and start-up access to financial services, such measures reduce the cost of formality and increase its benefits, encouraging greater integration into the formal sector (OECD, 2025, forthcoming[4]). While these measures represent important progress, streamlining tax administration and promoting a level playing field in domestic and export markets could help address constraints hampering SME growth (OECD, 2025, forthcoming[4]; OECD, 2025 forthcoming[1]).

MSMEDA is further aiming to stimulate venture capital investment to support entrepreneurship and start-ups, with a focus on innovation, technology, and renewable energy. In particular, MSMEDA's Fund of Funds programme for venture capital, which was launched in 2021 in partnership with the World Bank, makes equity and quasi-equity investments into a range of investment vehicles, early and growth-stage venture capital funds, accelerators, and angel funds. This initiative has so far been very successful in stimulating matching investment from the private sector. To facilitate MSMEs' transition to the digital age, MSMEDA has launched the "MSME national platform", offering comprehensive information and services within the ecosystem to support the creation and development of MSMEs.

Moving forward, MSMEDA's efforts to address the challenges arising from the fragmentation of business development services should continue and become a policy priority. MSMEDA already operates an online platform (www.msme.eg) that includes a large number of business development services and initiatives implemented by the agency. This is a step in the right direction since it can provide a comprehensive mapping of government support programmes and make this information accessible to SMEs and entrepreneurs. By expanding the platform to include details on services offered by other government entities, banks, NGOs, and private sector actors, MSMEDA could reduce the information gap, increase transparency, and make it easier for SMEs to identify and access the right support programmes to meet their specific needs. At the same time, the risk of overlapping roles in policy co-ordination between MSMEDA and GAFI's Permanent Entrepreneurship and Start-ups Unit should not be overlooked. Greater clarity on their respective roles and mandates is needed to ensure effective collaboration between the two agencies and avoid a duplication of policy efforts. Connecting MSMEDA's enhanced portal with GAFI's electronic platform, which focuses on services throughout the entrepreneurial journey—pre-establishment, establishment, and post-establishment—would create a more cohesive digital ecosystem for SMEs and entrepreneurs.

Box 3.11. Increasing SME absorptive capacity: policy initiatives from EU countries

Providing direct financial support is the most common approach…

EU governments propose direct forms of funding through grants, loans or vouchers, to support SME activities in R&D and innovation. In the Brussels Capital Region (Belgium), the R&D and innovation agency Innoviris supports with grants or repayable advances business R&D projects aiming to develop, complete or implement an innovative product, process or service. Bpifrance provides SMEs with guarantees to facilitate their access to bank credit in the riskier phases of their financing cycle; while the German Federal Ministry for Economic Affairs and Climate Action (BMWK) runs a Micro-loan Fund to address the financing needs of smaller businesses, start-ups and self-employed pursuing creative ventures, and that would otherwise have no access to credit. Many EU funding schemes for business R&D and innovation are designed to encourage science-to-business (S2B) and business-to-business (B2B) collaboration, including with foreign firms, reflecting the importance of networks for raising the innovation capacity of SMEs. Innovation voucher programmes such as those implemented by the Austrian Research Promotion Agency (FFG) or Enterprise Ireland (EI), allow SMEs to purchase academic support and expertise and build linkages with knowledge institutions. EU governments also support financially the digital transformation of SMEs as a key lever of SME performance. The Austrian SME.DIGITAL programme provides comprehensive support for SMEs implementing digitalisation projects, including both consulting services and direct funding for investments in new technologies and digitalisation.

… often combined with non-financial support

Financial support measures are often combined with business consulting and training programmes for enhancing SME internal capacity and supporting organisational change. The Bulgarian SMEs

promotion agency BSMEPA delivers training and tailored consulting services on entrepreneurship, innovation and internationalisation to domestic SMEs, both at its national headquarters in Sofia and through its regional offices. Given the importance of human capital for SMEs innovation, training and consulting programmes often focus on enhancing managers' skills. It is the case of the Enterprise Ireland (EI)'s Innovation 4 Growth programme, which proposes educational modules, coaching and peer-learning opportunities to chief executive officers (CEOs) and senior managers, in order to strengthen their innovation culture and openness to new business models and practices. Similarly, the Investment and Development Agency of Latvia (LIAA), in collaboration with the Riga Technical University and Business School, launched a pilot Mini MBA training programme for improving the knowledge and practical skills of middle and senior managers in charge of business innovation and development processes.

Source: EC/OECD Survey of Institutions and Policies enabling FDI-SME Linkages (2021).

3.4.2. Beyond export training, emphasis should be placed on local supply chain development

In Egypt, several ministries and agencies —including the Ministry of Industry, the Export Development Authority (EDA), IMC, MSMEDA, and others— provide export development and internationalisation support to Egyptian enterprises. MSMEDA has established an Export Department which will clarify export procedures, offer information and provide support to small exporters. Meanwhile, EDA offers a range of export development services, such as disseminating information, promoting business matchmaking and operating an online Egyptian Export Portal. One key initiative, the Export Support (Rebate) Programme, incentivises exports by reimbursing certain costs and offering additional rebates for SMEs with foreign commercial agreements. Additionally, Egypt has recently launched the new Export Subsidy Rebate Programme for FY2025 which introduced a more targeted and transparent framework to enhance the competitiveness of Egyptian exports, especially in high-potential and strategic sectors. The updated programme introduced a more targeted and transparent framework for disbursing export support, linking rebates to value addition, employment generation, and local sourcing, while also streamlining disbursement through digitised processes. To enhance co-ordination, the Ministry of Planning, in partnership with the Egyptian Exporters Association and the Foreign Trade Training Centre, has launched the Export Academy, centralising training and advisory services for exporters. Addressing export finance access, the IMC and the Export Development Bank of Egypt recently formalised a partnership to support industrial exporters, particularly SMEs and green projects, while the newly established Egyptian Export and Investment Guarantee Agency provides financial services to support exports and foreign investments. A sector-focused approach is also followed by certain agencies such as ITIDA which operates the Export IT programme, offering a cash rebate to SMEs on their exports of ICT-related products and services.

While these initiatives play a key role in enhancing SMEs' understanding of the demands and standards of foreign markets and may promote international exposure and networking of SMEs abroad, they fall short of developing robust supplier capacities—such as product quality standards, certification, and accreditation—that would enable them to join the supplier networks of foreign investors domestically. Beyond offering insights into foreign markets, effective supply chain development must focus on aligning the capabilities of local suppliers with the specific needs of foreign multinationals operating in Egypt. It is also important to note that export development initiatives, while beneficial, have significant overlaps in their objectives and target audiences and could greatly benefit from closer co-operation and integration. By streamlining their efforts and sharing resources, government entities specialised in export and supplier development could potentially provide a more comprehensive and efficient service, ultimately leading to a more robust and interconnected business environment in Egypt.

To fully harness FDI spillovers, Egyptian SMEs would benefit from a more cohesive supply chain development strategy. Current initiatives could be consolidated into a well-funded, structured programme that supports networks of domestic and foreign firms within targeted value chains. Egypt might look to the example of Portugal's "Supplier Clubs", launched by AICEP Portugal Global between 2017 and 2020, which effectively integrated Portuguese SMEs into global value chains (see Box 3.12). The programme combined matchmaking services to help foreign and domestic firms identify collaboration opportunities and agree on jointly implemented projects; business consulting services and training programmes provided by foreign affiliates to their suppliers based on an assessment of the latter's performance; and financial support through EU-funded incentive schemes to help SMEs upgrade their technological capabilities for the implementation of the agreed joint projects. Such an approach in Egypt would necessitate broader policy tools and increased co-ordination among agencies responsible for investment promotion and SME development. To harness FDI-SME linkages, supplier development programmes should be aligned with the priorities and objectives of investment promotion and facilitation (e.g. in terms of sectors, activities and types of firms targeted) and combined with other types of support such as capacity building for local firms, training programmes for local staff, and cluster development initiatives (OECD, 2023[2]). Knowledge and technology spillovers from FDI-SME linkages cannot materialise unless Egyptian SMEs have sufficient absorptive capacities and can become successful suppliers and partners of foreign investors.

Similar supply chain development efforts are currently being made by the IMC, whose experience and expertise in industrial value chains could be further leveraged and supported. The IMC plays a pivotal role in fostering supply chain development through targeted programmes aimed at strengthening local manufacturing and integrating domestic suppliers into global and national value chains. A key initiative is the National Industrial Localisation Programme (NILP), which seeks to encourage local production of imported goods, thereby increasing domestic value-added, reducing Egypt's trade deficit, and supporting the export of industrial components. IMC's National Supplier Development Programme builds on these efforts by identifying large anchor companies (e.g. multinational enterprises like Nestlé), mapping their import needs, and matching them with capable local suppliers. Through gap analyses and tailored support services—including consultancy, technical assistance, and certification—IMC enables local suppliers to meet the quality and performance standards of foreign investors, fostering sustainable supplier-MNE relationships. In collaboration with GAFI and MSMEDA, IMC could be further supported – financially and technically – to extend these programmes to additional FDI-intensive value chains and sectors that are of strategic importance for the Egyptian economy and could benefit from strengthened supplier capacities. As suggested in previous sections, these supply chain development initiatives could also be organised within specific zones in collaboration with zone authorities and local chambers of commerce.

Policy emphasis could also be placed on a well-articulated policy strategy for the development of clusters and business networks. Well-designed cluster development policies may encourage companies to group together for the development of joint projects, foster industry-science linkages, and enhance cross-sectoral interactions (OECD, 2022[5]). When foreign direct investors are located in such clusters, they are likely to be more willing to collaborate with other local firms and organisations. From a policy perspective, this means that cluster policies should be aligned with FDI promotion, SME and regional development policies to increase the potential of FDI for local productivity gains. Cluster policies can achieve meaningful impacts when they integrate sectoral priorities, keep regional and local actors involved (e.g. businesses, municipalities, universities), and provide support (e.g. technical assistance, funding, capacity building) that considers the diversity of regional economies and FDI-SME ecosystems (OECD, 2023[2]). Portugal's Sectoral Pacts for Competitiveness and Internationalisation represent a good example of how such collaboration among various sectoral stakeholders could take place, by integrating clear-cut targets, a diverse range of support instruments – including reforms to the regulatory environment – and a robust monitoring and evaluation framework to ensure the alignment of policy initiatives with regional and sectoral needs (see Box 3.12).

Box 3.12. Strengthening the competitiveness and internationalisation of industrial clusters: The automotive cluster in Portugal

Since 2017, the Portuguese SME Competitiveness and Innovation Agency, IAPMEI, has recognised 18 industrial clusters (clusters de competitividade) in Portugal with the aim of fostering greater collaboration between domestic and foreign companies, business associations, universities and other non-corporate entities of the Portuguese research and innovation ecosystem. Since their establishment, the clusters have played a crucial role in supporting Portuguese SMEs to implement smart specialisation strategies, identify bottlenecks in their performance, and provide feedback to government agencies on the implementation of effective SME policies. Financial support to recognised clusters is provided through the Portugal 2020 Incentives Scheme, which includes a dedicated set of financial instruments for collective actions, networks and other forms of business-to-business and science-to-business partnerships.

In 2019, "Sectoral Pacts for Competitiveness and Internationalisation" were signed between the Ministry of Economy and Digital Transition and some of the recognised clusters. The Pacts provide a framework to strengthen the innovation and internationalisation of industrial clusters, including: measures that promote industry 4.0 practices; training and skills development programmes; innovation activities; actions to promote the brand and strengthen the attractiveness of Portuguese clusters; and targeted reforms in the regulatory environment to address barriers to innovation and internationalisation in specific sectors and value chains. A Monitoring Committee was also set up to ensure the implementation of the agreements.

The Automotive Cluster (MOBINOV)

The Portuguese Automotive Cluster (MOBINOV) was founded in 2016 by the Automobile Association of Portugal and the Association of Manufacturers for the Automotive Industry. It gathers companies involved in the manufacturing of automobiles and their components, business associations of the automotive industry as well as non-corporate entities of the national research and innovation ecosystem such as technical universities and vocational education and training institutions. The cluster's main objective is to serve as a platform of knowledge and technological development within the Portuguese automotive sector, promote partnerships, further consolidate the value chain of automobile manufacturers and their suppliers, and develop global sourcing strategies for the automobile components industry and its customers.

In 2019, MOBINOV was among the clusters that signed a Sectoral Pact with the Ministry of Economy and Digital Transition, setting out several objectives for the internationalisation of the automotive sector and specific measures to achieve them. These include:

- *Prepare the automotive industry for the industry 4.0 transformation* – Measures: i) Study the impact of the industry 4.0 transformation on electrical and autonomous vehicles; ii) Support the production capacities of less innovative companies; iii) Support companies to identify funding sources and technological opportunities; iv) Improve the functioning of the Portugal 2020 Incentives Schemes for the automotive sector.
- *Increase the availability of skilled labour for the Portuguese automotive industry* – Measures: i) Implement measures that promote job creation in the automotive sector; ii) Adapt training programmes and higher education courses to business needs; iii) Support on-the-job training within companies operating in the automotive sector; iv) Improve the availability of human capital.
- *Improve the competitiveness of the automotive industry through technological collaboratio*n – Measures: i) Promote science-to-business and business-to-business linkages; ii) Encourage the exchange of knowledge and expertise; iii) Promote start-ups and spin-offs of automotive companies.

- *Promote the competitive advantages and technological capabilities of the automotive industry at the national and international level* – Measures: i) Foster internal demand; ii) Promote Portugal's brand as a technology-producing economy; iii) Facilitate access to major international manufacturers, technology developers and potential partners; iv) Strengthen domestic and foreign investment.
- *Reform the legal and regulatory environment to increase the attractiveness of Portugal as a destination for innovative companies operating in the automotive sector* – Measures: i) Promote integrated solutions tests in specific locations within Portugal to allow domestic and foreign companies to test the implementation of autonomous vehicles; ii) Introduce legislation on the circulation of mega-trucks; iii) Introduce legislation on alternative fuel vehicles.
- *Reduce red tape and other contextual costs for business* – Measures: i) Enable companies to respond to economic and production fluctuations; ii) Create conditions to reduce logistical costs and overcome existing barriers; iii) Identify areas for improvement for the competitiveness of the automotive industry.

Source: OECD based on (IAPMEI, 2021[26])

3.4.3. Innovation programmes could be geared towards supporting R&D partnerships with foreign multinationals

Beyond FDI-SME linkages through buyer-supplier relationships, productivity spillovers from FDI can materialise through strategic partnerships. Foreign multinationals and domestic SMEs may establish such partnerships to develop joint R&D and innovation projects, which can foster technology transfer, particularly in high-tech and knowledge-intensive industries. These partnerships can take on various forms, including joint ventures, licensing agreements, research collaborations, and R&D and technology alliances (OECD, 2023[2]). Policy initiatives that promote the commercialisation of R&D and innovation outputs of SMEs and incentivise knowledge-intensive collaborations involving foreign firms and other actors of the innovation ecosystem (e.g. R&D centres, universities) can foster opportunities for knowledge and technology transfer.

Egypt has implemented a diverse range of programmes and initiatives to support innovation and entrepreneurship, reflecting its commitment to fostering a vibrant ecosystem for technological and scientific advancement. The 2019 update to Egypt's Strategy for Science, Technology and Innovation 2030 highlights the need for stronger academia-industry linkages and clearer mechanisms to market research outputs to the private sector. While some universities have established technology transfer offices to support research commercialisation, researchers often require further skills, awareness, and incentives—such as start-up funding opportunities—to bring their innovations to market.

Several ministries and agencies play pivotal roles in delivering innovation support. The Ministry of Industry operates 12 sector-specific Technology and Innovation Centres that provide technical assistance and innovation services to Egyptian industries. The Ministry of Communications and Information Technology (MCIT), through the Technology Innovation and Entrepreneurship Centre (TIEC), manages 23 CREATIVA Innovation Hubs located on university campuses across 12 governorates. These hubs offer co-working spaces, mentoring, ideation support, and networking opportunities for students, academics, and local entrepreneurs. The Academy of Scientific Research and Technology (ASRT) promotes and funds the commercialisation of scientific and technological ideas and provides grants for university-based innovation and entrepreneurship programmes. The Science, Technology, and Innovation Funding Authority (STDF) offers grant-based awards and incubation support to help start-ups commercialise R&D outcomes, while MSMEDA has introduced measures targeting innovative enterprises operating for less than seven years and is developing a new definition of start-ups to guide access to incentives (OECD, 2025, forthcoming[4]).

Other initiatives include the Innovator Support Fund, established under Law No. 1 of 2019 and affiliated with the Ministry of Higher Education and Scientific Research, which supports early-stage start-ups and promotes technological advancement (OECD, 2025, forthcoming[4]). Moreover, the Innovators Support Fund provides EGP 1 billion to assist entrepreneurs and gifted students in addressing market and societal challenges. In addition, Egypt Ventures—the first and only government-backed venture capital fund in Egypt, established by the Ministry of Planning, Economic Development, and International Cooperation (MoPEDIC) and the Ministry of Investment and Foreign Trade—provides critical equity financing to high-potential start-ups and supports the broader entrepreneurial ecosystem. These extensive efforts provide a strong foundation for Egypt's innovation ecosystem and could be further amplified through enhanced co-ordination, helping innovators and entrepreneurs more easily navigate available resources and unlock their full potential.

Beyond strengthening the innovation capacities of Egyptian SMEs, policy emphasis should be placed on fostering R&D collaborations that involve foreign multinationals operating in knowledge-intensive sectors of the Egyptian economy. The MCIT has taken several initiatives in this direction, focusing on matchmaking programmes in the ICT sector. One such initiative is **EgyptInnovate**, an online platform designed to inspire, educate, and connect innovators and entrepreneurs. The platform provides access to educational content, practical tools, and global networks, while also fostering collaborative communities within the innovation and entrepreneurship ecosystem. It aims to elevate the visibility of Egyptian innovators and expose them to both local and international opportunities, while equipping them with knowledge on technology and innovation management. Furthermore, the **AI Innovation Challenges and Competitions**, facilitated by the Ministry of Communications and Information Technology (MCIT), serve as a bridge between start-ups, multinationals, and investors. These competitions not only address pressing innovation challenges using AI applications but also create opportunities for start-ups to form strategic partnerships with larger firms, fostering deeper integration of foreign multinationals into Egypt's innovation ecosystem. Collectively, these initiatives exemplify Egypt's commitment to building a robust, globally connected, and inclusive innovation landscape.

ITIDA also plays a pivotal role in linking Egyptian firms to foreign multinationals, particularly in the ICT sector, fostering technology transfer, R&D collaboration, and capacity building. Notable initiatives include the Huawei Spark Programme and the Industry 4.0 Innovation Centre (IIC) (see Box 3.13). These programmes demonstrate ITIDA's efforts to integrate Egyptian firms into global value chains by leveraging partnerships with multinational corporations. Through these initiatives, ITIDA connects Egyptian startups and manufacturers to advanced technologies, training, and global markets, enhancing their competitiveness and innovation potential.

To strengthen its impact, ITIDA could expand its matchmaking efforts to broaden the scope of collaborations with foreign multinationals. Policy emphasis should focus on increasing the reach of these programmes to SMEs and underrepresented regions in Egypt, ensuring a more inclusive distribution of benefits. To further strengthen these efforts, ITIDA should enhance collaboration with GAFI to identify foreign investors with high collaboration potential. GAFI's regional Investor Services Centres could provide valuable insights into foreign multinationals operating in Egypt and their specific needs, enabling ITIDA to target sectors and companies that align with its innovation and technology objectives. By jointly designing matchmaking initiatives, ITIDA and GAFI could create a more integrated approach to fostering partnerships between foreign investors and Egyptian firms, ensuring greater alignment between investment facilitation and technology-driven development goals.

Box 3.13. Leveraging the technology transfer potential of foreign multinationals in the ICT sector

Supporting R&D and technology partnerships with startups through the Huawei Spark Programme

In August 2022, ITIDA and Huawei Technologies signed a memorandum of understanding (MoU) to launch the Huawei Spark Programme in Egypt (ITIDA, 2022[27]). This initiative aims to support deep-tech startups by providing them with opportunities to establish roots in new markets, expand their client reach, and engage in co-creation projects with Huawei. The programme focuses on startups operating in areas such as artificial intelligence (AI), data management, gaming, and e-commerce. Selected startups gain free access to Huawei's cloud resources and training programmes, including technical support in cloud and AI technologies. This support enables startups to develop their own applications, services, and appliances, thereby enhancing their technological capabilities and market competitiveness. By collaborating with Huawei, ITIDA aims to significantly impact Egypt's entrepreneurship ecosystem, unlocking promising opportunities and fostering innovation. This partnership aligns with ITIDA's goals of boosting innovation and building the capacities of young talent in the latest ICT technologies. Overall, the Huawei Spark Programme in Egypt serves as a platform for deep-tech startups to leverage Huawei's technological expertise and global network, facilitating their growth and integration into international markets.

Technology adoption and capacity building through the Industry 4.0 Innovation Centre

The Industry 4.0 Innovation Center (IIC) in Egypt is a collaborative initiative established by ITIDA, the IMC, and Siemens Egypt. Located in the Knowledge City at the New Administrative Capital, the IIC aims to promote the adoption of Fourth Industrial Revolution (4IR) technologies and practical applications in smart factories (ITIDA, 2022[28]). ITIDA has contracted with 26 local and international companies specialised in designing electronics to establish their branches in the IIC. The centre focuses on several key objectives: 1) Training and Capacity Building: Providing training in automation and digitisation techniques to enhance the skills of the local workforce; 2) Technology Adoption: Encouraging the integration of advanced technologies in local manufacturing processes to improve efficiency and competitiveness; and 3) Industrial Innovation: Supporting the design and development of smart factories, fostering innovation within the industrial sector.

The IIC is part of the broader "Egypt Makes Electronics" initiative, which aims to transform traditional manufacturing practices into Industry 4.0 techniques, positioning Egypt as a leading regional hub for innovative electronic designs. Siemens contributes its extensive expertise in automation and digitisation to the IIC, providing advanced technologies and equipment such as 3D printers, robotics, and automation systems (ITIDA, 2021[29]). These resources are integral to the centre’s mission of training local manufacturers and facilitating the transition to smart factory practices. Beyond technological support, Siemens actively engages in educational initiatives, offering training programmes and technical workshops to enhance the skills of the local workforce. This commitment to knowledge transfer is designed to stimulate industrial innovation and support the development of smart factories in Egypt.

In August 2024, the IIC achieved a significant milestone by conducting a guided Smart Industry Readiness Index (SIRI) assessment in collaboration with TÜV SÜD and the International Centre for Industrial Transformation (INCIT) (INCIT, 2024[30]). This assessment aimed to evaluate and enhance the readiness of Egyptian industries for Industry 4.0 adoption.

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FDI Qualities Review of Egypt

Connecting Foreign and Domestic Firms for Productivity and Better Jobs

This report examines how foreign direct investment (FDI) contributes to productivity, innovation, job quality and skills development in Egypt. While foreign investment serves as a vital source of financing for Egypt, sustaining and deepening the current reform efforts is essential to ensure more equitably distributed benefits across society and to foster the growth of a knowledge-based economy. This report evaluates the country's policy and regulatory environment shaping technology transfer from foreign multinational enterprises (MNEs) to small and medium-sized enterprises (SMEs). It offers policy recommendations to promote and attract FDI with significant spillover potential, enhance the ability of Egyptian SMEs to absorb new knowledge, and strengthen Egypt's integration in global value chains.

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