2-1-2016

Investment promotion in Egypt: Institutional analysis of the general authority for investment and free zones

Rawda Said Ali

The American University in Cairo

School of Global Affairs and Public Policy

INVESTMENT PROMOTION IN EGYPT: INSTITUTIONAL ANALYSIS OF THE GENERAL AUTHORITY FOR INVESTMENT AND FREE ZONES

A Thesis Submitted to the

Public Policy and Administration Department

in partial fulfillment of the requirements for the degree of

Master of Public Policy

By
Rawda Said Ahmed Ali

Supervised By

Dr. Hamid Ali

Fall 2016

Table of Contents

List of Abbreviations

BoD	Board of Directors
CBE	Central Bank of Egypt
CEO	Chief Executive Officer
CPI	Corruption Perceptions Index
ERSAP	Economic Reform and Structural Adjustment Program
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GAFI	The General Authority For Investment and Free Zones
IDA	Industrial Development Agency
IMC	Industrial Modernization Center
IPA	Investment Promotion Agency
IPR	Intellectual Property Rights
IPRI	International Property Rights Index
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI	Ministry of Investment
MoPMAR	Ministry of Planning, Monitoring and Administrative Reform
OECD	Organization for Economic Cooperation and Development
OSS	One Stop Shop
SOEs	State Owned Enterprises
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies
WEF	World Economic Forum

List of Figures

List of Tables

“I turn the music up, I got my records on
From underneath the rubble sing a rebel song
Don't want to see another generation drop
I'd rather be a comma than a full stop”
Coldplay - Every Teardrop Is A Waterfall

To the wonderful **Revolution of 25 January**, which has started but has not finished yet. To the life changing event that encouraged me to take a different path in life through which I try to help my country and positively impact the lives of Egyptians. To the main reason why I studied public policy, I dedicate this research attempting to be a comma rather than a full stop and aiming for a better future.

ACKNOWLEDGMENTS

Completing this graduate degree has truly been a marathon event for me. I would not have been able to finish it without the support of many professors, family members, and friends, for whom I would like to thank for supporting me endlessly through this journey.

I am sincerely grateful to all the professors who taught me at AUC, throughout the graduate school journey, especially **Dr. Aisha Saad**, **Dr. Dalia Wahdan**, **Dr. Hania Sholkamy**, **Dr. Khaled Abdel Halim, and Dr. Khaled Amin**, who encouraged me to go beyond my limits and dream for the best. I would also like to thank **Dr. Ayman Ismail**, who kindly served as a second reader on my thesis committee. His valuable advice and fresh insight have greatly improved this research

Words cannot express my gratitude for my supervisor **Dr. Hamid Ali**. He has been my greatest support in this journey. I am forever indebted to his intellectual guidance, constructive criticism, and patience.

I would like to deeply thank **Dr. Ziad Bahaa Eldin** for taking time out of his busy schedule to guide and steer me in the right the direction with regards to the thesis topic. He has been an outstanding mentor, a true inspiration, and a role model with his humbleness and vast expertise.

I am also thankful to my dear friend **Amira Gamal el Din** for her continuous support during the most difficult times and for helping me enormously to bring this research to completion.

Last but not least, the continuous encouragement and support of **my family** have made me what I am today. I cannot thank my parents enough for their unconditional love and for instilling in me the confidence and passion to pursue my educational career.

ABSTRACT

The objective of this research is to critically examine the potential of Egypt's central Investment Promotion Agency (IPA) to attract Foreign Direct Investment (FDI) and therefore contribute in boosting the country's economic development.

In quest of achieving this objective, the research applies a qualitative methodological approach of a single case study analysis, where it investigates several legislative and institutional elements to understand the extent to which the structure of the General Authority for Investment and Free Zones (GAFI) enables it to perform its role as the national agency responsible for investment promotion. The analysis explains various aspects that define the effectiveness of GAFI's structure, such as the authority level, tools, degree of political autonomy, and the different promotional functions performed.

The detailed scrutiny of different organizational and functional elements reveals that the overall structure of GAFI does not contribute to its likelihood of being an effective agency, and therefore exposes its limited role in promoting and facilitating private investments. The findings explain how GAFI's legal status accounts for weakening its structure and further articulate how the Authority lags behind in performing the main promotional functions of image building, investment generation, investor servicing and facilitation, and policy advocacy; all of which that influence Egypt's ability to attract foreign investment, enhance local economy and guarantee better linkages to global economy. Thus, the research offers some recommendations to help policy makers adopt better mechanisms that could enhance the performance of GAFI, such as, ensuring the separation between GAFI's role as a regulator and executor on one side, and its role as promoter and facilitator on the other side.

Chapter One:
Study Overview

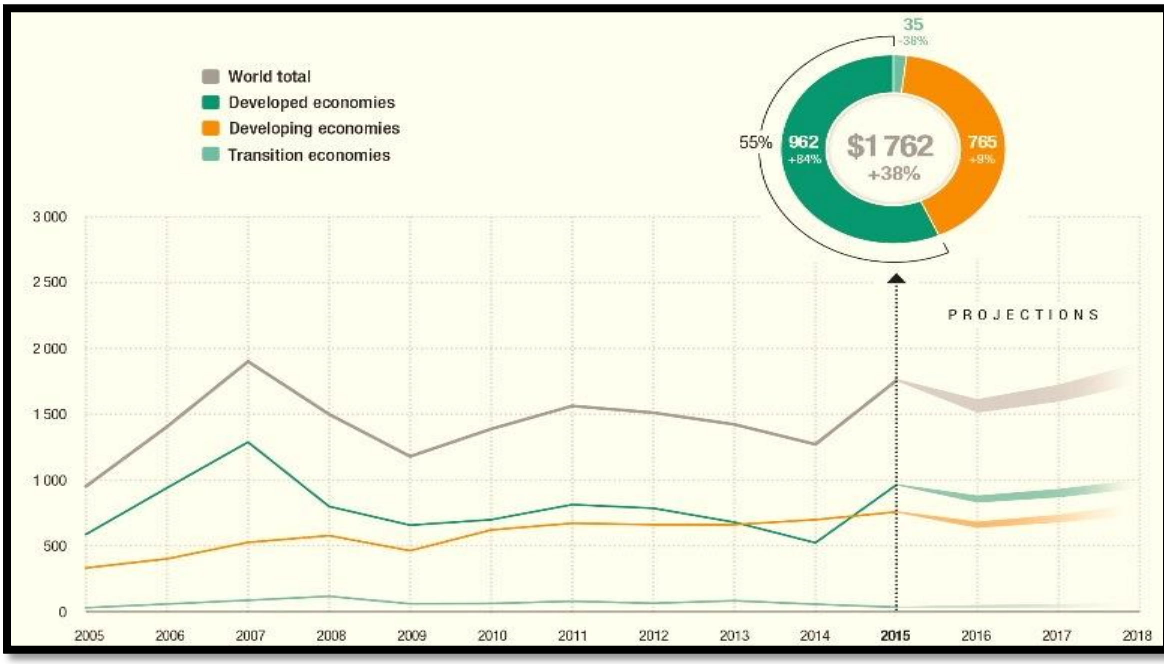
I. Introduction

There is consensus on the importance of investment as a determinant of economic growth, especially in the developing world, where private sector is the largest employer, providing almost 90% of jobs (Stampeni et al., 2013). However, low levels of private sector productive investments appear to be a major obstacle to economic growth in developing countries (Saif and Ghoneim, 2013).

Successful international experiences have shown that creating a stable and conducive environment for business and investment through progressive macroeconomic policies and structural policy reform can lead to high levels of investments. However, many researchers (Moore and Schmitz, 2008; Rodrik, 2005; and Hausmann et al., 2007) have stressed that regulatory reform should not be the only focus of policy and research. They emphasized that an equal focus should also be given to the importance of circumstances in the different countries, where institutions play a pivotal role in responding to investors' needs, and in shaping the dynamics of private investments.

Government intervention in economy through investment promotion was firstly drawn attention to by Wells and Wint, as a particular type of marketing activity that must be carried out by governments seeking to pull in more foreign direct investment (FDI) (Trnik, 2007). Over the past three decades, it can be found that investment promotion is highly associated with significant FDI growth (Figure 1). But, even though there is a spread of national Investment Promotion Agencies (IPAs) - seeking to stimulate growth and development by offering investment incentives, investor services and other means to encourage investors and draw more FDI-, the problem of low investment levels still exists in developing countries (Casey, 2013).

Figure (1): Global FDI Inflows by Group of Economies 2005-2015, and Projections, 2016-2018, (Bil. US$)



Source: UNCTAD. (2016).

Moving in tandem with the global economy, Egypt has moved from a public sector dominated economy to a private sector led economy with the announcement of an open door policy for foreign investment and markets in the 1970’s, and created the General Authority For Investment and Free Zones (GAFI), as a dedicated national IPA to promote and attract FDI in Egypt.

In the past 15 years, private investments have become a key contributor to the growth of the Egyptian economy. Between 2002 and 2014, the total implemented investments have nearly tripled to reach EGP 265 billion, which is equivalent to an average annual growth rate of almost 26% (CBE, 2014; MoPMAR, 2015). Furthermore, private investments made up 62% of the total implemented investments in 2014, compared to only 49% in 2003 (CBE, 2014; MoPMAR, 2015). However, the levels of private investments have declined sharply post the Egyptian Revolution in 2011 and the transitional periods, Egypt has been going through. Many impediments have resulted from political, economic, legal and judicial instability, resulting in a continued deterioration of Egypt's rank for several consecutive years in the Global Competitiveness Reports of the World Economic Forum. A significant decline was observed in "Macroeconomic Environment" and "Institutions" pillars, in addition to the strength of investor protection (WEF, 2015). The growth rate was limited to 2%, the government budget deficit reached unprecedented levels recording EGP 166.7 billion for 2012 (MoF, 2013), and FDI inflows, one of the main sources for foreign currency, has significantly decreased by 19% between 2012 and 2013 (UNCTAD, 2014). Even though Egypt regained some stability after 2013, FDI levels remain very low.

Although academic debates concentrated on the low levels of private investments in the past years, the discussions and solutions offered to developing countries were only limited to improving the investment climate by focusing on regulatory frameworks (Abdel-Latif and Schmitz, 2011). Existing researches give less attention to IPAs and their characteristics that account for effectiveness in attracting more FDI, and the dynamics of private investment resulting from institutional differences continue to be under-researched.

Focusing on institutional differences, best practices and rigorous studies have verified a number of elements that highly influence the capacity of IPAs to operate effectively and in turn attract more FDI. Therefore, the goal of this thesis is to highlight the institutionalized approach to attract private investments by focusing on the structure of Egypt's national IPA; GAFI to explore whether it enables or impedes performing its promotional role and hence contribute to the likelihood of attracting more FDI. This will take place through examining the agency's organizational and functional elements, besides investigating the current regulatory framework that governs its operations.

II. Research Questions, Scope, and Importance of the Study

a. Research Questions

The focal research question for this thesis is:

To what extent do the structure and legislative framework of GAFI enable it to perform its role as the national Investment Promotion Agency of Egypt?

The research tries to answer this main question by centering on the main institutional and legislative frameworks of GAFI and investigating how they influence the significance of its role in attracting and facilitating private investments in Egypt. The following are the research sub-questions.

1. To what extent does the New Investment Law No. 17/2015 affect the operation of GAFI?
2. How does the organizational capacity of GAFI influence its ability to act as an effective IPA?
3. How does GAFI perform its role in investment promotion?
4. How far do GAFI's organizational characteristics affect its institutional functions?

b. Importance of the Study

The importance of this study stems from three reasons; first, there is a dearth of academic research on the dynamics of private investment and institutional capacities that control the ability of countries to attain successful reforms and increase private investment levels. Most of the academic debates that focus on low levels of private investments in developing countries are only limited to discussions of improving the regulatory frameworks and offering standardized recommendations presented by international agencies. This study contributes to the literature, by offering an in-depth institutional analysis to one of the developing countries IPAs. Hence, it fills a gap with regards to institutional differences in attracting investment.

Second, the majority of studies assessing the performance of IPAs used empirical methods, while this is a qualitative study. Therefore, it contributes to the knowledge of investment promotion agencies in developing countries using a qualitative approach, by selecting Egypt's IPA as a case study, and providing in depth information on its role and institutional functions.

The third reason pertains to the relative novelty of Investment Law No. 17/2015, and the attempt to analyze it, with regards to the prerogatives it offers to GAFI, which in turn determine its powers and influence its performance.

c. Scope of the Study

The research entails providing a picture of GAFI as an institution, identifying the main obstacles hindering it from performing its promotional role, whether they are organizational, functional, or legal constraints. The scope of the study involves:

- Investigating the current governing investment law, and accordingly explain the prerogatives and powers given to GAFI.
- Investigating the organizational elements that influence GAFI's structure, and therefore its promotional mandates.

- Analyzing GAFI's current institutional functions based on IPAs' best practices and explaining how they are influenced by the organizational elements.

Based of the analysis, the research also seeks to offer recommendations that will further help policy-makers to close the implementation gaps between laws and practice and enable them to formulate policies and adopt better mechanisms that contribute positively to the investment environment in Egypt.

Chapter Two:

Literature Review on Investment Promotion

This chapter will present and summarize the current state of knowledge on investment promotion and its agencies. It will begin with the important role of institutions in attracting private investments; followed by IPAs in particular, discussing their structures and functions in detail; moving on to the importance of the legislative context; and concluding with a summary on the existing studies on investment promotion.

It is worth noting that most of the literature on investment promotion and IPAs are driven from few international organizations; namely the United Nations Conference on Trade and Development (UNCTAD); the World Bank's Foreign Investment Advisory Service (FIAS), especially from the profound contribution of Louis Wells, Alvin Wint (1990; 2000), Jacques Morisset, and Kelly Andrews-Johnson (2004); and Multilateral Investment Guarantee Agency (MIGA); and the Organization for Economic Co-operation and Development (OECD). This can be attributed to the practical nature of this domain, where most of the existent researches were aimed at assessing the effectiveness of IPAs, or enhancing its work and other investment-related policies. Even though, such researches and reports were not meant for academic purposes, they serve as foundations for carrying out further academic research.

I. Institutions and Investment Promotion

Governments usually link achieving higher economic growth with attracting more FDI. Therefore, many efforts were exerted from host country governments to reach this objective, including opening up to market economy, granting incentives to investors from source countries, and improving macro-economic and micro-economic conditions (Trnik, 2007). Yet, these efforts did not necessarily assure achieving the projected FDI levels and thus opened the gate for more efforts to take place in a more institutionalized approach. Within this context, originated the concept of investment promotion, emerging from a greater literature on the role of government in steering the economy, where two fundamental contending approaches lie; the neoclassical versus the interventionist paradigms.

The neoclassical approach to investment promotion is mainly based on the assumption that governments of host countries should only focus on creating good investment climates and change the incentive structure. It considers this as the principal mean, by which investors will automatically be intrigued to seek the most advantageous investment opportunities (Lim, 2008; Morisset & Andrews-Johnson, 2004). In contrast, the interventionist approach argues that, this role is insufficient, due to the existing market failures resulting from information gaps, believing that intervention is necessary to help address these failures and yield favorable results in terms of attracting more foreign investments (Morisset & Andrews-Johnson, 2004).

Following the interventionist approach, the role of institutions in attracting and enhancing investment, either domestic or foreign has been discussed widely, as it is believed that institutional quality influences economic growth partly through the amount of investments attracted (Valeriani and Peluso, 2011; Buchanan, Le, and Rishi, 2012). North and Weingast (1989) discussed the role of political institutions in particular and the importance of an existing system of checks and balances that can favorably affect investment by permitting governments to be more credible and commit to not engaging in ex-post opportunism with investors or exposing them to other risks. They also pointed at greater variability in levels of private investment within a set of observations in different countries, where checks and balances were low.

Dixit (2009) discussed how certain types of government institutions help markets and business transactions by providing physical and organizational infrastructure, such as property rights protection, contracts enforcement, and collective action facilitation. Similarly, Dumludag (2009) has referred to these institutions as of economic nature and which "determine the economic rules of the game"(p.18), and North (1990) elaborated on the role of these institutions in creating order, reducing uncertainty in the exchange of goods and capital, and helping to determine transaction and production costs; concluding that institutions simply determine the feasibility and profitability of partaking any economic activity and thus lead to more private investment.

Thus, countries establish investment promotion entities to employ promotional techniques and carry out these objectives. Anderson and Sutherland (2015) add that such entities are considered a useful policy tool, because they provide information and services to foreign investors and thereby reduce the transaction cost of investing in a particular location.

II. Investment Promotion Agencies and FDI

IPAs are institutions through which governments carry out activities to attract FDI inflows (Wells and Wint, 2000). These promotional activities comprise a wide range of actions that vary from conducting investment seminars and missions for source countries, participating in exhibitions, and engaging in advertising and marketing efforts, to providing matching services for prospective investors with domestic partners, facilitating the process of obtaining permits and approvals, in addition to offering services and consultations to committed investors, whose projects are already in operation (Wells and Wint, 2000).

Some agencies extend their activities to grant different types of incentives to foreign investors aiming at more FDI influxes (Lim, 2008), In contrast, Whyte et al. (2011) stated that, there is a weak correlation between investment promotion and the agencies responsible for performing both tasks for investment promotion and investment regulation. This view was reinforced by Miskinis and Byrka (2014), in which they indicated that the more an IPA is engaged in regulatory functions and activities, such as incentives and negotiation concessions, the less efficient and successful it is in attracting investments. Therefore, there is a wide consensus among the best practices and evaluations (UNCTAD, 1997; Wells and Wint, 2001; Morisset and Andrews-Johnson; 2004; MIGA, 2004) on grouping the basic promotional activities and functions of IPAs into four main core categories, 'national image building'; 'investment generation'; 'investor facilitation and servicing'; and 'policy advocacy'. Table (1) summarizes the main activities under each of the four IPA core promotion functions.

Table (1) Core Functions of Investment Promotion

National Image Building

- Disseminating information materials through several creative mediums.
- Participating in investment exhibitions.
- Conducting general investment missions to source countries.
- Holding information seminars on investment opportunities.

Investment Generation

- Targeting specific investors, sectors or firms.
- Engaging in direct mail or telemarketing campaigns.
- Conducting specific industry/sector based investment missions.
- Holding tailored information seminars in source countries.
- Involving embassies abroad in investment promotion.

Investment Facilitation and Services

- Pre Investment Support
  - Handling investment inquiries.
  - Highlighting the sectoral investment opportunities.
  - Providing information on investment projects.
  - Providing incentives for foreign investors.
- Support in Getting Started
  - Full assistance with site selection, documentation and applications.
  - Providing requested information until the start of operations.
  - Coordinating with the concerned authorities.
  - Matchmaking service.
- Providing Aftercare Services
  - Following up and monitoring an already accomplished investment project.
  - Investment retention and expansion.
  - Handling complaints by investors.

Policy Advocacy

- Participating in policy task forces.
- Drafting laws or policy recommendations.
- Reporting investors' perceptions, opinions and comments.

Source: Adapted from Morisset and Andrews-Johnson (2004)

1. Structural Approaches for an Investment Promotion Agency

Beside their promotional functions, institutional structures and reporting mechanisms of IPAs are found to be key to their efficiency (Wells and Wint, 2000; Morisset and Andrews-Johnson, 2004; Miskinis and Byrka, 2014). Wells and Wint (2000) have observed three different types of organization for establishing investment promotion agencies; a government-controlled agency; a private-sector agency; or a quasi-governmental (semi-autonomous) structure. In their view, investment promotion activities considerably vary in nature than the usual conventional government practices of controlling, regulating, and exercising authority. They are more of marketing approaches closer to the private sector style of business, which require flexibility, responsiveness, and continuous communication with private sector.

Therefore, among these three structures, Wells and Wint (2000) suggest that a semi-governmental structure is the best, because purely governmental structures would lack the adequate skills required to carry out effective investment promotion activities. In the same time, a private-sector structure would be challenged to fulfill those tasks demanding governmental control, such as granting permits and approvals or any other government requirements.

Accordingly, they suggest that a semi-governmental structure benefits from the advantages of both, the purely governmental and independent private structures. In other words, they still function under the government's oversight by reporting to it. Yet, they are not part of the government structure, and are not bound to its burdens and bureaucracy when it comes to acquiring the necessary skills and expertise for handling the promotional activities. Alongside the professional business skills, they would also have the needed authority capabilities and direct access to government, required to expedite the investment-servicing processes and successfully perform the IPA key functions. Relatedly, Miskinis and Byrka considered "IPAs with quasi-government status and private sector representation are performing better than IPAs that are incorporated as part of a governmental body" (2014, p. 43).

Furthermore, Morisset and Andrews-Johnson (2004) have found that FDI attraction is influenced by the way IPAs perform business and by their internal characteristics of legal status, funding and mandates. However, for the success of any IPA, what matters the most in these characteristics is the degree of political visibility and private sector participation it enjoys. Both researchers have found a positive correlation between the agency effectiveness and when the agency has a supervisory board with representatives of private sector, and has a direct reporting relationship to a country's president or its prime minister.

2. Promotional Functions and Attracting FDI

Image Building is about constructing a perception of a country as a favorable location for investment, as well as correcting weak or negative views about the country that could stand as an impediment against attracting FDI. Investment generation is mainly about targeting of specific firms, investors, and sectors for a more focused investment. Investor facilitation and servicing involves assisting investors with their businesses during the different stages, from pre-investment support and helping them get started to aftercare services provision. Policy advocacy includes activities through which the IPA encourages and backs any policy changes that aim at improving the quality of the investment climate. This function is also concerned with incorporating the views of the private sector regarding this matter (Wells and Wint, 2000; Morisset and Andrews-Johnson, 2004; Sirr et al., 2012).

a. Image Building

Constructing a positive national image constitutes an indispensable ingredient for investment promotion. It is the primary function of IPAs that paves the way for the effectiveness of the other three core IPA functions. That's why evidence suggests that IPAs put greater emphasis in their promotional efforts on image building and investment generation (Sirr et al., 2012; Wells &Wint, 2000). Generally, image building precedes investment generation and uses marketing techniques to develop a favorable perception among potential investors. Activities under image building efforts frequently include advertising, public relations (PR) campaigns, media campaigns, participating in investment exhibitions and investor forums, conducting investment missions maintaining relationships with journalists and business partners, and developing the IPA's website to disseminate accurate information to the general public and prospective investors (Morisset and Andrews-Johnson, 2004; Sirr et al., 2012).

It is suggested that countries should further invest in their national branding as part of their image building efforts and communicate this image internally and externally. Furthermore, investing in research about the external perceptions of the country's national picture is necessary to understand how foreign investors view them abroad, or else their PR campaigns will flop (Domeisen, 2003). However, other opinions state that determining investors' perceptions is perplexing, especially in emerging markets, due to many challenges, out of which political risk stand the greatest (Sirr et al., 2012). Similarly, the World Association of Investment Promotion Agencies (WAIPA) points to the significance of the political context and risk on investors' perception and their choice of investment location. It further stresses on the importance of realizing that such risks can adversely impact FDI attraction. therefore IPAs need to pay attention and be capable of effectively addressing these risks through image building activities (WAIPA, 2012).

b. Investment Generation

Investment Generation is another core function of IPAs. It is considered a more directed approach to investment promotion, since it focuses on specific sectors and countries to produce investment leads through making the IPA's location appealing (Sirr et al, 2012). Its activities comprise engaging in direct mail or telephone campaigns to specific private and public firms, which are key players in the targeted sectors. Not only can these activities be effective and cost-efficient, but also successful strategies for firm targeting and building long-term relations (Loewendahl, 2001).

Concentrating on investment missions for specific industries or sectors is also vital activity for networking with a larger prospective investment community (Loewendahl (2001). Missions require a properly made firm research based on which, tailored presentations that tackle the needs of the targeted investors and ensure the host country's ability to meet these needs, will be offered (Wells and Wint, 1990). That is why involving embassies abroad in investment generation can be effective and cost efficient.

According to Loewendahl (2001), conducting Trade missions can be another effective and critical activity to be adopted, especially in developing countries, as they can play an imperative role in developing strategic partnerships between local and foreign firms, such as joint ventures, technology licensing, and outsourcing agreements. Such inter-firm partnerships are necessary for developing countries to transfer technology and foster the business of small and medium-sized enterprises (SMEs) (Loewendahl, 2001; Morisset and Andrews-Johnson, 2004).

Noticeably, the activities under this function fall under marketing techniques, as in image building, however, they are more directed. One reason is that locations differ from one country to another and so should their promotion objectives. Therefore, marketing purposes vary from placing a location on the map, to creating a distinguished image for a country or repositioning an existing one (Loewendahl, 2001). Another reason that necessitates IPAs to act as investment generators is the tight budgets and funding sources, which represent a continuous challenge to them (Sirr at al., 2012). IPAs need to be selective and adopt the most effective activities for investment promotion, such as sector or firm focused approach, because it has proven more effective in generating more investments in contrast to general public relations campaigns linked with image building (Wells and Wint, 2000).

However, experience show that investment generation works best, when the actual business climate in a country is better than the perceptions presumed by investors (Loewendahl, 2001). Furthermore, IPAs can only shift their promotional efforts to investment generation when a positive image of business climate is already existent among potential investors (Wells and Wint, 2000).Therefore, maintaining the right balance between both functions, and not falling in the trap of rapidly shifting to investment generation, or staying in image-building phase longer than needed is crucial (Sirr et al., 2012; MIGA, 2016). Moreover, the timing of the decision to move to investment generation is also central to the IPA's success, since it should consider several elements, such as the existing business climate, IPA structure, adopted investment strategy and its budget size (MIGA, 2016).

c. Investment Facilitation and Servicing

Investor Facilitation and Servicing is a major function of IPAs, since it translates the investor's contentment with the business climate through the operation and aftercare stages (UNCTAD, 1997). As an investor facilitator, an IPA mediates between the host country and the FDI source country by disseminating and communicating needed information to prospective investors that will help them during making their investment decisions (Lozada and Kritz, 2007; Lim, 2008). Under this function, IPAs normally provide investment services to the investors during three stages; pre-investment support; support in getting started; and aftercare services (Morisset and Andrews-Johnson, 2004).

Facilitation starts by offering potential investors the needed and desired information, whether through direct contact or through the IPA website (Lozada and Kritz, 2007). Additionally, investors are mainly concerned with the time speed, predictability and transparency of investment procedures, including obtaining permits and approvals, speeding up the process of starting up a business (UNCTAD, 1997). Therefore, the majority of IPAs provide a "one-stop shop (OSS)" to facilitate the investment process and assist investors in getting started.

OSS is mainly created to deal with administrative hurdles that investors face, especially in their entry stage of business, before they start operation (Morisset and Andrews-Johnson, 2004). Thus, they provide services that range between registration, giving approvals, expediting the obtainment of licenses and permits, coordinating with the concerned authorities to get the needed utilities (water, electricity, etc.,), in addition to clearances and inspections (Sader, 2000; Morisset and Andrews-Johnson, 2004).

However, Sader (2000) argues that the idealistic idea of creating a OSS, which assumes that a single government entity will have the necessary power to give investors the licenses, permits, approvals and clearances, proved unrealistic in many cases. He attributes this to the enormous resistance, governments who attempt to apply an OSS face, from the different government agencies in authority of these administrative procedures. The OSS concept raises the concerns of many ministerial officials and employees that it will threaten their powers and restrain their mandates. This is why conflicts and turf battles within the governmental establishments take place (Sader, 2000).

Sader's argument is consistent with the view of Loewendahl (2001), who stressed that a successful IPA does not only depend on its professionalism, for an effective facilitation process, but depends greatly on its strong linkage with the governmental institutions. This is especially true in developing countries, as many necessary activities, required to ease the investors' business entry are highly reliant on the synergy between the IPA and the different government ministries and agencies.

Aftercare services come in a later stage, post setting up a business, where the IPA offers a range of activities with the aim of supporting re-investments and expansions, generating new investments, and lastly retaining and upgrading the ongoing projects (Loewendahl, 2001; UNCTAD, 2007). According to Young and Hood (1994) aftercare services programs have the advantage and capability of extending long-term economic impact to the host country.

Aftercare services encompass monitoring and offering continuous consultations to existent investment businesses to facilitate any hurdles and solve any bottlenecks (Lozada and Kritz, 2007). In addition to the fact, that these activities are key to encourage existing investors to take re-investment and expansion decisions, they also lead to attracting new investments. Following up with investors makes them content and consequently they become your best ambassadors to other prospective investors and will encourage them to think positively of a country as an investment location (UNCTAD, 1997; Loewendahl, 2001). Most importantly, the UNCTAD (2007) indicated that, "the cost of winning investments through aftercare is less than that of generating investments from new companies" (p. 51).That explains why Lim (2008) pointed to the growing importance of aftercare services to any country seeking FDI.

Retaining and upgrading the ongoing projects is another aim of providing aftercare services, given its fundamental role in achieving stronger linkage with local businesses and small and medium enterprises (SMEs), which in turn leads to higher economic impact (UNCTAD, 2007). When aftercare services links local companies with the existing foreign businesses in the country, they simply integrate the local SMEs into the global economy and thus have a positive long-term spillover effect on the host-country economy (OECD, 2011). This can be conducted through providing the adequate policy environment that encourages creating this business linkage to ensure transferring know-know and technology from the foreign firms to local SMEs through provision of trainings and technical support to local personnel (OECD, 2011).

Moreover, the success and effectiveness of aftercare services is the same like the OSS; both are highly dependent on the collaboration between the IPA and other governmental agencies, where a partnership approach is crucial (UNCTAD, 2007).

d. Policy Advocacy

The fourth and final function of investment promotion is Policy Advocacy, which refers to activities that advocate for a better quality of the investment climate (Wells and Wint, 2000). Morrisset and Andrews Johnson (2004) have identified policy advocacy as the function most correlated with FDI inflows, and OECD (2014) considered it one of the main measures to evaluate the success of any IPA. Despite this fact, yet professionals and experts of the developed world undervalue this function when they offer their assistance and guidance to IPAs in developing countries, since they haven't experienced its necessity in their countries (Morrisset and Andrews Johnson, 2004).

The importance of policy advocacy stems from the pivotal and practical role its activities play, in formulating the investment policy, identifying the existing problems and bottlenecks in all laws related to investment, and lobbying and offering proposals to improve the business climate of the country (Morrisset and Andrews Johnson, 2004; OECD, 2014). Furthermore, policy advocacy contributes to enhancing the overall business conditions for domestic investment, because as Morriset and Andrews Johnson (2004) indicate, “what is good for foreign investment, in terms of investment climate, is equally good for the local investor” (p. 37).

III. Importance of Investment Legislations

Attracting foreign capital needs an adequate favorable investment climate in host countries, where the State’s legal mechanism, providing incentives and guarantees to foreign investors, compromises its founding cornerstone (Nilov, 2011). Moreover, according to Casey (2013), the capacity of investment promotion activities to draw more FDI is highly reliant on the existing regulatory environment, which is rather rewarding than punishing to businesses. In brief, clear laws and regulations are the pillars of any investment framework for several reasons. First, in the absence of a strong legal framework, the organizational position of an IPA may possibly become unclear and may in turn lead to duplication and overlapping of mandates with other involved actors (OECD, 2015). Second, investment by nature is futuristic and anticipative, and that is why transparency, predictability and credibility of policies, laws and procedures are principal considerations to any investor (UNCTAD, 1997; OECD, 2015).

An effective legislative framework encourages and provides investors with the needed level of confidence required to make them enter the host country and engage into business transactions there. In this context, Casey (2013) indicated two main pitfalls that must be evaded in order to generate a pro-FDI framework. First is the conception and actuality that laws and regulations favor domestic companies over foreign ones. Second, the perception and reality that court in host countries are not neutral or impartial. In other words, host countries should cling to a “non-discriminating” principle with regards to foreign investors. Sun (2002) suggests that discrimination may take place in two forms "either by favoring the interests of host nationals over those of foreigners or by favoring the interests of foreigners of certain nations over foreigners of other nations" (p.5). That is to say, assurance that laws do not discriminate against or between foreign investors is a decisive aspect in shaping a positive investment climate that is further attractive, enabling and supportive to investors and private sector.

Investment regulations must also define clear set of procedures with regard to business entry, operation and exit. This is considered another area, where investment law can serve both domestic and foreign investors and reflect a favorable investment climate in a host country (OECD, 2008). Procedures commonly include screening, approving, registering, licensing, and monitoring businesses, however they vary in the number and completion time, across different countries (Loewendahl, 2001; Sun, 2002; Sader, 2003). Empirical evidence shows that the longer and more complicated administrative procedures are, the higher administrative and regulatory costs incurred, which in turn is associated with lower FDI inflows (Djankov, 2002; Sun; 2002; Torriti and Ikpe, 2015). Therefore, an effective legislative framework should reduce barriers to investment by stipulating on fixed procedures and approval mechanisms that simply shorten the timeframe and procedural steps applied.

Moreover, Sun (2002) has pointed to fact that, although regulatory procedures are essential and useful for creating an appealing investment climate, yet how these procedures are being carried out makes all the difference. Therefore, the competency of supporting institutions is considered fundamental in any effective regulatory framework for attracting FDI. Accordingly, Sun indicated that for an IPA to be effective, it should have a solid legal base that clearly outlines its mandate, authority, and powers. Furthermore, it "should define its functions and responsibilities, external structure including linkages with the government and the private sector, the composition and selection process of its board, staffing and reporting arrangements, and how it is to be funded" (p.15).

IV. Effectiveness of Investment Promotion Agencies

The effectiveness of IPAs to attract more FDI has been investigated in many researches. The most important studies and their findings are featured in this literature review because of their rigorousness and ability to respond to different hypothesis.

Morisset and Andrews-Johnson (2004) examined the IPA effectiveness in 58 countries, in terms of the association between their promotional spending and FDI inflows. The cross-country variations in FDI flows found were owed to IPAs, only when the promotion effort is measured by the IPA budget. When the research was extended beyond only the amount of resources spent by the agency, to explore how the allocation of these resources across the IPA functions may be significant, policy advocacy appeared to be the most associated with cross-country variation in FDI inflows, followed by image building, investor services, and lastly investment generation (Morisset and Andrews-Johnson, 2004).

In a second study that depended on data collected through a worldwide census of Investment Promotion Agencies, Harding and Javorcik (2011) used information on investment promotion efforts from 124 countries, out of which 75% were developing countries. Harding and Javorcik discussed two arguments: The first is that investment promotion may be a cost-effective way to raise FDI influxes, mainly in developing countries, where information about business conditions is not available and bureaucratic procedures are acute. The second argument relates to IPAs engaged in sector targeting and whether they receive more investment in the post- targeting period, relative to the pre-targeting period and non-targeted sectors.

Regression modeling was used to test both hypotheses and proved that investment promotion efforts are more successful in developing rather than developed countries, where red tape and information irregularities are likely to be grave. Moreover, IPAs in countries suffering from high corruption, scarcity of information, and bureaucratic long procedures to start a business are more effective, since they reduce macroeconomic uncertainty by providing information, and assisting investors with complicated administrative procedures (Harding and Javorcik, 2011). The study regressions further showed that IPAs are likely to be of higher importance and significance in assisting with red tape more than in information provision. Likewise, for the second hypothesis, the empirical results indicated that IPAs engaged in targeting specific sectors, attract and receive more than twice as much FDI as non-targeted sectors in developing countries.

Similarly, Charlton and Davis (2007) tested the effectiveness of investment promotion by examining the successfulness of IPAs in attracting more FDI at the industry level. The study used industry level data from 22 OECD countries on FDI inflows in 19 different industries. Results showed that the industry targeting implemented by IPAs led to a 41 percent increase of FDI inflows into that industry.

These studies used different strategies to deal with the potential reverse causality problem and distinguish the effect of an IPA from other changes in policies or anything else relevant for FDI inflows occurring at the same time. However, as clearly evident from the review of literature and the summary of studies featured in Table (2), most studies applied quantitative methods in assessing the performance of IPAs. Yet the dynamics of private investment, including the implementation feasibility that changes by the differences in circumstances, institutional capacities and contextual factors across countries, remain under captured. This presents a gap in the literature that this research will tackle by using a qualitative design that will facilitate explaining the contextual factors influencing the potential of IPAs to effectively attract and promote investments.

Table (2) Summary of Major Studies on IPAs Effectiveness

Study and Author	Methodologies and Samples Used	Findings
Wells and Wint (1990)	Regression analysis 50 country cases	• Positive relationship between IPAs and FDI influxes.
Loewendahl (2001)	No empirical test was used	• Aftercare activities should be given more attention among the investment promotion activities, in order to maximize the long-term benefits from inflowing FDI.
Morisset and Andrews-Johnson (2004)	Regression analysis that used IPA budget, IPA staff, and control variables. 58 country cases	• Positive relationship between IPA's promotional budget and FDI influxes. • Policy advocacy is the most associated with FDI inflows, followed by image building, investor services, and lastly investment generation.
Charlton and Davis (2007)	Statistical techniques (propensity score matching and the difference-in-differences specification) Cases of 19 industries from 22 OECD countries	• Investment generation and sector targeting attract more FDI than general promotion. • Sector targeting led to a 41% increase in the growth rate of FDI inflows in the specified sectors.
Harding and Javorcik (2011)	Regression analysis that used proxies to capture the availability of information about the host country and the heavy bureaucratic	• Investment promotion efforts are more successful in countries with red tape and information irregularities. • IPAs are of higher significance in

	procedures they have. 124 country cases	assisting with red tape more than in information provision. • IPAs engaged in targeting specific sectors, attract and receive more than twice as much FDI as non-targeted sectors in developing countries.

Source: Author Constructed

Chapter Three:

Literature Review on Investment in Egypt and Evolution of GAFI

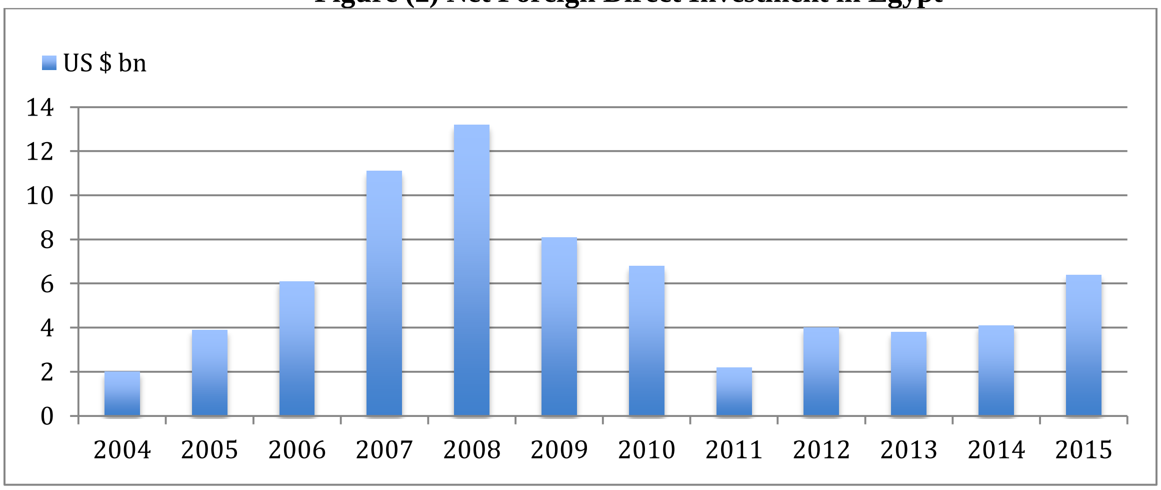
This chapter offers an overview on the general investment environment in Egypt, by presenting a quantitative picture of the FDI figures and the country's rank in international reports with respect to many priority issues for investors, along with reviewing the developments and reforms that have been carried out by the government to improve the overall business climate. In the second part, the researcher will go over different investment legislative frameworks in order to review the history of GAFI from its inception and discuss the development of its role and powers until our present day. It will conclude by tackling GAFI's current mandate. This overview lays a proper ground for understanding the new investment law in force, and therefore analyzing how the current institutional and legislative frameworks impact the way GAFI operates.

I. Overview on the Investment Environment in Egypt

Given the importance of investments to the country's economic growth, Egypt has been among those developing countries competing to attract FDI by adopting different strategies to attract foreign investors, such as liberalizing trade, granting incentives, facilitating business entry, and establishing free and special economic zones. In this regard, the Egyptian investment environment has witnessed several legislative and institutional reforms that considerably impacted the level of FDI inflows and similarly the level of domestic investments.

A significant increase in FDI inflows can be witnessed by taking a look at their levels during the past two decades, especially during the period between 2006 and 2008 (Figure 2), which in turn contributed to the revival of the Egyptian economy. The FDI inflow has risen from US$2 billion in 2004 to US$13.2 billion in 2008 (MoI, 2015). This upturn can be attributed to the government's efforts during this period to simplify and streamline investment procedures, eliminate bureaucratic hurdles, in addition, privatize several state-owned enterprises (SOEs) and public-sector banks that took place between 1991 and 2008, under the Economic Reform and Structural Adjustment Program (ERSAP) (Masry, 2015).

Figure (2) Net Foreign Direct Investment in Egypt



Source: Central Bank of Egypt

However, it can be noted from Figure (2) that FDI inflows started to decline in 2009, reaching its lowest point in 2011 due to the 25th of January Revolution and its ramifications. The political instability that followed was accompanied by an elevation in policy uncertainty, labor strikes in public and private sectors, a rise in the unemployment rate, reluctance from the government officials to make strong decisions, in addition to an occurrence of a serious energy crisis. Furthermore, investor disputes increased after court decisions to nullify seven sale and privatization contract agreements of state entities to foreign investors. All of these predicaments have negatively and enormously affected the country's overall business climate, harmed many economic sectors and pushed investors away from operating in Egypt.

As a result, there was an urgent need to revive private investments and hence the Egyptian government began to revise all investment policies and practices, consider institutions' effectiveness, and reform laws to regain the investors' confidence. With the advent of a new President, great attention was directed towards investment, to support the country and overcome its exacerbated economic situation. The government held the Egypt Economic Development Conference (EEDC) in March 2015 with political support from different countries, especially the Gulf ones, and international institutions such as the International Monetary Fund (IMF) and the World Bank Group. These efforts mark Egypt's eagerness on improving the investment climate and restoring economic growth.

In a competitive international environment, attracting more FDI is challenging and requires the presence of competent national institutions with an integrated structure that fits the contemporary world affairs. Furthermore, it requires a realistic realization of where the country stands, with respect to issues of high priority to investment attraction. In 2016, Egypt's rank in the World Bank Doing Business Reports (Tables 3 and 4), dropped to 131 out of 188 countries in 2016 compared to 94 out of 183 countries in 2011, with regards to the ease of doing business. Moreover, Egypt's rank in 2015 continued to deteriorate in the Global Competitiveness Reports of the World Economic Forum, since 2011 Revolution, where a significant decline was observed in the "Macroeconomic Environment" and "Institutions" pillars (WEF, 2015).

Table (3): Egypt's Ranks in Doing Business Reports

Ease of Doing Business					
2011	**2012**	**2013**	**2014**	**2015**	**2016**
94 of 183	110 of 183	109 of 185	128 of 189	126 of 189	131 of 189

Source: Doing Business Report Series, 2011-2016

Table (4): Ease of Doing Business ranks

Indicators	2016	2015	2011	Change in ranks from 2015 and 2016
Starting a Business	73	69	18	**-4**
Dealing with Construction Permits	113	114	154	**+1**
Getting Electricity	144	145	-	**+1**
Registering Property	111	109	93	**-2**
Getting Credit	79	71	72	**-8**
Protecting Minority Investors	122	133	74	**+11**
Paying Taxes	151	146	136	**-5**
Trading Across Borders	157	157	21	No change
Enforcing Contracts	155	155	143	No change
Resolving Insolvency	119	121	131	**+2**

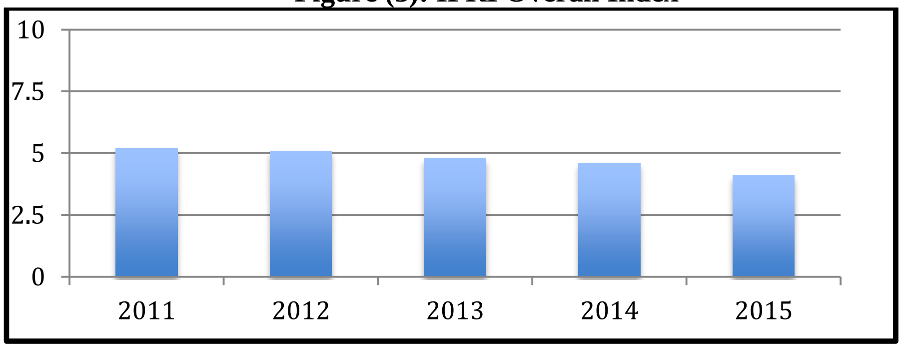
Source: Doing Business Report Series

Several concerns remain unappealing to investors and problematic for a healthy investment climate. On top of these concerns come the policy instability and the inefficient government bureaucracy as the two most problematic factors for doing business in Egypt, according to the Doing Business report of 2016. Also, with respect to the protection of "Property Rights", whether real or intellectual, Egypt's score in the International Property Rights Index has dropped for the fourth consecutive year (Figure 3), marking 4.1 for 2015 in comparison to 4.6 in 2014 (IPRI, 2015). According to the World Bank Doing Business report (2016), an investor in Egypt is required to deal with 8 procedures that demand 63 days to register a real property at a cost of 0.6% of the property's value. The overall country rank of 111 out of 189, with respect to ease of registering property, shows how Egypt lags behind countries' averages as for the number of procedures and days required to register a property. Likewise, the status of "Intellectual Property Rights" (IPR) is weak despite the fact that Egypt has a law[1] for protecting the intellectual property rights, and the stipulation of the new 2014

[1]Law No. 82 for 2002

Constitution on the state's commitment to the protection of IPR in Article 69[2]. However, IPRI (2015) reports that Egypt's position is 83 out of 129 globally, and 10 out of 20 regionally with respect to intellectual property (Table 5).

Figure (3): IPRI Overall Index



Source: IPRI, 2015

Table (5): IPRI Scores for Egypt in 2015

	Score	Globally	Regionally
Overall	4.1	102 of 129	14 of 20
Legal and Political	3.6	94 of 129	16 of 20
Physical	4.5	115 of 129	20 of 20
Intellectual	4.3	83 of 129	10 of 20

Source: IPRI, 2015

Corruption is another important area that needs to be tackled in Egypt. Several studies have proved its negative association with a country's capital inflows, and hence a liability to the host economy (Della Porta and Vanucci, 1999; Zurawicki and Habib, 2010). Ketkar et al. (2005) have found that a one-point increase in CPI would attract an average additional FDI of 0.5% of GDP in developing countries. In addition, a "three point improvement in CPI would more than double the corporate tax take on average" (p.1) in Egypt. Furthermore, Handoussa and Louis (2003) indicated that corruption in Egypt is related to institutional framework, specifically with regulating the entry of

[2]Article 69: The state shall protect all types of intellectual property in all fields, and shall establish a specialized body to uphold the rights of Egyptians and their legal protection, as regulated by law.

foreign investors. Moreover, corruption has become a worrisome concern for prospective investors following the 2011 Revolution, after the cases that have been brought against private companies, nullifying the privatization deals of seven SOEs, owing to corruption and faulty contracts. Transparency International's Corruption Perceptions Index (CPI), which classify countries based on how corrupt their public sector is perceived to be, ranked Egypt 88 out of 168 in 2015 (Transparency International, 2015).

Other matters like competition from SOEs, investment dispute settlement, and the existence of a bankruptcy law greatly contribute to shaping a supportive environment for nurturing investments, where competent institutions can play a significant role. This takes us to the next part unfolding GAFI and its development over time.

II. Investment Frameworks in Egypt and Evolution of GAFI throughout Legislations

In order to understand the current context within which GAFI operates, its role, scope of work, and limit of powers, it is imperative to give a brief background on its inception and how its role developed over years. Therefore, this section provides a brief summary on GAFI and how it was initiated and developed overtime. It sheds light on important stops that are remarked in the age of the agency, tackles its current mandates, and emphasizes the focal policies and laws enacted in Egypt.

a. GAFI's Inception

The first investment law in Egypt was promulgated by President Mohamed Anwar el Sadat in 1971. Since that date, Egypt has been witnessing a succession of investment laws over the past 45 years. **Law 65/1971** aimed at attracting foreign investments through offering many incentives that included the establishment of free zones and guarantees against nationalization actions by the government. Nevertheless, it attracted very few investments due to the sensitivity of the period and the ramifications of the 1967 War that followed (Farah, 2009). Three years later, in 1974, President Sadat introduced the Open Door Policy, allowing foreign investments in the country after long decades of prohibition. Like law 65/1971, **Law 43/1974** for Arab and Foreign Funds and the Free Zones, aimed at opening the door to Arab and foreign capitals through offering privileges and legal protection. To facilitate the process of foreign investment, the Law stipulated the establishment of the General Authority for Arab and Foreign Investment and Free Zones, to work under the auspices of the Prime Minister and be the responsible body for administering the law. Responsibilities charged to the Authority included identifying appropriate projects for investment, contacting investors and assessing their proposed projects, facilitating the process of investment, operation, and obtaining the necessary permits and administrative approvals, studying Egypt's investment laws and regulations and offering the appropriate recommendations for improving the foreign investment code, approving the profit repatriation process, in addition to managing the free Zones.

The law identified nine specific areas for foreign and Arab investments and relied on offering incentives and guarantees, some of which the Authority was granted the right to offer. These incentives and guarantees included an assurance to refrain from nationalization and confiscation of investment projects or its capital; tax exemption from 5 to 8 years and from 10 to 15 years for projects of reconstruction and establishment of new cities; deferment on paying customs duties; duty-free imports of equipment, machinery, and material considered "necessary" for projects establishment and operation.

Law 43/1974 was amended several times, until replaced by Law 230/1989, which was in turn replaced by another law in 1997.

b. Reinventing GAFI: *from a regulator to a facilitator*

In 1997, under the ruling of President Mubarak, the Guarantees and Investment Incentives **Law No. 8/1997** was issued and stayed in force until 2015. The law aimed at encouraging domestic and foreign investments in targeted economic sectors and promoting incentives for industry to relocate it away from the crowded Nile Valley area (Stone, 2009). The law identified specific areas for investment and regulated companies, which work in these areas irrespective to their legal form. Specified investment areas included agricultural, poultry and animal production, industry and mining, oil services relating to digging and exploration, hotels and tourism, sea transport, housing and infrastructure, computer software and high-tech products, medical facilities, some financial services firms, projects funded by the Social Development Fund.

The law also abolished the old GAFI and stipulated on replacing it by a new entity, to be the sole authority responsible to guide the investors, whether domestic or foreign, and which is designated to establish their companies. Similar to Law 43/1997, this law relied again on offering guarantees and incentives to attract investments. It grouped around 20 incentives and exemptions under one law; precisely tax exemptions in the mentioned specific fields, however the legislator took the spatial scale – the location where investment activities will be carried – as the basis for determining the exemption duration to lie between five and twenty-year tax exemptions accordingly. Incentives and guarantees entailed allowing a full foreign ownership of ventures; providing the right to own land and to maintain foreign currency bank accounts; guaranteeing the right to repatriate capital and profits; and stipulating on equal treatment regardless of nationality.

It is important to refer to other important decrees and laws that impacted GAFI's powers and authority. On one hand, in 2002, two decrees were issued; Presidential Decree No. 79/2002 to establish OSS under GAFI; and Prime Minister's Decree No. 636/2002 to organize the work of the OSS. The main aim was to override bureaucracy and facilitate procedures for investors, through providing all the necessary investment related services at one place, and bringing together officials from the relevant government entities to offer approvals, permits and licenses without obliging investors to refer to other higher authorities.

On the other hand, Law 13/2004, amending Law 8/1997 was issued to consolidate GAFI and the Companies' Authority into one single entity responsible for establishing all new companies. This new law also unified many legal procedures necessary for registration. It further empowered GAFI to give temporary licenses for project establishment, and to act on behalf of investors and government bodies throughout the life cycle of a project. All of these legislations along with other important factors at that time, as the strong political support, enabled GAFI to shift its role from a regulator to a promoter and from a prevalent culture of bureaucracy accustomed to regulating the private sector to another more accustomed to assisting it.

Another important stop to note is the issuance of the Unified Corporate and Income Tax Law No. 91 of 2005 by the Egyptian Cabinet. This law ended the tax exemptions that were previously stipulated on, in the Investment Law, and instead compensated them by decreasing the rate of Corporate Tax from 42% to only 20%. Hence, investors were left to establish their businesses under either law; the Investment or the Companies Law, since both had the same incentives and guarantees. In either case, GAFI maintained the status of the official governmental regulator, responsible for reviewing and approving projects. This decision was pursuant to the conviction that tax exemptions do not represent a real incentive to serious investors. Also, it was viewed in favor of the Egyptian economy because it aims at rectifying the perceived injustices of the Investment Law and controlling the rampant administrative corruption and tax fraud. Table (6) summarizes the most important investment laws and amendments with respect to their effect over GAFI and its powers.

Table (6) Laws and GAFI powers

Law Number	Features and Powers Granted to GAFI
Arab and Foreign Capital Investment Law 43/1974	✓ Opened the door to Arab and foreign capitals through offering privileges and legal protection ✓ Established the General Authority for Arab and Foreign Investment and Free Zones. ✓ GAFI is responsible for screening and approving foreign investment projects ✓ GAFI suggests and approves incentives upon a presidential decree ✓ GAFI shall issue the required permits and licenses ✓ **GAFI's role was a regulator.**
Investment Incentives Law 8/1997 and its amendments and related decrees. • Presidential Decree 284/1997 to establish GAFI • Presidential Decree 79/2002 to establish OSS • Prime Minister's decree 636/2002 organized the work of the OSS	✓ Stipulated on equal treatment regardless of nationality ✓ Replaced old GAFI with a new one by a presidential decree. ✓ Changed GAFI's governance to encompass three vice-chairmen, a Board of Directors, and a Board of Trustees. ✓ GAFI may establish offices inside or outside Egypt ✓ Established One-Stop-Shop under GAFI. ✓ GAFI is the sole body responsible for investors' incentives and guarantees (tax advantages, reduced tariffs for imported inputs, and guarantees against confiscation).

• Law 13/2004 (added articles 47-70) • Presidential Decree 316/2004	✓ GAFI is mandated to assist investors in site selection and land acquisition for their projects ✓ GAFI serves as a One-Stop-Shop to facilitate and simplify procedures of obtaining licenses, approvals and registration of new companies, however it was only functional in the phase of establishing firms (started in Jan 2005). ✓ Empowered GAFI to give temporary licenses for project establishment, and to act on behalf of investors and government bodies throughout the life cycle of a project. ✓ Formed a dispute settlement committee in GAFI to manage any problems between investors and any administrative bodies ✓ **Shifted GAFI's role towards an investment facilitator and promoter.**
Income Tax Law 91/2005	✓ Abolished the tax holidays, previously provided by Law 8/1997. ✓ Lowered the income tax rate by 50 per cent by introducing a flat corporate tax of 20% (instead of 42%) to compensate for the abolition of the tax holidays.

Source: Author Constructed

c. Current Mandates of GAFI

The current mandates of GAFI according to its original founding decree and the recent Investment Law No. 17/2015[3], include the responsibility of (1) attracting, developing, and promoting investments at the foreign and domestic levels[4], (2) providing all the required investment services through acting as a one-stop shop, to assist investors and grant them necessary approvals, permits, and licenses to start up and operate a business in Egypt. It is also entrusted with the task of unifying the entire set of official application forms and templates in coordination with the competent authorities, and providing those forms and templates for electronic use. In addition, it is in charge of (3) regulating and managing the investment zones and the free zones, whether public[5] or private, where it is

[3] Articles 85 and 86 in Law No. 17/2015

[4] This mandate shall be carried out by a newly established 'National Center'- Details in Chapter 6

[5] There are currently 10 public free zones in operation in the following locations: Alexandria, Damietta, East Port Said Port Zone, Ismalia, Qeft, Media Production City, Nasr City, Port Said, Shebin El Kom, and Suez.

authorized to grant firms that are not physically located in free zones the status of "private free zones" to enjoy its special benefits. GAFI also holds the responsibility of (4) stimulating entrepreneurship and SME investments by providing financial and know-how support through its "Bedaya Center for Entrepreneurship and SME Development", which was established in 2010.Moreover, GAFI provides other services like (5) settling disputes through the "Investors' Dispute Settlement Center" established in 2009, to settle through mediation any disputes that may arise between investors and among shareholders of foreign invested companies. This service is also provided online, where investors can have access to decisions made by the Dispute Settlement Committee and the date of the decision. However, it is only available in Arabic.

Chapter Four:

Conceptual Framework

This chapter presents the conceptual framework adopted in this thesis. It frames and perceives the different concepts that directly affect the process of investment promotion. It should be noted that this research focuses only on the promotion mandate of the IPA, excluding any other additional ones. The concepts identified in this conceptual framework are derived from the literature review to help the researcher precisely answer the research questions.

The conceptual framework has three facets. The first focuses on conceptualizing the "investment promotion agency", being an executive arm for the government to enhance the situation of private investment. The second facet concentrates on the elements that define the effectiveness of an IPA. The third facet delineates the legislative framework, which directly affects the process of investment promotion and the IPA.

I. Investment Promotion Agency (IPA)

Investment promotion is a process of attracting foreign and domestic investments with the aim of contributing to the economic growth and development of a country. Hence, investment promotion agency is intrinsic for facilitating this process.

As identified in the literature, by the most studies and best practices, this research perceives investment promotion agency as the institutionalization of a country's dedication and determination to attract FDI, through performing the four main promotional activities; precisely 'image building'; 'investment generation'; 'investor facilitation and servicing'; and 'policy advocacy'. Moreover, the study further views the IPA as the government's executive arm, in charge of interpreting the goals and objectives of the country's national investment strategy into actual results, and therefore analyzes the extent to which an interventionist approach is contributing to attracting private investment in Egypt.

II. Effectiveness of Institutional Structure of IPAs

The research conceives the institutional structure as a manifestation of the potential of the IPA, which further determines its internal and external strengths. The effectiveness of this institutional structure relies on elements related to both organizational characteristics and its performed functions. Hence, each of these elements is detailed and defined as follows:

a. Organizational Elements

1. Legal status

The legal status element of the IPA portrays its basic legal features that can be depicted in the mode of creation; whether the IPA is created by a decree or a law and its institutional form; whether the IPA is purely governmental or quasi-governmental or private. Both represent the legal foundation for an IPA, which directly influence its mandate and powers, and in turn affect its capacity to attract FDI. The legal status also is concerned with the nature of mandates given to the IPA.

2. IPA's Relationship with the Government

This element tackles the existing relationship between the IPA and its respective ministry, in addition to its relationship with other governmental ministries and agencies.

First, it highlights the IPA positioning within the political system, which can be inferred from the degree of autonomy in which the IPA enjoys, as well as its reporting mechanism.

Second, it encompasses the political context within which the IPA operates and may influence its capacity for effective performance, which mainly depends on the IPA positioning within the political system. It focuses on the intra-governmental relations and coordination mechanisms that are usually shaped by the power dynamics between the IPA and these different ministries, and agencies.

3. IPA's Relationship with private sector

This element involves the linkage and level of cooperation between the IPA and the private sector. It focuses on the representation of private sector in the governance of the IPA, their involvement in the functioning of the IPA and the IPA's linkage to other business communities.

4. IPA's Resources

This element involves both the financial and human resources pertaining to the promotional mandate. Hence, the research only focuses on those resources in the promotion division in the IPA.

Human resources focus on the number of staff dedicated to promotion in the IPA and their qualification level. The financial resources concentrate on size of budget allocated to promotion.

b. Functional Elements

1. Image building

This element is meant to portray a country as a favorable and credible place for foreign investments. It focuses on the strategy and tools used to build an image of a country within the investment community as an appealing location for attracting future investments.

2. Investment generation

Investment generation element looks at the extent to which the IPA successfully prioritizes specific sectors or industries, with a view of creating investment leads. It focuses on the presence of a targeting strategy and its linkage with the country's overall economic vision.

3. Investors servicing and facilitation

This element refers to the range of services provided by the IPA that can assist an investor in analyzing investment decisions, establishing a business, and maintaining it in good standing.

4. Policy advocacy

This element looks at an IPA as an investment promotion tool by being part of the broader policy process regarding investment. It identifies the agency's activities aimed at improving the quality of the investment climate through lobbying for reforming investment policies and laws.

III. Legislative Framework

Creating an appropriate legal framework for investment is one of the fundamental elements for improving the investment environment. On one side, it enhances the stability of transactions, and on the other side, it raises the degree of confidence in the strength of the economic system as a whole. This legal framework should offer investors with sufficient protection measures and guarantee the facilitation of procedures, which would therefore encourage accumulating capital, lower transaction costs and contribute to giving investors a sense of real stability; all of which are needed for long-term investments.

This research perceives the legal framework as the laws and regulations that govern the IPA and enable its operations with regards to performing its promotional and facilitation role. The legislative framework sets the legal guarantees provided to investors and the different incentives used for attracting FDI. It further determines if the IPA has the required adequate control to assist investors in establishing and maintaining their businesses.

The relationship between the concepts provided in the conceptual framework is presented in the conceptual map in figure (4).

It can be noticed that the four organizational elements affect each other. Also they strongly affect the functional elements. For instance, on one hand, the mode of creation in the legal status determines the political positioning of the IPA in the government, since it either protects it from or exposes it to disruptive amendments that occur usually with government reshuffles. Therefore, it contributes to the IPA stability, which is key in maintaining its political relations with other governmental agencies and positioning itself as a mediator between them and the different investment opportunities. On the other hand, if the institutional form is purely governmental, this would affect the quality and culture of performing the promotional and facilitation roles.

Furthermore, the relationship with the government directly affects the quality of services provided to the investors, especially when it comes to land allocation and licenses. Also, the fact that the IPA is well positioned in the government and maintains high quality political relations with other ministries and agencies empowers the IPA to play a more effective advocacy role.

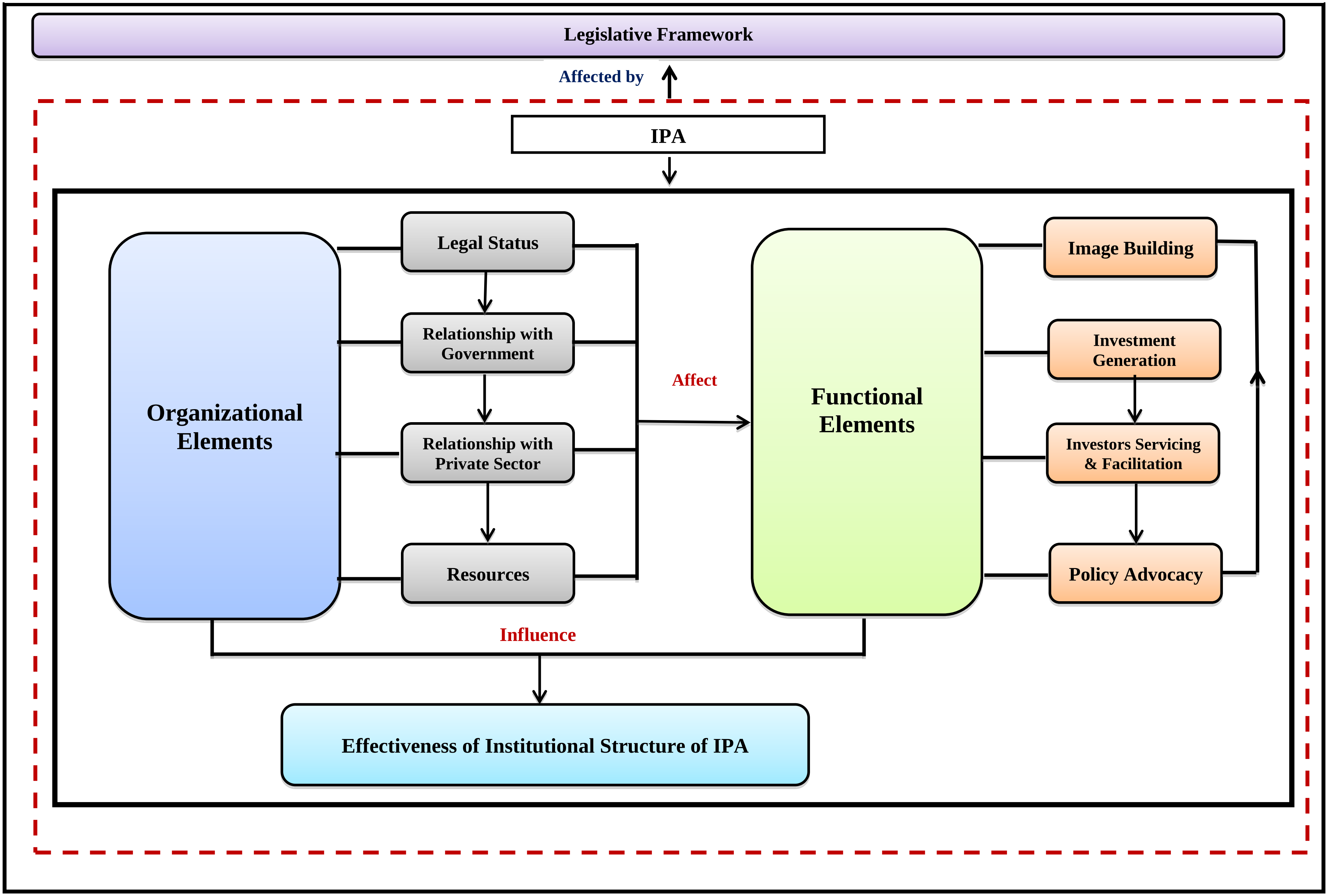
The relationship with the private sector sturdily affects the investors' perceptions about the IPA, since it enables the IPA to identify and understand the obstacles of investment from the investors' perspective, which would in turn empower the IPA to play a tougher role in policy advocacy supported by the private sector. It also contributes in fostering a business like culture, away from rigid bureaucratic nature of governmental institutions.

Moreover, the human and financial resources are greatly affected by the degree of IPA linkage to the private sector. For example, the private sector could offer funds to IPA budget, and hence contribute to maintaining adequate financial resources, which will in turn allow for attracting qualified skilled caliber to the IPA. This will positively affect carrying out the promotional functions.

Also, the functional elements affect each other. For example, focusing on investors servicing and policy advocacy functions directly influence the image building. In addition, prioritizing efforts towards the country's "image building" lead to investment generation.

Hence, both organizational and functional elements determine the extent to which the institutional structure of the IPA is effective. Furthermore, the legislative framework in which the IPA operates directly influences the IPA and the effectiveness of its institutional structure.

Figure (4): Conceptual Map



Source: Author Constructed

Chapter Five:

Methodology

This chapter describes the methodology used in this research. The first section details the approach used, followed by a second section that outlines the data sources, sample design and data analysis techniques.

I. Methodology

In order to understand the extent to which GAFI is enabled to fulfill its mandate as the national agency in Egypt responsible for investment promotion, a qualitative methodological approach of a single case study analysis is applied. The selection of the case study is based on the fact that GAFI is the only IPA in Egypt, and is considered the executive arm of the Ministry of Investment (MoI), responsible for executing the MoI strategy in promoting and facilitating investments.

As for the limitations of the study, although the research increases the scope of knowledge about IPAs in general and provides a more clear understanding of the dynamics of investment promotion in Egypt in particular, its findings are only country limited and cannot be generalized to other IPAs worldwide, due to the methodological limitation inherent in the case study approach. The resistance of interviewees to disclose information about the budget allocated for promotion and their financial operations with regards to its different activities was another study limitation.

II. Data Collection

The research depends on both desk research and primary data. The desk research is gathered through a dynamic and critical reading of the existing investment laws, in addition to reviewing other relevant laws, executive regulations, decrees, governmental documents, books, and literature in the form of national and international reports and studies. Whereas, collecting primary data was through conducting a number of in-depth, semi-structured interviews with a purposeful sample.

III. Sample Design

This research uses a purposive sample of nineteen interviewees. Interviews were conducted during 2016 between the period of 30 May and 3 August 2016. Each interview took between one to three hours, and the identity of the interviewees remains anonymous. The sample included current and former officials in GAFI, Ministry of Investment, Ministry of Planning, Monitoring and Administrative Reform (MoPMAR), in addition to affiliates to the Ministry of Industry and Trade. The following part encompasses the rationale behind selecting each of these units for analysis.

a. The General Authority For Investment and Free Zones

GAFI is the main unit of analysis and the case study of this research. The sample includes interviews one of GAFI's current Senior Management, which comprises of a CEO and 2 deputies, former chairmen, board members from private sectors, and senior officials from different functional departments inside GAFI. Interviews were conducted to provide the researcher with a clear understanding to the agency's main functions, especially those related to image building, investment generation, policy advocacy and services provided to investors at different stages. It further helped explore the intra-governmental relationship between GAFI and other concerned ministries and authorities, in addition to the degree of influence the private sector has on the decisions taken inside the agency. Moreover, it allowed the researcher to investigate the effect of the new investment law on GAFI’s functions and operation. Therefore, 14 interviews were conducted with:

- GAFI’s Management Official
- Two Board Members
- Two Senior Promotion Officials
- Senior OSS Official
- Senior Policies Official
- Senior Dispute Settlement Official
- Five Functional Officers
- Researcher in the Management Office

b. Ministry of Investment

Interviews were aimed at examining the relationship between GAFI and MoI, how this relationship affects the private investment, the perception of MoI towards GAFI in light of the new law, and how MoI supports GAFI. Hence, two interviews were conducted with:

- Senior Official at the Ministry of Investment
- Current Assistant to Minister of Investment

c. Other Ministries and Agencies

Interviews were conducted with government officials from the MoPMAR, and affiliates of the Ministry of Industry and Foreign Trade, namely the Industrial Development Agency (IDA), and the Industry Modernization Center (IMC), to cross check whether the new law gives the right mandates to GAFI, and to further examine the relationship and level of cooperation between GAFI and these ministries and shed light on how these relationships affect private investment in Egypt. Three interviews were conducted with

- Senior Official at MoPMAR

MoPMAR coordinated with GAFI in promoting for investment opportunities during the EEDC and is the responsible ministry for preparing the investment chapter in the State budget. In addition, the selected official also served as Former Principle Deputy Minister at MoI, therefore he was included in the sample to explore the dynamics of issuing Law17/2015 at MoI. His two titles will be used simultaneously in the research.

- Former Chairman of IDA.

IDA is considered one of the powerful agencies and main players in facilitating investments, since it is considered an authority with jurisdiction over lands and also grants industrial licenses. Therefore it is a decisive agency with regards to obtaining licenses from the OSS.

- Senior Official at IMC.

IMC is supposed to work with GAFI on promoting some industries and offering services to the investors.

IV. Data Analysis

The primary data collected through the semi-structured interviews was thematically analyzed based on specific elements that are provided in the conceptual framework. Other secondary data obtained from investment laws and executive regulations were critically analyzed. Data triangulation is used in this research by obtaining the data from interviews with former and current different hierarchal levels inside GAFI and other governmental ministries and agencies. Using data triangulation allowed for cross- checking and validating the findings of this research. Based on thematic analysis, the data emerged from both primary data and desk research was synthesized together to provide clear and deep understanding of the different characteristics that shape the structure of GAFI and impact its effectiveness.

Chapter Six:

Legislative Framework and Institutional Analysis of GAFI

This chapter presents the discussion and analysis of the field of investigation according to the methodology stated earlier in Chapter Five. It is divided into two sections; the first tackles Law No. 17/2015, the current legislative framework that governs the structure and functions of GAFI. It specifically lays emphasis on the new amendments added, with the aim of empowering GAFI and giving it tools to attract investors and promote investments. Whereas, the second section encompasses an institutional analysis for GAFI, with discussion over its organizational and functional elements, which according to the existing literature on investment promotion, constitute the structural potential of any IPA that can in turn devise its efficiency in acting as a country's national IPA.

Both sections answer the main research question; "To what extent do the structure and legislative framework of GAFI enable it to perform its role as the national Investment Promotion Agency of Egypt?" They further help in identifying the gap between the actual and desired performance of GAFI, enabling the researcher to come up with recommendations for policy-makers in order to close the implementation gaps between laws and practice and enable them to formulate policies and adopt better mechanisms that contribute positively to the investment environment in Egypt.

I. Law No. 17/2015- Current Law In Force

The circumstances within which the new legal framework came to light are worth highlighting. Investment Law No. 17/2015 came out together with the Civil Service Law

No. 18/2015, in March of year 2015, just one day before holding the Egypt Economic Development Conference (EEDC) in Sharm el Sheikh. The main target was sending a message to investors that Egypt's government is committed to administrative and economic reforms by curbing bureaucratic inefficiencies and solving the investment hurdles. Therefore, Law No. 17/2015 introduced additional guarantees (Figure 5), and a bundle of substantial amendments to the preceding Investment Law No. 8/1997, seeking to attract more foreign investments. However, these amendments instead, sparked controversy among lawmakers and economic circles, pertaining to its philosophy and adopted means for promoting and attracting investments.

Figure (5): Guarantees Offered by Law No 17/2015

- Ensuring equality between local and foreign investors in the right of owning land.
- Transferring of net profit, capital and wageworkers abroad.
- Solving investment disputes through means previously agreed upon with the investor or by arbitration.
- Introducing new mechanism for disputes settlement between the government and investors through a ministerial committee.
- Stipulating the necessity to prove criminal intent to accuse the legal representative of the company in crime according to investments acts.

Source: Author Constructed

This section addresses the philosophy of introducing Law No. 17/2015, through focusing on the main themes that summarize its newly provided additional guarantees and incentives. In addition, it also discusses some of the tools assigned to GAFI in light of these new amendments, whereas examining their feasibility will follow in the second section. The main themes are depicted in the following;

a. Giving More Tax and Non-Tax Incentives

The first key aspect in Law No. 17/2015 is based on offering more incentives, both tax and non-tax, to investors. Tax and custom incentives were limited to a 50%

reduction in sales tax[6]on machinery and equipment necessary for production that would later be repaid when submitting the first tax return, in addition to dropping the customs duties on equipment used for production from 5% to 2%[7]. Nevertheless, more non-tax incentives[8], such as low energy prices, subsidizing technical training programs for employees, allocating lands at reduced prices, and reimbursing investors with costs paid to get necessary utilities would be provided by GAFI, upon permission from the Cabinet of Ministers, in a period that does not exceed 30 days from the investor's application request. These incentives are limited to projects that are either labor-intensive, or raise the proportion of local content in the final product, or work in certain fields[9], or projects that are located in remote and deprived regions[10]. The law further grants GAFI punitive authority that permits it to penalize the companies that violate the provisions of the law by suspending, reducing, or terminating the exemptions and incentives they are enjoying[11].

There are two main problems to illustrate with these articles; the first is legal, it lies in violating a firm constitutional principle that taxes and exemptions should be applied by law, and not by administrative decrees, even if it comes from the Cabinet. Therefore, the authority given to the Cabinet and in turn to GAFI, for granting incentives and exemptions or amending their decisions, is not based on a solid legal foundation and could easily be challenged. The second problem relates to the application. While, Article

---

[6]Sales tax is set at 5% rather than 10%

[7]Article 23 of Law No. 17/2015

[8]Article 20 (bis) of Law No. 17/2015, and article 36 in the Executive Regulations

[9]Fields specified are Logistical Services; Internal Trade; Energy (production, transmission, or distribution of whether conventional, new or renewable energy); Agriculture; and Transportation (land, maritime, or railway).

[10]A full explanation for each kind of these projects is offered in the Executive Regulations; Article 36

[11]Article 93of Law No. 17/2015

93 empowers GAFI by giving it punitive authority, and is perceived as "*very important to deal with blatant violations*" (GAFI Senior Management Official, July 2016), exercising these punitive powers by the Cabinet and GAFI without setting clear basis and guidelines opens a door for corruption, and does not ensure against unfair preferential practices. However, it is argued that, "*as long as GAFI has a BoD with majority from business people and not government representatives, this authority would not be misused. The penalties would only be applied in extreme cases, where GAFI is desperate with investors*" (Board Member 1, July 2016). It also shifts GAFI's role to a regulator rather than a facilitator.

Another important point to highlight is the use of incentives as an important tool for promotion. Former Principle Deputy Minister of Investment argued that, "*without incentives, the country would be imposing certain locations, industries, or sectors for investment, not promoting them*" (August 2016). Yet, the incentives offered in the law were perceived unsatisfactory for attracting investors, for instance, a Senior Management Official in GAFI viewed that "*investors mainly invest in a location because of the tax incentives, and non-tax incentives provided in the law are just ineffective"* (July 2016). This view is likely correct, since the law encourages investments in deprived and remote areas, which are mostly inaccessible and short of basic utilities and infrastructure, thus incentives in certain locations need to be sufficient to catch the investors' interest.

Furthermore, the Former Principle Deputy Minister of Investment stated that, "*the general mood of the government and the country back at the time of issuing the law was against offering tax incentives. Frankly speaking, the MoI asked for it, but the Ministry of Finance refused*" (August 2016). This statement shows that the government choice to the type of incentives is not in line with a promotional direction and is shortsighted. *"If tax incentives are designed in a correct manner, both the investor and the country will benefit*" (Researcher in the Senior Management Office, July 2016), since these incentives will directly maximize the profit margin of the investor and will serve the State's development plan through investors improving infrastructure and extending services to the deprived areas.

b. Facilitating Exit Procedures

Another amendment in this law relates to shortening the lengthy procedure of exiting the market, where the law[12] binds the concerned authorities once receiving the liquidation request to notify the investor with any pending obligations within a maximum period of 120 working days. If the said period passes without the investor receiving any notification, then it is considered an automatic release of any liabilities.

This amendment would positively contribute to promoting and attracting investments to Egypt, since it provides the investor with a guarantee for free exit from the market without restrictions or lengthy processes.

c. Expanding the Scope of Work of the One Stop Shop

The third aspect of these amendments comprise the scope of work of the OSS, which now extends to the announcement of the state-owned lands that are available for investment, and the issuance of operating licenses; two ideas, in which each is fraught with legal and practical difficulties that cannot be overlooked.

- **Land Allocation**

Land allocation has always been described as a huge problem and concern to

[12]Article 60 (bis)

investors and investment in Egypt. Therefore, the amendments dedicated a full chapter, from 13 articles[13], to govern the disposition of land and real estate, in which it identified several flexible mechanisms for their provision to investors, such as allowing the sale, lease, or lease-to-own agreements of land and real estate, and giving investors the right of usufruct up to 30 renewable years. The law also grants the government the right to directly allocate state-owned land to certain "developmental projects" for free for a period of five years. Accordingly, GAFI is given more power in this process of land allocation, as the right to postpone full or partial payment of price by investors, in case of sale agreements, until the actual operation of their project takes place. Also, by this law GAFI is the only competent body in charge of offering lands as per the mentioned forms. Therefore, all governorates and administrative bodies with authority over lands are obligated to provide GAFI with full details and maps for lands that are available and ready for investment.

Despite being perceived as accommodating to different investors' needs, and a commendable step towards solving the land allocation problem by putting it under the control of a single entity, yet its applicability remains challenging due to the multiplicity of administrative bodies with authority over jurisdiction and pricing of lands. For instance, there are 4 main authorities that have jurisdiction over lands, namely the New Urban Communities Authority; Industrial Development Agency; General Authority For Tourism Development; and the General Authority For Reconstruction Projects & Agricultural Development, in addition to the 27 governorates, where each has a number of lands that can be allocated to investors. Each of these four agencies was responsible

[13]Articles 71-83

for pricing its lands, in accordance to technical and financial criteria and had its own regulations with respect to the disposition and allocation. However, Law No. 17/2015 abolished the law of Tenders and Bids[14], which was governing the process of land allocation and only pointed out to disposition. It further identified other four agencies responsible for pricing[15], without elaborating on the coordination mechanisms between the different agencies. Also, the fact that these new amendments were imposed, without coordinating with these concerned administrative bodies, requiring them to substitute systems and regulations that were already being applied makes the enforcement of these new aforementioned provisions more challenging.

Additionally, the law gives GAFI the authority to give away the state-owned lands and real estate for free or at a discounted price, up to 50% less than its estimated value[16], even when investors are competing to purchase them. It also creates a new system of lottery to replace the previously applied system of the Egyptian Tenders and Bids Law[17], in case of an excess demand for the lands available for investment. These extensive powers may provide a fertile ground for corrupt practices to thrive, and open the gate for favoritism that will cast doubt upon the entire process of land allocation.

- **Licensing**

As mentioned in Chapter Five, the OSS already exists. However, since the beginning of its application, the OSS has been fraught with practical constraints in regards to licensing and land allocation, which prevented it from being a fully functioning system. Therefore, the main idea behind the amendments added in this area is to expand

[14] Article 71

[15] The General Authority for Government Services; Egyptian General Survey Authority; High Committee for Appraisal of State Lands; and New Urban Communities Authority

[16] Articles 74 and 79

[17] Egyptian Tenders and Bids Law No. 89/1998

the scope of work of the OSS to become functioning beyond the phase of establishing new companies. Accordingly, Law No. 17/2015[18] stipulates that GAFI issues all the operating licenses and approvals required to start and run businesses in ‘specific investment domains’, which are to be determined through a presidential decree, that shall also stipulate the mechanism and procedures of direct coordination between GAFI and other concerned entities. Also, for the second time, the law excludes the use of the Tenders and Bids law, in cases where investors’ requests exceed the licenses available. Rather, it states that a selection should be made in a transparent manner, in accordance with the criteria specified by GAFI’s Board of Directors[19].

The problem with these provisions lies in their ambiguity sometimes and their consequences in other times. After nearly one year and a half from issuing the law, no presidential decree is issued to identify these ‘specific investment domains’, for which the OSS is to be applied. Whereas, the Executive Regulations, issued by the Prime Minister[20], listed 11 fields with over 30 different investment activities, stating that GAFI is to release a guide for each activity. These guides shall indicate all the documents and fees required by the different concerned entities, and which ought to be submitted by the investors to GAFI, for obtaining the necessary licenses, approvals, permits, and contracts. Consequently, GAFI is committed to act on behalf of thousands of investors seeking operating licenses, which would turn GAFI staff into investors’ agents, dealing with the entire State’s administrative apparatus, from ministries and their agencies to governorates and its local councils.

---

[18]Article 51 (bis)

[19]Article 54 in law and article 20 in the Executive Regulations

[20]Prime Minister’s Decree No. 1820/2015

This makes it an idea, nearly impossible to execute without major reforms in the licensing regimes and a prior coordination between GAFI and the different licensing entities, as confirmed by one of the board members, saying:

> *by designating yourself the issuer of operating licenses, you did a bottleneck. You compiled all the bureaucracy to your end and you still cannot issue the licenses. You created a backlog and you don't have the capacity to handle it*. (Board Member 1, July 2016)

Furthermore, in case of having multiple investors competing for the available licenses, the Executive Regulations lists only three criteria[21] that do not necessarily ensure transparency or guarantee against favoring one investor over another. It also does not refer to a mechanism to follow, in cases where competing investors similarly meet financial and technical requirements.

d. Setting a Legal Framework for Dispute Resolution

Dispute settlement is another important aspect that had considerable attention in the law, through adding a new chapter of 10 articles that creates three committees to deal with disputes. The idea from this amendment is introducing a new mechanism for out-of-court forums, where an amicable settlement of investment disputes with the government takes place, before investors resort to litigation and arbitration, where time-spent and damages are usually high.

The three committees offer different levels for resolving disputes; the first is the 'Complaints Committee', which reviews any challenges submitted by the investor against GAFI administrative decisions, relating to the implementation of the Investment Law and

[21] Article 20 – Criteria are the investment costs for the project; Past Experience; and Technology Used.

its executive regulations. The decisions of this Committee shall be made within 60 days from the date of submitting the challenge, and shall be final and binding on GAFI but not on the investor. The law also stipulates on the creation of a ministerial 'Committee for Resolution of Investment Disputes', in the Cabinet of Ministers, nonetheless its technical secretariat is present inside GAFI and chaired by the Minister of Investment. The Committee is mainly concerned with disputes that arise between investors and any governmental body in connection with the implementation of the Investment Law. Similarly, another 'Committee for Settlement of Investment Contract Disputes' is formed to decide upon any disputes arising from investment contracts to which the State or any of its affiliates is a party. The decisions of both Committees shall be binding to all governmental parties, but again not to the investor, who still reserves the right to initiate the claim again through resorting to state courts or arbitral tribunals.

Although the decisions of the committees shall be binding on all parties involved in the dispute, the effectiveness of these decisions depend on the enforcement mechanisms and the level of the commitment of administrative bodies; both of which are still unclear. Other than that, the gradation and multiplicity of dispute resolution methods is considered a strong advantage in this law and a powerful tool to GAFI. On one hand, it provides the investor with several alternatives to resolve any problems, before going to courts, arbitration, or even the Ministerial Committee of the Cabinet by turning first to the technical secretariat in GAFI. On the other hand, it strengthens the promotion and facilitation role of GAFI, which plays the mediator role between the investor and different governmental entities, regarding itself the lawyer of the investor and thus supporting him until he accesses his rights. And this itself is a powerful promotional tool in terms of image building, as a current Senior Official in MoI stated that, *"this technical secretariat is considered GAFI's entry point in regaining the investors' trust back, as playing a role in settling their disputes provides them a practical proof on the government seriousness in enhancing Egypt's climate and procedures"* (July 2016).

Moreover, there is a clear conviction among officials in GAFI and MoI, that local investors are the real advocates and ambassadors who will help GAFI to internally and externally promote to its self. Therefore, resolving the local disputes according to the current mechanism is *"one of the powerful tools with which GAFI helps investors during their operating phase*" (OSS Officer 2, May 2016).

e. Enhancing the Promotion Role

The final theme reflecting the philosophy of these new amendments can be inferred from stipulating the creation of a "National Center for Developing and Promoting Investment", as an independent division, located inside GAFI[22]. It indicates the need for separating the regulatory and promotional functions of GAFI, with the aim of enhancing the later. Despite being a commendable idea, the method of its implementation provided in this law is vague, confusing, and not well thought out.

Regarding its structure, the law states that the Center shall be an independent division inside GAFI, and have a president, of high-executive cadre, to be appointed by the Prime Minister. First,

> *This notion of 'independence' is not clear. Usually, the term is used in reference to a pressure being exercised on an entity or a person, which necessitates independence. It does not make any sense that the BoD, which is mandated with*

[22]Article 96 of Law 17/2015

promoting investments, would hinder the work of the new independent Center with regards to its promotional duties. (Board Member 2, July 2016)

Separating between the functions of regulation and promotion is understandable and valid, but this state of 'independence' is not clear with regards to whom the Center is independent from. Second, the whole idea of initiating The Center violates the administrative norms and protocols in force, because according to these amendments, a division inside GAFI would have a president with an administrative rank that overrides that of the Authority's CEO and BoD. The law gives this president the right to issue the internal bylaws and executive decisions related to financial, technical, and administrative matters of the Center, without approval from anyone in GAFI, which supersedes the role of the Board of Directors, even though the president of the Center is one of the board members. Additionally, there are other obstacles related to performing its mandates, however they will be highlighted in the following section discussing GAFI's institutional analysis.

This section tried to present an objective analysis of the features of Law No 17/2015, summarized in Figure (6), focusing on some amendments that directly affect the work of GAFI and the investment climate as a whole. The analysis reveals that, although the objective behind enacting this law is to restore investors' confidence in Egypt's business environment, however it resulted in adding more ambiguity, due to vagueness of some provisions, doubtfulness regarding enforcement mechanisms, and uncertainty about proper coordination between the different governmental entities.

Moreover, looking at what the law offers at each business stage shows that it did not offer much to the investor. For example, the entry incentives, which are considered a strategic tool for attracting and promoting investments, were not tactically designed according to a clear methodology, which in turn questions their effectiveness in attracting more FDI and in contributing to the country's growth and development objectives. Similarly, its provisions did not offer real, new improvements to simplify procedures or accelerate processes and transactions with regards to the land allocation and license obtainment systems. Therefore, the law does not guarantee a smooth operating stage of business.

Figure (6) Features of Law 17/2015

- ✓ Permits the government to participate in investment projects, using state-owned land.
- ✓ GAFI has potential for giving free land.
- ✓ GAFI can provide land at reduced prices, at a discounted rate with a maximum of 50% of the estimated value of such land or real estates.
- ✓ GAFI has the right to terminate the land acquired if progress is not made with the project
- ✓ Creates a National Center for Development and Investment Promotion to be under the auspices of the Ministry of Investment.
- ✓ Shifts GAFI's role towards a regulator and takes the main promotion function from it.

Source: Author Constructed

Also, with regards to the system of exiting the market, it needs further reform in order to render Egypt more attractive to investment (Helmy, 2005). The law provided only one amendment to shorten a lengthy process relating to market exit, but still, full bankruptcy legislation that facilitates the exit process, and assures the potential investors that they can reallocate their resources whenever needed, is lacking.

The following section completes what this section has started through an institutional analysis of GAFI, which will further stress how significant legislative stability can be, in impacting the investment environment in general and the investment institutions in particular.

II. Institution Analysis

A. Organizational Elements

a. Legal Status, Mandate and Organizational Structure

Examining the IPA's mode of creation; whether established by decree or law, and institutional form; whether governmental; quasi-governmental; or private, are very important to emphasize at the beginning of any institutional analysis. They represent the legal foundation for an IPA, which directly influence its mandate and powers, and in turn its capacity to promote investments.

GAFI was established by a presidential decree No. 284/1997 to be the main governmental entity, in authority of regulating and promoting investments in Egypt, through applying the provisions of Investment Law No. 8/1997 and its superseding law No. 17/2015. Undoubtfully, the decree acknowledged GAFI's importance, giving it a solid legal foundation and a degree of autonomy that was further strengthened by the issuance of Law No. 13/2004, and presidential decree No. 316/2004, wherewith GAFI's role was redefined from a regulation-oriented to a more promotion and facilitation oriented agency, in addition its governance was strengthened, through appointing three deputies to the Chairmen, and expanding the number of its Board of Directors (BoD)[23] to include more private-sector representatives.

However, the latest amendment of Law No. 17/2015 has changed the governance mechanism of GAFI[24]. Instead of having an independent Chairman serving as a key communication channel between GAFI's supervisory BoD and the concerned Minister of Investment, the new law stipulates that the Minister of Investment chairs the BoD and a

[23]The Board included 13 membersin total, Chairman appointed by the President; 3 Vice Chairmen; and 9 private sector representatives and other experienced individuals, appointed by the Prime Minister
[24]Article 88 of Law 17/2015

Chief Executive Officer (CEO) manages GAFI; a change that will have adverse consequences with regards to GAFI's autonomy and positioning in the government, and which will further be discussed in detail.

The consequences of this amendment demonstrate how significant the mode of creation is, and how it is often indicative to the amount of power an IPA holds and the degree of support it gets from other governmental entities. That is especially true because decrees are often weaker than laws, since they may simply be modified, overturned, or even dropped with any altering in governments or policies. In GAFI's case, since the decree whereby it is created has less legal power than a law, its capacity as an effective IPA that is able to take dissuasive and proportionate enforcement actions may be hindered by the maze of existing laws, in case these enforcement actions conflicted with any other existing law. Thus, in the case of GAFI, its capacity to carry out its promotional role effectively will be defined by the degree of political consensus among ministries over its importance as an IPA, and contingent on the amount of support it gets from other governmental agencies.

- **Mandate**

As previously discussed, GAFI has a broad mandate, which is further reflected in the large number of functional divisions it has. The extensiveness of these mandates and their different natures require GAFI to wear many hats; a hat of a regulator as an administrative body supervising investments that also has some jurisdictions of an oversight nature; a second hat of a promoter and facilitator, carrying out promotional activities and offering services to investors; as well as, a hat of a punisher in other times, with an authority to reduce the tax exemption given to companies that violate the law and regulations. Interviews indicated that playing these numerous roles overburdens GAFI's staff and adversely affects carrying out the main promotion function, leading to a poor performance from GAFI as a facilitator and promoter. A Senior Management Official in GAFI stressed this saying: "*We are being absorbed in our role as a regulator, which makes us drift away from promotion and facilitation*" (July 2016). Moreover, Board Member 2 declared that, "*the Board hardly finds time to discuss promotion in its meetings*" (August 2016).

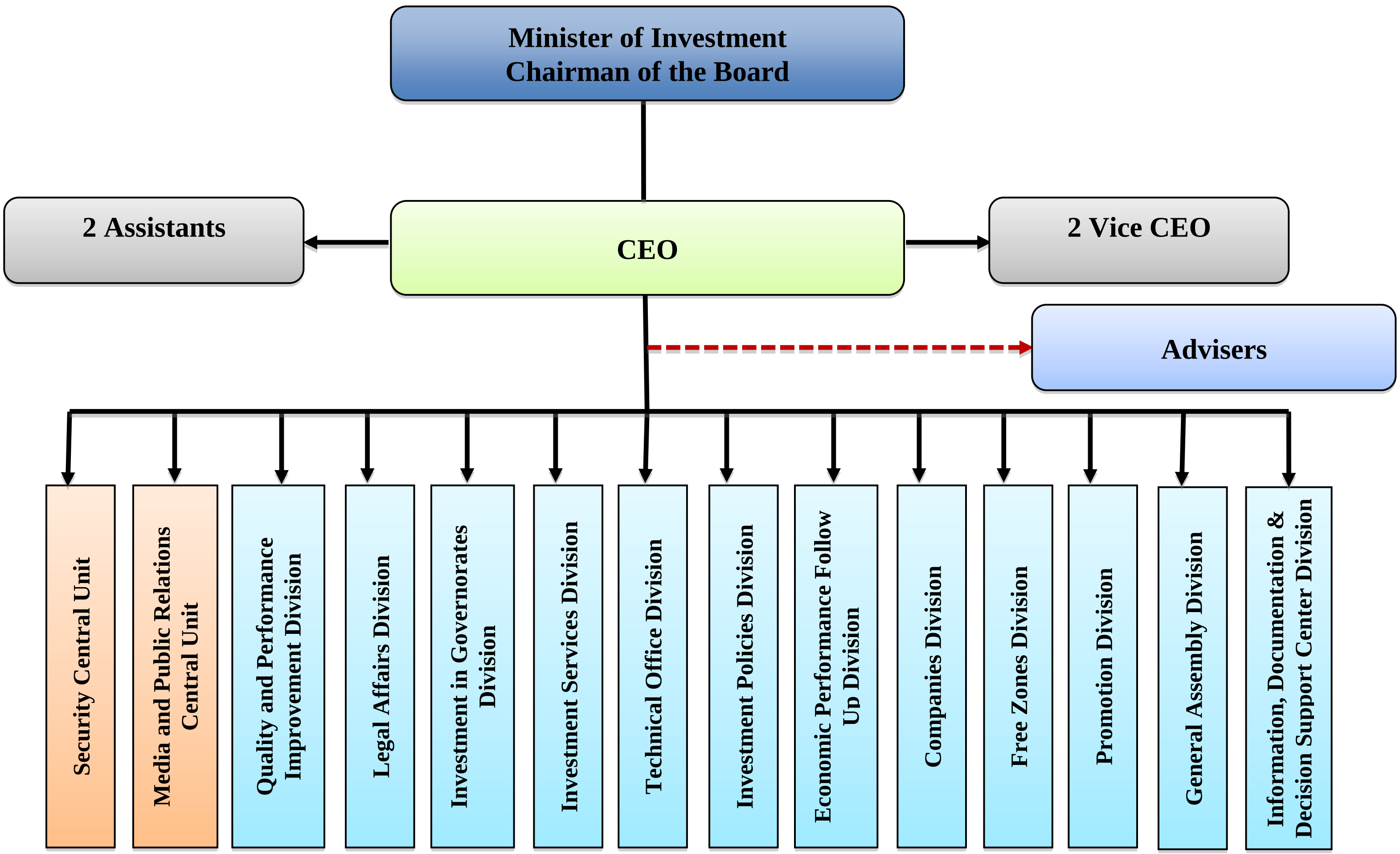
Additionally, it is important to point out that, although the new law stipulated on creating a "National Center for Developing and Promoting Investment" to avoid overlapping responsibilities and allow effective coordination, yet it has not been created or shaped despite the passage of one and a half years on issuing the law. The same division in GAFI is still carrying out the promotion role. This delay in enforcement supports the assumption that this law came with amendments that were not well thought of, especially with regards to implementation. It further reflects that investment promotion is not on the top of the government's priority list and questions the intentions of the government towards it. Another point to highlight is the reporting mechanism of the Center. According to the new law, the Center reports to the Minister of Investment and not the Prime Minister, which again does not strategically serve in positioning the Center favorably among other governmental counterparts.

- **Organizational structure**

GAFI's current structure is composed of a Board of Directors headed by the Minister of Investment, a CEO, two Vice CEOs, and two assistants for the CEO. The

Authority is organized into 12 functional divisions [25], with central and general departments underneath each. The following chart provides the general organizational structure of GAFI.

Figure (7) GAFI's Organizational Structure



Source: The author; based on interviews with employees at GAFI, 2016

[25] Technical Office; Quality and Performance Improvement; Free Zones; Promotion; Investment in Governorates; Investment Services; Investment Policies; Information, Documentation and Decision Support Center; General Assembly; Economic Performance Follow Up; Companies; Legal Affairs. In addition to a Media and Public Relations Central Unit, and a Security Central Unit.

b. IPA's Relationship to Government

Now that the legal structure and organizational chart are outlined, the political positioning of GAFI in the government and how it is perceived among its counterparts can be looked over in more depth.

GAFI has previously been an affiliate to MoI, nevertheless it reported directly to the Prime Minister. It was also designated an autonomous agency, in terms of having an independent budget, and an independent board of directors, responsible for everything related to the Authority's financial, administrative and technical matters, including its organizational structure, internal regulations, executive resolutions and so on. This autonomy has given GAFI an advantageous position among other governmental institutions and leverage among all ministries. Abolishing this state "*downgraded GAFI, and put it in an inferior position among other government agencies*" (Board Member 1, July 2016).

Although, it's often argued that the presence of a minister is essential for moving things forward, setting a national policy for the State with regard to investment, and identifying an economic direction, and despite the importance of all these objectives, nevertheless, they can all still be achieved without breaching the autonomy of GAFI. In fact, decreasing the degree of this independence would be impeding to GAFI with regards to performing its facilitation mandate, since an additional layer is created between the investor and GAFI for instance,

> *having a CEO, instead of a Chairman has stripped a large portion of GAFI's powers in favor of the Ministry, which in turn strips the delegated authority that was granted to some heads of divisions. This would complicate and slow things,*

since the minister has become the ultimate decision-maker and it would be difficult to regularly reach him. (OSS Officer 2, May 2016)

Beside the degree of autonomy, the effectiveness of GAFI directly depends on the quality of political relations it has with other ministries and agencies and on their perceptions towards it as an IPA. Interviews show an enormous weakness in mutual relations. Coordination between GAFI and different ministries only takes place when there is an urge, and is often limited to matters of high priority to the Country's leadership. However, when it comes to boosting promotional efforts, both the coordination level and mechanism need extensive enhancement. For example, a researcher in the Senior Management Office revealed that,

there is a sort of good collaboration between GAFI and different government official regarding 'improving the business climate', because it's a prime issue for the Presidency right now. Nonetheless, ministries are completely uncooperative when it comes to mapping the investment opportunities. (July 2016).

GAFI ascribes this lack of coordination to the fact that "*government officials do not communicate with each other, and do not want to share or convey information*" (Senior Management Official, July 2016). On one hand, this can be attributed to the differences in cultures and mentalities; a culture of service versus a culture of enforcing rules, which is further reflected in the mentality "*between GAFI as a facilitator and other agencies as regulators and implementers of law*" (OSS Officer 2, May 2016). On the other hand, it can be attributable to power-relations between ministries and agencies, or from perceiving GAFI as a competing or threatening entity that aims at absorbing their mandates, for instance OSS Officer 1 stated that, *some agencies will never accept or allow GAFI to have an upper hand over them or take any of their duties. These agencies depend on their institutional strength, in terms of being founded by a presidential decree or having a strong chairman who is connected with high-level decision-makers in the State.* (May 2016).

Another illustration is given by the Former Chairman of IDA, who referred to a stressed relationship between the two institutions that dates back to 2005, the time of founding IDA, saying: "*IDA was created with deliberate intent to be merged later with GAFI, similar to the Companies' Authority, which was merged with GAFI in 2004. However, with a strong Minister of Trade and Industry back then, this move was resisted*"(August 2016). This example explains the resistance that some agencies hold against GAFI, driven by fear that it becomes an umbrella agency that would absorb their power. It also reflects the influence of the power relations among strong ministries in the government.

Furthermore, there is a perception among some government officials that GAFI is a valueless institution to them or an incompetent one in providing certain services. A Senior Official at IMC[26] stressed that, "*GAFI has an unclear mandate, which does not show how it complements other agencies"* (August 2016). Additionally, on the ground, it does not provide them with any sort of support. This reveals a missing link in the chain between FDI and domestic investment. Likewise, the relationship between GAFI and an important Ministry like MoPMAR, which plays the most important role in the process of outlining developmental plans, is limited to mutual collaboration for holding conferences or collecting data for outlining strategic documents like the Sustainable Development

[26]Industrial modernization Center focuses on supporting the industrial enterprises and works with GAFI in the matchmaking program.

Strategy (SDS); Egypt Vision 2030. Principle Deputy Minister of Planning stated that in preparing the national plan for social and economic development, MoPMAR sometimes need studies on certain industries or sectors. However, they don't consult GAFI, because it "*is mainly an executer and a regulator. Its promotional role is trivial and it promotes for sectors, lacking vision and strategy*" (August, 2016). Instead, MoPMAR resorts to multinational corporations and specialized private sector companies.

Having an effective OSS, that assists investors with licenses services, is an idea that has stumbled in execution. In investigating the reasons, Former Chairman of IDA expressed high approbation to the idea of streamlining procedures and stressed that *"IDA doesn't want to meet investors"*, and affirmed that *"IDA had several meetings with GAFI's senior management to discuss activating the OSS. However, it was GAFI's management that clearly stated their shortage of qualified people to deal with the permits and licenses issue"* (August 2016). Moreover, it is claimed that, the new law gives GAFI a mandate it cannot fulfill and grants it undeserved rights, for example, Senior Official at IMC expressed his disapproval on the law, and his astonishment regarding the related articles wondering; "*How can GAFI grant operating licenses, when it is not qualified to do inspection and make sure that everything is in place? This is a sole right for IDA*" (August 2016).

This part reveals that Ministries and agencies are working in isolated islands. Their relationship is not systematic or based on an effective coordination mechanism. Efforts are fragmented rather than complementing and institutions' effectiveness is tied to the power and strength of each minister. Also, GAFI is imaged as an executer not as a promoter or a facilitator, and that's why, it is perceived a competitor instead of a complementing agency.

Developing high-quality political relations with government ministries and agencies is key to providing a real facilitation and high-quality services for potential investors, which would only be achieved through consensus on the important role of GAFI as an IPA that facilitates only and does not execute.

Therefore, autonomy would provide GAFI with a degree of insulation from the government and its conflicting relations. In addition, it would maintain its stability that can be influenced by continuous reshuffling of governments, which will in turn give it a greater chance for correcting any negative image and for positioning itself as a mediator between investment opportunities and different government ministries and agencies. These adverse consequences can also be minimized through a system of monitoring and accountability, where each agency has a clear mandate, knows its integrative role in the economic system, and is being held accountable.

c. IPA's Relationship with Private Sector

As much as the IPAs' relationship to the government informs the potential of an IPA to attract FDI and promote investment, its relationship with private sector and the degree to which they are involved within the IPA are often as important. In this part, three things are being examined; the representation of private sector in GAFI's Board; its effectiveness in terms of its participation in GAFI's functioning; and GAFI's linkage to other business communities.

The framework of connecting GAFI to the private sector is realized through incorporating private-sector representatives into the Authority's governance structure.

Ever since its inception, GAFI had a BoD that has constantly been private sector dominated. Today, eight out of 13 board members represent the private sector, including the Chairman of the Egyptian Federation of Investors Associations; Representative of the Egyptian Federation of Investors Association; President of the Egyptian Businessmen's Association; President of the Federation of Chambers of Commerce; Chairman of Egypt's Junior Businessmen's Association; Representative of the Federation of Egyptian Industries; Chairman of BanqueMisr; and a member with legal expertise. Therefore, when it comes to the representation, the private sector is definitely well represented. However, its effectiveness depends on its functionality in the Board, which in turn influences the effectiveness of GAFI.

Although the composition of the BoD is well thought out and inclusive to powerful business representatives, its effectiveness is debatable for many reasons. First, the board has been in limbo for 5 years; since the Revolution of 2011, the BOD meetings have not been conducted regularly. There have been changes in some members and five different ministers for investment have been in charge, where with each minister, the BoD starts all over again. Second, with every board meeting, members get stuck with administrative lots that need to be authorized and approved by the board, as reported by Board Member 1,*"the BoD time is consumed in approving administrative matters from all divisions"* (July 2016). Third and most importantly, there is an apparent difference in views regarding the role the BoD should play in GAFI between GAFI's senior management and executive board, on one hand and the members of board from the private sector on the other hand, for example, GAFI's management reported that the

> *private sector is well represented in the board by titles, but not by persons who are operative in its governance. Almost all of the members hold several top-level positions and have busy schedules; for example, when a sub-committee is formed inside the BoD, I cannot ask any of them to head it. I need more dynamic people who are involved in day-to-day activities* (GAFI Senior Management Official, July 2016).

Whereas, the board members consider themselves a consultancy board that works with the executive team in GAFI to offer advice and strategic directions, but are not supposed to get deeply involved in the execution matters. According to Board Member 1:

> *The members of Board have a vision and a wealth of experience in different fields, which they share with GAFI's management and executive team, and it depends on them to turn this vision into reality and use this shared expertise. If they are not going to use it, then they are useless.* (July 2016)

These reasons reveal that the real problem in GAFI exists in its mandate, which is "*very wide and confusing; is it a regulator or a promoter, or an entity that establishes companies, or manages the Free Zones? Being any of them is fine, but all of them is not*" (Board Member 2, August 2016).The Authority's overwhelming mandate is impairing the management from prioritizing setting a clear direction and a strategic vision to promote investments in Egypt. Furthermore, it accounts for the unproductivity of board meetings beyond dealing with administrative matters. Also, the variance in perspectives with respect to the role of the BoD, discloses the gap between governmental and business mindsets, which are not necessarily opposite, but they are different. It further uncovers the misunderstanding of roles pertaining to setting a strategy and executing it, where setting a strategy should mainly be concerned with where GAFI wants to go and how framing and guiding all of its decisions. That's why it is a sophisticated process that involves collecting and analyzing data, generating insights and identifying smart paths forward. Whereas execution is about, what activities to fulfill, steady follow up, and monitoring and evaluation. These roles here are not fruitlessly distinct, but rather integrated.

One thing here is left to point out, although different Chairmen had the same powers, not all of them exercised it in the same way. For example, in 2004, GAFI had a chairman from a private sector background. He appointed 3 deputies, also from private sector backgrounds and delegated authority to each of them. He realized the need for another board to deal with the regular administrative affairs, accelerate things up, and achieve progress. Thus, he used the power given to him by law and created a Board of Trustees to include representatives and chairmen of concerned and influential governmental entities such as IDA, Tax Authority, General Authority for Tourism Promotion, Federation of Egyptian Banks, Federation of Egyptian Chambers of Commerce and other organizations; representatives of Egyptian business associations; prominent businessmen; Deputy Governor of the CBE; in addition to others of legal and business expertise. Yet, the Board of Trustees ceased to function in 2010, and was never formed to assume responsibility afterwards. This emphasizes the importance of leadership, which realizes the challenges and does what it takes to efficiently achieve its mandates. As stated by a Senior Official 2 in MoI,*"the biggest challenge encountering GAFI is the absence of a competent administration that has a clear mission and vision. Whoever manages this authority needs to know exactly what he wants to do and where he* *wants GAFI to reach"* (June 2016**).**

Apart from the board composition, the institutional linkage of GAFI with the private sector is very weak or even nonexistent, although there are strong businesses communities in Egypt, with which GAFI can establish constructive relationships and enhance its overall performance. For instance, the American Chamber of Commerce in Egypt plays a powerful role in enhancing economic and investment ties between the two countries, through hosting all the American investors in Egypt and carrying out numerous throughout the year. Similarly, the Federation of Egyptian Industries regularly meets its counterparts in Europe and Arab countries. Also, there are many Chambers of Commerce and Business Councils that are very strong business-to-business communication venues, in addition to other Egyptian associations like the Egyptian Business Association and Alexandra Business Association, which are very active and professional bodies.All of these entities represent a robust linkage and offer strong communication venues to the private sector, "*however the relationship between GAFI and these organizations is not institutionalized*" (Board Member 1, July 2016).

In line with the evidence provided by Morrisset and Andrews Johnson (2004), establishing an operational framework for interaction between IPAs and private sector can positively contribute to increasing GAFI's credibility among foreign investors. It further enables the IPA to identify and understand the obstacles of investment from the investors' perspective, which would in turn empower GAFI to play a tougher role in policy advocacy supported by the private sector. Finally, it can help GAFI move towards a more quasi-governmental structure rather than a purely rigid governmental one, which would make it easier to adopt a business culture closer and more suitable to its promotional efforts.

Lastly, the research findings correspond with Wells and Wint (2000), in stressing that, “investment promotion is, in fact, more like activities typical of the private sector, particularly marketing…[that] requires a continuous liaison with the private sector” (p. 56). However, findings disagree with Morrisset and Andrews Johnson (2004), in considering that, “the higher the number of private members [in the IPA advisory board], the greater IPA effectiveness” (p.49). Interviews indicate that the number does not necessary reflect or guarantee enhancing the IPA’s effectiveness, but rather a clear mandate and a strong leadership do, because only then, the participation of private sector in the IPA functioning is guaranteed.

d. IPA’s Resources

Financial and human resources are a key indicator that determines the IPA effectiveness. Since the focus is on the role of GAFI as a promoter, the research only concentrates on the Promotion Division, where two elements are investigated as indicative to the amount of attention and support GAFI provides to its promotional and facilitation role and in turn denotes its effectiveness as an IPA. The two elements are the percentage of staff dedicated to promotion from the total number of GAFI’s staff and their qualification level, in addition to the size of budget allocated to promotion.

GAFI has a total of 2,391[27] employees working in all its divisions and branches across Egypt, out of which 97 employees are working in the Promotion Division. GAFI’s Promotion staff is mainly devoted for the image building and investment generation functions, in addition to providing after care and business matchmaking services. While

[27]The statistics provided in this section were obtained from GAFI and analyzed by the researcher.

the number of staff alone does not account for GAFI's effectiveness in attracting investment, however an only 4 percent of employees signify that the main attentiveness of GAFI is not given to its role as a promoter.

In addition, through examining their qualification level and wage policies, interviews indicated that GAFI is short of skilled people who can understand the business strategies of promotion or deal with foreign investors, for example, although the Central Promotion Department is internally divided by regions, a Senior Official in Promotion Division conveyed that he is *"suffering from the lack of language skilled staff inside the division"* (Senior Official 1, June 2016). Furthermore, a member of Board indicated that calibers are very weak inside GAFI, saying: *"a year ago, the BoD conducted interviews for job promotions, and most of GAFI staff and those who are working on promotion failed the exam*" (Board Member 1, July 2016). This lack of skill and expertise can be attributed to the poor wages provided, especially after the Revolution of January 2011, since "*the application of the maximum wage law has caused well qualified people to leave"*(Senior Official 1 in Promotion division, June 2016). It can also be resultant from the absence of a *"clear mechanism for human resource development for staff to be upgraded"* (Board Member 1, July 2016).

As for the financial resources, GAFI is considered one of the strong economic authorities in Egypt, which has a sustainable funding source based on fees charged for services provided to companies in the free zones. Its budget is always over one billion Egyptian pounds, and interviewees confirmed that GAFI does not suffer from any budget shortage, while, Board member 1 affirmed that "*GAFI is a rich agency that has now deposits amounting over 3 billion, with proceeds in dollars*" (July 2016), and a Senior

Official stressed that "*GAFI supported the government and the Central Bank of Egypt by over 1 billion Egyptian pounds in the past few years*" (Senior Official 1 in Promotion division, June 2016), there is no specified budget of the Promotion Division. Yet, there is a line item allocation in the budget for promotional activities, including advertising, publishing, printing, and PR costs, with an average of 22 million Egyptian pounds in the periods between year 2011 and 2015.

Still, these amounts, although reported sufficient and denotes a potential to attract FDI, do not necessarily indicate the effectiveness of GAFI as a promoter, since they are not allocated based on a program or by function.

B. Functional Elements

Now that the significance of GAFI's organizational elements, including its relationship with the government and private sector, are outlined above, the institutional analysis would be accomplished by putting emphasis on the functional elements as indicated in the conceptual framework. Therefore, the following part scrutinizes each of the four main IPA functions to explore how these functions influence GAFI's capacity to promote and facilitate investments and in turn attract more FDI.

Although the research primarily focuses on the 'Promotion Division', the four functions are carried out through other divisions as well.

a. Image Building

Image building is the heart of investment promotion, and which if carried out correctly, smoothens performing the three other investment promotion functions. It is simply a marketing activity meant to portray a country as a trusted investment brand and its investment climate as favorable. Therefore, it is fundamental for IPAs to give it considerable attention, especially in countries suffering from political and economic fluctuations like Egypt. Investigating this function, the research focused on two main elements; a strategy or plan being followed; and the tools utilized for achieving this plan.

After shifting its role from a regulator to a promoter, GAFI was very proactive in building the country's image. It followed a firm strategic approach to sell the country as an appealing location, through conveying structured and consistent messaging of Egypt's value proposition and economic reforms to prospective and existing investors. This can be inferred by looking at the FDI levels (Figure 2), which leaped from $2 billion in 2004 to $13.2 billion in 2008, in addition to the fundamental economic and legislative reforms, as well as institutional reforms with regards to GAFI that were witnessed in the period between 2004 and 2009. Additionally, during this period Egypt was named a top reformer for four consecutive years in the Doing Business Report, and was a top regional recipient of foreign direct investment. Nevertheless, this approach has weakened in the past few years and highly needs revisiting, especially with the aftermath of January 2011 Revolution.

Interviews revealed that GAFI has a strategy for targeting investments; however it does not have a clear strategy for building the image of Egypt. Even though, from an image-building perspective, investment promotion cannot be viewed standalone from promoting the entire country. Moreover, "*the political context and security situation of the host country always precede the investment decisions*" (Former Principle Deputy Minister of Investment, August 2016), and Egypt has witnessed many events that altered the political and economic landscape and undermined confidence in the Egyptian economy post 2011. All of these reasons require a competent IPA, capable of promoting

Egypt's image, and answering all questions relating to the political and security situation. Therefore, the approach of GAFI that "*is only limited to promoting certain sectors, but not promoting Egypt*" (Board Member 1, July 2016) needs to be reconsidered.

As for the tools currently used, they entail GAFI's website**,** where information about investing in Egypt is disseminated in an organized and consistent manner. However, information on how to start a business is only available in Arabic. In addition, the contact information for GAFI, and links to other governmental portals are also accessible on the website, along with monthly and quarterly bulletins, which are also not published in a regular manner; the last published ones date back to 2014.

Promoting abroad is another tool utilized by GAFI through cooperating with Egyptian embassies abroad, commercial representation offices, and Egyptians expatriates. GAFI has developed a cooperation program with the Commercial Representation at the Ministry of Foreign Affairs (MoFA) with the objective of holding seminars and meetings with diplomatic and commercial attachés, where "*the promotion division usually meet the newly appointed ambassadors and present GAFI promotion officers, in charge of the countries they are heading to, in order to facilitate future cooperation together in attracting prospective investors"* (Senior Official 2, Promotion Division, June 2016). The Authority is also keen on opening communication and dialogue channels with Egyptian expatriates, through participating in the annual 'Consular Tours'[28] to communicate the latest country reforms and promote investment opportunities to them. GAFI also works closely with a contracted international PR agency to assist it in organizing conferences, seminars and promotion missions and do the

[28]These are annual follow-up visits arranged with MoFA to meet with Egyptians abroad.

necessary advertising.

While, all of these efforts and forms of cooperation are important and shall contribute positively to promotion efforts and FDI levels, they still need to be guided by a clear image or identity that the government wants to brand Egypt for, in order to increase the effectiveness of these efforts. Furthermore, they are counted conventional, old tools, despite having the opportunity to use more innovative tools, for example "*Egypt has held an International Economic Conference in 2015, in which a lot of world leaders and biggest international economic institutions attended. However, it did not build on its momentum to strengthen the country's image"* (Former Principle Deputy Minister of Investment, August 2016).

The distracted performance on this function can be attributed to the different roles GAFI plays, which impedes it from prioritizing promotion and therefore, its basic functions. Another reason could be the revealed lack of consensus among the governmental ministries and agencies on the significance of GAFI's role. Most importantly, the absence of a clear economic vision for the country as Board Member one expressed "*If we don't have an economic vision, then what are we promoting Egypt for?"* (July 2016). All of these reasons stress the need for "*an entity dedicated to promotion with different sectoral focuses, yet promoting one image for the country*" (Former Principle Deputy Minister of Investment, August 2016).

b. Investment Generation

Investment generation is regarded as a more focused, strategic technique that is adopted by IPAs worldwide. It is intended to draw FDI in higher quality and quantity, and should also help the country to attract investments in sectors that will serve and enlarge the impact of its economic development objectives.

GAFI acts as an investment generator by following a sector-focused approach in promotion by targeting 13 sectors[29]. Initial information on each sector is available on GAFI's website, including Key Performance Indicators (KPIs), sector assessment, growth drivers, and market structure. In addition, the socio-economic importance is displayed in summary. There is also an 'investment opportunities' section under each of these sectors, listing a number of projects with details on the allocation mechanism and the authority in-charge for each.

However, GAFI's targeting strategy does not seem tactically well defined. On one hand, the number of targeted sectors, already identified and placed on GAFI's website, is huge for an effective targeting strategy. Also, there is no indication for any specific investment opportunities under nine out of the 13 target sectors. It can be understood that choosing 13 different economic sectors is aimed at reflecting the broad range of economic activities in Egypt, where investors can invest in. However, a fewer number would maximize the probability of attracting more FDI in quantity and quality.

Furthermore, beyond being 'indicated in the State's annual development plan', the rationale behind choosing these 13 sectors is not fairly clear to some of GAFI and MoI employees, who are in different management positions, and responsible for promoting projects and opportunities. For example, pertaining to the selection criteria of these 13 sectors, interviewees' responses were contradicting and varied between, *"these sectors*

[29]Health Care; Communications and Information Technology; Mining; Renewable Energy; Logistics and Transportation; Pharmaceuticals; Real Estate and Construction; Agribusiness; Engineering and Electronics; Textiles; Retail; Tourism; and Petrochemicals

were chosen to match the plan prepared by the Ministry of Planning, other than that there is no logic for us as GAFI's staff"(Assistant to the Minister of Investment, June 2016**)**;*"The choice is based on an old study conducted in GAFI, which designated these 13 sectors as promising sectors"*(Researcher in the Senior Management Office, July 2016); "*We are now targeting six sectors not 13, based on the current orientation of the State*"(Senior Management Official in GAFI, July 2016). It should be highlighted that the six sectors indicated by the last respondent include different sectors than the identified 13 ones. These conflicting statements from interviewees reveal the lack of communication among the internal hierarchical actors and other external governmental actors, who directly work on investment, and further confirm the assumption that this targeting strategy is not well defined.

On the other hand, the targeting strategy does not appear as clearly communicated as it should among all other concerned and involved parties. For example, Commercial Registration Offices abroad are technically affiliated to the Ministry of Trade and Industry, and are mandated with enhancing the image and level of trade among other countries. And since any investment will respectively raise the volumes of trade between countries, these offices are considered as a vital partner in promoting and implementing the investment strategy abroad. However, as Senior Official 2 in GAFI pointed out:

> *There are times when the goal of Commercial Representation is to increase the investment between the two countries by making foreigners export to us, which will in turn raise the trade volume in their favor. However, this drains Egypt's hard currency… [Moreover, when] GAFI communicates with them to explore the possibility of convincing some of these investors to invest and open a business in*

Egypt, instead of exporting to us. Some are cooperative, but others are stubborn and don't collaborate at all. (June 2016)

From one side, this situation indicates and confirms a blurred or an absence of communication of an overarching economic vision and thus a strong, well-defined strategy for generating investments that should align with the country's national economic developmental objectives. This can be depicted in the different goals and approaches of different ministries and agencies, which sometimes contradict or overlap. The lack of unified strategy and coordination among different governmental entities further reflects a policy gap among key ministries and government institutions that impedes any effective promotion efforts, and negatively affects the investment generation, which in turn, harms the country and adversely contributes to Egypt's economic growth and development.

From the other side, this poorly defined strategy could be resultant also from the weak human resources in the promotion department and in GAFI in general. First, the promotion is done by country not by economic sector. Shifting to sector-based units that have qualified staff for different sectors will enhance the promotion efforts and will allow GAFI staff to effectively follow up on their promotional campaigns. Second, GAFI does not have a proper database because their public sector accounting is not functioning, for example, Board Member 1, explains that

All budgets of companies are approved from GAFI, so they should have a database of budgets, through which they could know the increase in capital whether paid-up or issued share, the real investments, increase in employment, and arrange all of this by sector. These data offer important ingredients for *effective indicators to marketable sectors that can be used in promotion and targeting.* (July 2016)

Though stimulating investors all over the world, to pour their investments in the Egyptian market, needs a well-articulated targeting strategy that aims at branding Egypt and strategically placing it in the FDI-attracting markets. However, experience show that investment generation works best, when the actual business climate in a country is better than the perceptions presumed by investors (Loewendahl, 2001). Therefore, GAFI should shift its promotional efforts to investment generation and sector targeting only after it achieves a favorable image for business climate among potential investors. Only then can GAFI focus on prioritizing some sectors and even some industries within these sectors.

Interviewees also stressed the need for having proper tools for investment generation, namely tax incentives and reform agenda. Former Principle Deputy Minister of Investment stated that, "*he, who has the money, dictates on the country the type of investment. You cannot impose a certain direction or sector on investors, short of drastic tax incentives*" (August 2016). Similarly, Board Member 1 stressed that, "*an investor knows very well where he wants to go and where the money flows. He only needs to see a clear identified reform agenda"* (July 2016) that guarantees a stable business environment. This is only when GAFI can identify the possibilities and opportunities for investors.

Thus, GAFI should primarily focus its promotional efforts on image building, then set a strategy reflecting a long-term, thought of vision that considers Egypt's current and future challenges. Several approaches can be pursued for this aim. For example, the strategy should consider attracting new and innovative types of investments, where Egypt intends to enter their market in the future. A second effective targeting approach would be focusing on the interdependent industries that create synergy between the different sectors, or targeting sectors that are highly oriented towards export.

Not only will these approaches strengthen the targeting strategy and enhance Egypt's opportunities in attracting more FDI, both in quantity and quality, but also will inform GAFI and the government about the magnitude and kind of desirable change and infrastructures that Egypt needs to pursue, in order to be capable of attracting more sophisticated types of industries.

c. Investors Servicing and Facilitation

Investor servicing and facilitation simply completes and crowns the efforts of creating a positive national image and generating investments for a country, by turning them into real, tangible investments. This function entails OSS services, in addition to business matchmaking and after care services.

- **One-Stop Shop**

As identified in the overview, a OSS[30]system was established inside GAFI in 2002, and was later reformatted in 2004 to streamline mandatory procedures and abolish redundant ones. It works under a separate Division inside GAFI, namely the 'Investment Services Division', and has representatives from 47 ministries and government agencies, offering multiple services to investors. It also has five branches [31] in different governorates that offer almost the same services that are offered at the main Cairo OSS. Coordination occurs regularly between all branches, which are all connected through an internal department that follows up and coordinates between them and the central OSS in

---

30One Stop Shop inside GAFI was established according to Presidential decree 79/2002.
31Alexandria, Ismailya, Assiut, 10th of Ramadan, and 6th of October

Cairo. Ongoing efforts to exchange good practices between all OSS branches take place through an annual program for unification and standardization of procedures, based on which a “Procedural Guide for Internal Investment" manual gets updated.

The OSS provides investors with services during different investment phases. Pre-establishment phase services entail responding to investors’ inquiries and providing them with information about the different investment schemes, guarantees and incentives, documents required for starting a business and the needed fees accordingly. Establishment phase services cover the process of starting up a business, which normally takes 48 hours and two hours in case the investor applied for a VIP application. Investors only deal with a single window[32] during this stage, where they complete all the required documents is an automated process, filling out digital templates to accelerate the process. Post-establishment phase services include a range of governmental services; technical services; legal services; publication services; and tax exemption services. A summary on each of these services is depicted in (Annex 1).

Since its inception, establishment has been the most successful and smooth service provided through the OSS. Whereas, post-establishment services, in contrary are regarded the weakest due to the lack of coordination between GAFI and the entities involved in this stage, especially when it comes to services provided by entities with land- jurisdiction and licensing authority.

According to Board member 1, the OSS fails to deliver these support services

[32]The process takes place through a lawyer and a GAFI officer. The lawyer ensures first that all papers presented by either the client or his agent, are complete and valid. Then, the officer acts on the investor’s behalf in carrying out all the necessary steps for registering a company and following up on the whole process that involves seven different agencies beside GAFI; Syndicate of Lawyers; The Union of Trade Chambers; Egyptian Financial Supervisory Authority; Public Notary; Commercial Registry; Tax Authority; and the General Authority for Social Insurance. The investor is only required for signing in the Public Notary.

because "*it has become a front office for all the bureaucracy in Egypt*" (July 2016). Instead of being a one single entity, where investors can obtain all their necessary paperwork for starting and operating their businesses in a streamlined and harmonized process, the OSS has become a one extra shop, where representatives from different ministries are just liaison officers, whose role is limited to receiving requests and necessary documents from the investor, and forwarding them to their respective entities for the service to be performed there. They just follow up on the progress and deliver it finalized to investors through the OSS. As explained by OSS Officer 1:

> *Despite the fact that 47 ministries and governmental agencies are currently represented in GAFI, only a few have delegated the authority of making decisions and approvals to their representatives inside the OSS. The majority of representatives act as communication officers between the Authority and their ministries or entities; they do not have real powers.* (May 2016)

Having discussed the rationale behind the resistance and lack of coordination in the 'IPA's relationship with Government' element, and reviewed the poor level of OSS performance in GAFI, the ability to enforce the provisions of the new law, whereby GAFI is empowered to issue operating licenses, is in question. According to Board Member 1, these provisions are inapplicable and "*just added another additional layer on the OSS, which makes working directly with the licensing agencies easier to the investor"* (July 2016). Similarly, Former Chairman of IDA views that this condition necessitates *"reforming the mechanism of issuing permits from the roots, or else the OSS will be of no value"* (August 2016).

Additionally, in the same month of issuing the new Investment Law No.17/2015, IDA prepared law giving it the right to regulate and grant operating licenses for industrial projects, in addition to allocating and disposing lands under its jurisdictional authority. Few months later, the Cabinet approved this law, ignoring the provisions of Law No.17/2015 and the authority given to GAFI by it. This provides clear evidence on the absence of coordination and communication between government agencies. Moreover, it reflects the entrenched centralized nature of the public administration system in Egypt, which resists any delegation of authority and views it as a tool to weaken their power, rather than to facilitate processes and accelerate procedures. It also points out to the individualistic perspective that some ministries and governmental entities adopt, instead of adopting a more collective, constructive view that contributes to an overall friendly climate for doing business and attracting investments.

It also harms the image building efforts and sends a negative message to prospective and existing investors regarding the strength and applicability of the legal framework in Egypt and reflects the government's inconsistency.

This situation further confirms that the top down approach of the government in dealing with this problem is not useful. "*Cutting various state agencies and departments out of licensing procedures is simply unworkable in practice"* (Former Principle Deputy Minister of Investment, August 2016). In addition, imposing a law without coordinating with the concerned parties would complicate rather than ease things.

Therefore, success of the OSS system will only be achieved when GAFI becomes politically well positioned in the government and positively perceived by the different ministries. Only then, different political actors and key agencies will align their strategic directions to cooperate with GAFI rather than work in parallel.

- **Business Matchmaking and After Care Services**

Mostly, IPAs conduct matchmaking activities to associate foreign investors with domestic investors and suppliers, aspiring to achieve a profounder integration of foreign investors into the local economy (Wells and Wint, 2000). In GAFI, matchmaking service is provided for new business or an established business that seeks expansion. It involves a process that starts with filling out an application, and occurs upon requests from investors, who fall under one of three categories; owns land but no funding or liquidity; owns land and factory, but needs technology or know-how; has an idea and needs everything. Promotion Officer 1 notes that, *"the department matches either between local and foreign investors or two foreign investors. But mostly, foreign investors demand a match with another foreign investor because in their view, a foreign investor is easier to deal with than an Egyptian"* (June 2016).

Although there is a committed department to assist investors in finding investor-matches, yet the interviews revealed that it operates unguided by a clearly defined linkage strategy or program. On one hand, this implies a weak performance from the department leading to low effectiveness of this service, which Promotion Officer 2 admits saying:*"matchmaking is mostly a lengthy process that goes through many negotiations, and its results are not as hoped for"*(June 2016). On the second hand, the absence of a defined strategy denotes a shortage in determining the main objective behind offering this service. A clear objective will devise strategies that would in turn transform into programs and activities. In this sense, the objective must be defined to largely contribute to Egypt's overall investment promotion efforts and its national economic goals.

The admitted weak performance in this service could be attributed to GAFI's weak relationship with private sector and the lack of involvement from GAFI's board into the functioning of the Authority with regards to its promotional mandate. As well as, the lack of monitoring and follow up from GAFI's leadership and executive Board.

As for the aftercare services, literature and best practices explain that aftercare services are presented to investors who are in their post-establishment phase of a business, where they are seeking support in reinvestment, expansions or upgrading their existing project or business (Loewendahl, 2001; UNCTAD, 2007). However, GAFI's Aftercare Services department assists investors in the entry and operation phases. Promotion Senior Official 1 justifies this saying that "*the Promotion Division is the front office for investors and complaints are received by more than one division, so when the Aftercare Services Department receives a problem in any phase, it deals with it"* (June 2016).

Similar to matchmaking, aftercare services are weakly performed as admitted by Promotion Official 1, saying that, "*the aftercare dedicated staff do not perform this job in the appropriate manner"*. Reasons for that include the weak allocated resources for the department, especially the human resource element where *"aftercare personnel tend to be closer in style to governmental employees"* (Senior Management Official, July 2016). In addition, the need for a call center and a smart Investment Information System (IIS) was stressed to help GAFI sort the complaints, and categorize them by division and department, so that each can deal with theirs accordingly.

d. Policy Advocacy

Effective IPAs are not only distinguished by their ability to attract FDI, but also with their strong role as advocates for improving the overall investment climate. Policy advocacy is mainly concerned with pushing for better investment legislations and more-friendly investment environment. Moreover, as indicated earlier in the Literature chapter, there is evidence that policy advocacy is the most positively correlated IPA function with respect to FDI inflows (Morrisset and Andrews Johnson, 2004).

GAFI has an entire division titled 'Investment Policies' that works on the country's micro indicators through 27 researchers[33]. The Division is mandated with analyzing all the laws related to investment in Egypt, and examining all international reports and surveys that are provided to GAFI via international organizations. It also prepares adequate sectoral studies on investment opportunities in each sector, but mainly gives the Doing Business Report of the World Bank an utmost attention, more than anything other task, as a Senior Policies Official acknowledged:

> *The Doing Business Report is what we mostly care about in this division, even if we are sometimes not convinced with its results. Still, it is what investors rely on in making their investment decisions. Hence, we respond to the indicators and try to fix the areas, where the report highlights problems*.(May 2016)

Moreover, a 'Coordinating Committee' was formed by the Current Prime Minister to follow up on Egypt's ranking in the Doing Business Report in early 2016. The Committee[34] is headed by the Minister of Investment, and includes all the relevant and involved ministries in improving and simplifying procedures at all business areas tackled

[33] 90% of the researchers are graduates of the Faculty of Economics and Political Science, Cairo University. Almost all of them are Master's degree holders, while half are PhDs holders. They attend international conferences and are being trained regularly.

[34] The Committee's first meeting was held in February, 2016, and was attended by the Ministers of Planning, Follow-up, and Administrative Reform; Electricity and Renewable Energy; Housing and Urban Development; and Trade and Industry; Governor of Cairo; representatives from Ministries of Justice and Finance; Head of the Egyptian Financial Supervisory Authority (EFSA); Chief Executive Officer of GAFI; the Egyptian Credit Bureau; and other officials from the Ministry of Investment and GAFI.

in the report. The first meeting resulted in an agenda on the short, medium, and long term-levels to improve Egypt's rank, and "*the collaboration of all the ministries and authorities to achieve more efficient processes that keep up with international standards is positive*" (Senior Management Official, July, 2016).

Despite the significant role GAFI plays by heading the Coordinating Committee and following up with all ministries for reaching a satisfactory business climate, yet GAFI did not have a loud voice in issuing the latest Investment Law No. 17/2015. Even though it had prepared a draft that was amended several times, GAFI was ignored and another version of the law was adopted despite the presence of disagreements and lack of consensus over several articles.

The inability of GAFI to play a stronger role in advocacy can be ascribed to the several reasons. The first is the lack of political support it gets from decision-makers. Senior Management Official in GAFI stated that "*the Authority does not get enough support from policymakers*" (July 2016) in addition, its "*relationship with the MoI is exactly like the relationship of any ministry with another; there is no relation*" (Researcher in the Management Office, July 2016). Both of which are related to the legal status and political positioning of GAFI. FDI figures indicate that GAFI was strongest and most effective during the period between 2004 and 2009, when it enjoyed some autonomy, and its structure was closer to quasi-governmental rather than a pure-governmental. Back then, GAFI was well positioned among the government institutions and was a key player in a broader policy process regarding investment, lobbying for reforming investment policies and laws. This justifies why major institutional and legislative reforms took place on the country level and inside GAFI and its OSS during that period, and which were positively reflected in the advanced ranks Egypt has held at international reports and the highest FDI level that the country has achieved until today.

The second reason relates to the inability of policy makers and GAFI's leadership to prioritize functions and therefore allocate the necessary resources accordingly. Even though there is evidence that policy advocacy is the most associated function with more FDI, in addition it is the function that directly feeds the efforts of image building, GAFI prioritizes image building and investment generation functions over policy advocacy and investor servicing, which can be inferred by looking at the activities under the promotion line item in their budget. GAFI needs to give considerable attention to its role as an advocator and make sure its policy department is capacitated with highly qualified staff that are capable of analyzing and recommending policies that contribute positively to the decision making process.

The third and last reason relates to the linkage to private sector and the weak role it plays in the functioning of GAFI. Strengthening and institutionalizing the relationship with the business communities and councils existing in Egypt will enable GAFI to clearly identify the problems in the investment climate from an investor point of view. Hence it will enhance its ability to provide effective feedback to government policy-makers regarding the enactment of investment friendly legislations and policies. Moreover, being backed by the private sector will strengthen GAFI's position and allow it to play a more active advocacy role.

This section has complemented the first one in offering a full institutional analysis for GAFI, where it explained the relationship between both organizational and functional elements. It further portrayed how GAFI performs each of the image building; investment generation; investor servicing and facilitation; and policy advocacy functions, all of which that characterize the functional strength of an IPA.

This chapter answered the main research question of this study, illustrating that the structure of GAFI does not contribute to its likelihood of being an effective agency promoting and facilitating investments in Egypt. The analysis shows how an effective structure is inextricably interdependent on both legislative and institutional factors, and portrays how the institutional elements in particular have been largely dependent on and shaped by the overall legislative framework of investment. It further shows that the Law No.17/2015 estranged both the business community and other government ministries, with regards to the one-stop shop and land allocation policies, which led to disagreements and divisions between GAFI and other ministries and agencies. All of which negatively influenced the ability of GAFI to streamline procedures and facilitate investment processes.

The analysis also highlights other factors influencing the effectiveness of GAFI to attract more FDI. On top of these factors is the absence of a clear overarching economic vision for the country, which therefore, produced an ambivalent policy framework for investment. This blurry policy framework cannot help policy makers neither to identify priorities nor to evaluate policy challenges while seeking to attract more FDI that contributes to the sustainable development of the country and the economic wellbeing of its citizens. The Egypt Economic Development Conference can be a palpable demonstration to the consequences of not having a clear economic vision and a precisely outlined policy framework with regards to investment. There was a political buy-in during this period that promoting investment is a quick way for recovering the economy.

Moreover, a new investment law was just issued and the time was right for GAFI to play a more instrumental role, especially that the conference was successful and resulted in signing many millions-worth contracts and memorandums of understanding for projects. However, GAFI failed to play an influential role, and most of these projects have been halted because the government was unable to resolve the pressing investment problems and ministries did not have a clear reform agenda to act together upon. In addition, although the government has launched Egypt's Sustainable Development Strategy 2030 (SDS 2030) in February 2016, it is perceived as a weak, incomprehensive, and non-detailed policy document that is full of parameters without signaling the implementation mechanisms. It was clear that Egypt has missed seizing the opportunity to capture and build on the momentum of the Conference to define a real economic vision and investment policy framework that guide and encourage further legislative and administrative reform.

Another important factor would be the leadership of GAFI; most of the interviewees have expressed their concerns about the absence of a strong leadership that can achieve transformational change and lead the institution towards real and substantial outcomes through building a strong relationship and effectively communicating with the employees and other external stakeholders, understanding the context in which the investment promotion operates and adaptive towards the changing and fluctuating status of the economy in the country.

Chapter Seven

Conclusion and Recommendations

I. Conclusion

The main objective of this research was to portray a complete picture of GAFI's potential to attract more investments. Although, there is no a 'one-size-fits-all' model to follow, with respect to the most effective IPA structures, best practices and rigorous studies have verified a number of elements that highly influence the capacity of IPAs to perform their functions and hence impact their performance with regards to quantity and quality of FDI attracted.

Based on this, an institutional analysis for GAFI was carried out, framing its structure's potential in several organizational and functional elements. The findings reveal that its overall structure does not contribute to the likelihood of being an effective agency responsible for investment promotion and facilitation in Egypt. Hence significant changes and reforms are needed to improve its status quo and consequently contribute to enhancing the economic and social situation in the Egypt.

The institutional analysis shows that GAFI's **legal status** account for weakening its structure**.** The decree whereby GAFI is created does not support maintaining its stability. It was modified several times, resulting in affiliating GAFI with different ministries and ministers over the past 10 years. Therefore, its political position, degree of autonomy and authority were either reinforced or marginalized; only depending on the power of the entity or minister it is affiliated to. Accordingly, the legal status of GAFI impedes it from being positioned as a stable, soundly functioning agency. Moreover, as per **its relationship with government**, the capacity of GAFI to promote for other ministries has always been constrained, when it follows a minister, unless this minister is influential. Its leverage becomes less among other governmental agencies and entities. Therefore, in Egypt, all other ministries are currently promoting to themselves. This results in a fragmented promotion effort, and an absence for a mechanism to promote one image to Egypt.

Similarly, GAFI's **linkages with private sector** are found only limited to incorporating private-sector members in its board of directors, despite the presence of many active business councils and organizations in Egypt. Moreover, even though GAFI's Board of Directors enjoys having diverse and strong business representatives, their contribution in GAFI's role as a promoter and an advocator for better policies is not significant. With regards to **resources**, GAFI is considered a strong economic entity, with abundance of financial resources. However, these resources do not appear well directed towards boosting the promotion efforts and enhancing the skills of the promotion staff. Calibers working on investment and facilitation lack talent and expertise, especially with regards to investor orientation, language skills and track record.

Indisputably, the lack of effectiveness in the organizational elements is indicative to the deteriorated situation of the promotional functional elements. Scrutinizing how GAFI performs each of four IPA functions exposed the absence of an overarching economic vision and therefore a clear guiding investment promotion strategy, based on the country's competitive strengths, which further informs on a lack of communication between GAFI and the governmental ministries and agencies.

This alone reveals that the four main IPA functions are carried randomly and in parallel, rather than prioritizing the functions that are more significant and contributing to the current political and economic situation of Egypt. The country suffered from political instability and insecurity after 2011 Revolution passing by 30 June in 2013 and toppling another regime. In addition, it is passing through another phase of economic instability due to unpredictability of fiscal policies. All of which are events that require the GAFI to prioritize the efforts towards the country's "image building" and therefore, focus on policy advocacy and investors servicing functions that directly pour into branding Egypt as a favorable investment location.

In terms of the legislative framework that governs GAFI, despite the new investment Law No.17/2015 provides investors with more incentives and guarantees regarding the facilitation of procedures, the Law complicated the process, especially with regards to obtaining the operating licenses and land allocation, as it adopted a top-down approach in imposing the amendments without considering or coordinating with the implementing agencies.

Lastly, it is important to highlight that all reform initiatives must be backed by strong political will and consensus over investment priorities. Though this political will is present in the case of Egypt, yet it will not be effective unless it is translated into well-defined strategy that guarantees the coordination of all government institutions, as well as private sector in a joint effort towards enhancing the overall investment climate. Moreover, this strategy will not be effectively implemented unless bounded by a clear monitoring and evaluation mechanism.

II. Recommendations

The recommendations of this research are derived from synergy between the viewpoints of the interviewees and the analysis of the researcher, perceiving GAFI as a State agency that is complicated and tangled with other bureaucratic agencies. GAFI will not move forward without progressive reform, however, any attempt for dismantling and rebuilding it would be very difficult, given the State administrative apparatus, complexity of laws, centralized bureaucracy, and turf battles. The following points summarize a set of recommendations that could enhance the effectiveness of GAFI to propagate its promotion role:

1. Legislative Aspects

The following proposed recommendations are focusing on the overall legislative framework of investment in Egypt, and are not limited to the investment Law No.17/2015.

- Efficient bankruptcy law must be issued to deal with the insolvency issues to facilitate the market entry and exit barriers for large and small investors.
- Following a clear State's economic vision, incentives in the investment law shall be identified per targeted sectors and industries, accompanied by other incentives offered to the local feeding industries.
- Investment law must be amended to assign obtaining the licenses to third party to facilitate the operating business stage.
- Abolish the MoI and only keep GAFI to overcome the redundant roles between both entities and reduce the bureaucratic layers. In addition, transform the institutional form of GAFI into a quasi-governmental rather than a purely

governmental institution and maintain its autonomy. This can be achieved thorough affiliating GAFI to either the President or the Prime Minister, in order to be insulated from the governmental agencies' pressures and overlap. This will enable GAFI to situate itself in a non-threatening position, as a mediator between various investment opportunities of the different governmental agencies and FDI.

2. Institutional Aspects

- Ensure the separation between GAFI's role as a regulator and executor on one side, and its role as promoter and facilitator on the other side, accordingly segregate the functions and powers of each.
- Once the separation between the roles is completed, focusing on investment promotion can be an opportunity for GAFI to act as an agent for change that would help the promotion division move forward, and lead other divisions to change later. This requires:
  - ➢ Another layer of top management is completely dedicated only to enhancing the promotional role of GAFI.
  - ➢ This top management is suggested to be, one of the Deputy Chairmen to lead the restructuring of the division and to provide clear monitoring and evaluation mechanism that ensures promotion functions are carried out appropriately.
  - ➢ The Deputy Chairman can be assisted by business development top-notch calibers to assist him in developing a plan for promoting certain industries, based on Egypt's competiveness in different sectors. This can be achieved through creating a scoring matrix for each sector to identify its drivers and

impediments for growth. This scoring matrix would be used as potential for cooperation with other governmental ministries and agencies to boost the drivers and abolish the impediments in each sector.

- Based on the scoring matrix GAFI shall develop a National Investment Plan to be endorsed by all sectoral ministries. This plan should strategically focus on attracting FDI that contributes to the local economic development in the country.
- The promotion division must be restructured and organized by economic sector. Also it must be mandated with clear responsibilities for country image building, investment generation, linkage promotion and policy advocacy.
- Promotion division must have a separate budget that reflects the promotion functions, outlining the different activities under each. This would help GAFI to follow up and evaluate its performance in each of the functions.
- Develop a capacity building plan for the promotion staff that would orient them to adopt a business-like culture that is more investor friendly.
- Institutionalize relations with the various influential business councils and communities, as well as enhance the relationship with the governmental agencies and entities through a clear communication strategy. This can be accomplished through establishing two units, each of which is dedicated to strengthening and maintaining GAFI’s linkages to the private sector and its relationship with governmental entities.
- GAFI should primarily focus its promotional efforts on image building and investor servicing. It should develop a well-articulated plan for branding Egypt, through an international campaign. This plan should tackle issues related to

security, economic stability, and foreign currency, beside demonstrating investment opportunities in different governorates & sectors.

- The current economic condition of Egypt requires GAFI to direct its targeting approach towards interdependent industries that create synergy between the different sectors, and the export-oriented industries.
- GAFI needs to play a stronger role as an advocator for better investment policies and climate. It should closely work with the aftercare and facilitation departments to identify the investors' problems and solve them. GAFI should also have a clear mechanism for reporting, following up, and measuring the progress.

All of these recommendations will enable the government to define the orientation of the Egyptian economy in terms of being an export-led or a consumer based or otherwise. This constitutes the solid ground for formulating robust policy framework for investment, based on which the policy-makers will be able to clearly set priorities, evaluate policy challenges, and direct their efforts and resources towards attracting FDI that contributes to the sustainable development of the country and the economic wellbeing of the citizens.

References

Abdel-Latif, A., & Schmitz, H. (2011). The politics of investment and growth in Egypt: Experimenting with a new approach. Development Policy Review, 29(4), 433-458.

Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of economic growth*, *1*, 385-472.

Anderson, J., & Sutherland, D. (2015). Developed economy investment promotion agencies and emerging market foreign direct investment: The case of chinese FDI in canada. *Journal of World Business, 50*(4), 815. doi:10.1016/j.jwb.2015.04.005

Banerjee, S. G., Oetzel, J. M., &Ranganathan, R. (2006). Private provision of infrastructure in emerging markets: Do institutions matter? Development Policy Review, 24(2), 175-202. doi:10.1111/j.1467-7679.2006.00321.x

Buchanan, B. G., Le, Q. V., & Rishi, M. (2012). Foreign direct investment and institutional quality: Some empirical evidence. International Review of Financial Analysis, 21, 81-89. doi:10.1016/j.irfa.2011.10.001

Casey, W. L., Jr. (2013). National investment promotion policies and foreign direct investment flows. *International Journal of Business and Economics Perspectives (IJBEP), 8*(1), 14.

CBE. (2014). Annual Report 2013/2014. Cairo: Central Bank of Egypt. doi: http://www.cbe.org.eg/NR/rdonlyres/236CD24D-07CB-4999-AC8A-611F2BA36711/3018/AnnualReport20132015.pdf

Charlton, A., & Davis, N. (2007). Does investment promotion work? *The B.E. Journal of Economic Analysis & Policy, 7*(1), 42. doi:10.2202/1935-1682.1743

DB. (2015). *Doing Business Report.* The World Bank Group.

Della Porta, D., &Vannucci, A. (1999). *Corrupt exchanges: Actors, resources, and mechanisms of political corruption*. Transaction Publishers.

Dixit, A. and R. Pindyck, 1993, Investment under Uncertainty. Princeton University Press, Princeton, NJ).

Djankov, S., La Porta, R., & Shleifer, A. (2002). The regulation of entry. *The Quarterly Journal of Economics, 117*(1), 1-37. doi:10.1162/003355302753399436

Dobronogov, A., Iqbal, F., & Economic Research Forum for the Arab Countries, Iran, and Turkey. (2004). *Economic growth in Egypt: Constraints and determinants*. Cairo, Egypt: Economic Research Forum.

Domeisen, N. (2003). Is there a case for national branding?. In *International Trade Forum* (No. 1, p. 14). International Trade Centre.

Dumludag, D. (2009). An analysis of the determinants of foreign direct investment in turkey: The role of the institutional context. *Journal of Business Economics and Management*, , 15-30.

Dunning, J. H. (2009). Location and the multinational enterprise: A neglected factor? *Journal of International Business Studies, 40*(1), 5-19. doi:10.1057/jibs.2008.74

Farah, N. R. (2009). *Egypt's political economy: Power relations in development*. Cairo;New York;: The American University in Cairo Press.

Handoussa , H. , & Louis , M. (2003). *Brownfield investment in emerging markets: The case of Egypt. DRC working papers: Foreign direct investment in emerging markets* .London : Centre for New and Emerging Markets, London Business School .

Harding, T., &Javorcik, B. S. (2011). Roll out the red carpet and they will come: Investment promotion and FDI inflows. *The Economic Journal, 121*(557), 1445-1476. doi:10.1111/j.1468-0297.2011.02454.x

Hausmann, R., Rodrik, D., & Velasco, A. (2008). Growth diagnostics. *The Washington consensus reconsidered: Towards a new global governance*, 324-355.

Helmy, O. (2005). *The efficiency of the bankruptcy system in Egypt*. Egyptian Center for Economic Studies.

IPRI. (2015). *The International Property Rights Index 2015*. Retrieved from The International Property Rights Index 2015: http://internationalpropertyrightsindex.org/country?s=egypt

Jackson, M. K. (2013). Ownership, Corporate Governance and Liquidity in Caribbian Firms. Brisbane, Australia.

Ketkar, K. W., Murtuza, A., &Ketkar, S. L. (2005). impact of corruption on foreign direct investment and tax revenues. *Journal of Public Budgeting, Accounting & Financial Management, 17*(3), 313.

Lim, S. (2008). How investment promotion affects attracting foreign direct investment: Analytical argument and empirical analyses. *International Business Review, 17*(1), 39-53. doi:10.1016/j.ibusrev.2007.09.001

Loewendahl, H. (2001). A framework for FDI promotion. *Transnational Corporations, 10*(1), 1-42.

Lucke, N., &Eichler, S. (2016). Foreign direct investment: The role of institutional and cultural determinants. *Applied Economics,48*(11), 935-956. doi:10.1080/00036846.2015.1090551

Masry, M. (2015). Does Foreign Direct Investment (FDI) Really Matter in Developing Countries? The Case of Egypt. *Research in World Economy,6*(4), p64.

MIGA. (2016). *Investment Generation Toolkit.* Retrieved 5 2016, from The World Bank Group: https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/module6-step1_make-the-transition-from-image-building-to-investment-generation.cfm

Miškinis, A., &Byrka, M. (2014). The Role of Investment Promotion Agencies in Attracting Foreign Direct Investment. Ekonomika/Economics, 93(4).

MoF. (2013). *The Monthly Statistical Publication of the Ministry of Finance.* Retrieved 2015, from Ministry of Finance: http://www.mof.gov.eg/MOFGallerySource/English/Reports/monthly/2013/Jan2013/full%20version.pdf

MoI. (2015). *Investment.* Retrieved June 2016, from Ministry Of Investment: http://www.investment.gov.eg/en/invest/invest.aspx

MoP. (2015). Retrieved from Ministry of Planning.

Moore, M., & Schmitz, H. (2008). Idealism, realism and the investment climate in developing countries.

Morisset, J., & Andrews-Johnson, K. (2004). *Effectiveness of promotion agencies at attracting foreign direct investment*. United States: World Bank Group. doi:10.1596/0-8213-5606-2

Nilov, K. N. (2011). Legal Guarantees for International Investment according to the Legislation of the Russian Federation. *Baltic Region, 3*, 5-10. doi:10.5922/2079-8555-2011-3-1

North, D. C. (1990). *Institutions, institutional change, and economic performance*. Cambridge;New York;: Cambridge University Press.

North, D. C., &Weingast, B. R. (1989). Constitutions and commitment: The evolution of institutions governing public choice in seventeenth-century England. *The Journal of Economic History, 49*(4), 803-832. doi:10.1017/S0022050700009451

OECD. (2011). *Competitiveness and private sector development: Sector competitiveness strategy*. Paris: Organisation for Economic Co-operation and Development.

OECD. (2014). *Business Climate Review of Egypt.* Retrieved from http://www.oecd.org/mena/competitiveness/BCR%20Egypt_April29_with_cover.pdf

OECD. (2015). *Strengthening Chile's investment promotion strategy.* OECD.

OECD. (2015). *Policy Framework for Investment* (2015 ed.). Paris: OECD Publishing.

Pritchett, L. (2008). "Implementing Growth Analytics". *Paper prepared for DFID Growth Analytics Workshop*. Accessed 27 June 2009, "*http://ksghome.harvard.edu/~lpritch/*".

Rodrik, D.(2005). Growth strategies, in P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth*, Edition 1, Vol.1, Chapter 14, Elsevier: 967-1014.

Sader, F. (2000). Do One Stop Shops Work?.*Washington: Foreign Investment Advisory*.

Saif , I., &Ghoneim, A. (2013). *The Private Sector in PostRevolution Egypt.* Washington, D.C: Carnegie Endowment for International Peace.

Sirr, G., Garvey, J., & Gallagher, L. (2012). A quantitative approach to guiding the promotional efforts of IPAs in emerging markets. *International Business Review, 21*(4), 618. doi:10.1016/j.ibusrev.2011.07.006

Stampini, M., Leung, R., Diarra, S. M., &Pla, L. (2013). how large is the private sector in africa? evidence from national accounts and labour markets. *South African Journal of Economics, 81*(1), 140-165. doi:10.1111/saje.12000

Stasavage, D., 2002, private investment and political institutions. Economics and Politics 14, 41–63.

Stone, A. (2006). *Establishing a Successful One Stop Shop: The case of Egypt.* Retrieved 2016, from International Monetary Fund: https://www.imf.org/external/np/seminars/eng/2006/arabco/pdf/stone.pdf

Sun, X. (2002). How to promote FDI? The regulatory and institutional environment for attracting FDI. *Foreign Investment Advisory Service*.

TI. (2015). *Corruption Perceptions Index*. Retrieved from Transparency International: http://www.transparency.org/country/#EGY

Torriti, J., &Ikpe, E. (2015). Administrative costs of regulation and foreign direct investment: The standard cost model in non-OECD countries. *Review of World Economics*, *151*(1), 127-144. doi:10.1007/s10290-014-0200-y

Trník, M. (2007). *The role of investment promotion agencies at attracting foreign direct investment and their impact on economic development in Central Europe* (Doctoral dissertation, Central European University).

UNCTAD. (1997). Survey of best practices in investment promotion. In *The United Nations Conference on Trade and Development (UNCTAD).[Online] Available: www.unctad.org/asit*

UNCTAD. (2007). Aftercare: A Core Function in Investment Promotion.

UNCTAD. (2016). *World Investment Report.* Geneva: United Nations.

Valeriani, E., &Peluso, S. (2011). The impact of institutional quality on economic growth and development: An empirical study. Journal of Knowledge Management, Economics and Information Technology, 1(6), 274-299.

WAIPA. (2012). *The WAIPA Annual Report 2011- 2012.* World Association of Investment Promotion Agencies, Geneva.

WEF. (2015). *The Global Competitiveness Report.* Retrieved from World Economic Forum: http://reports.weforum.org/the-global-competitiveness-report-2013-2014/

Weigel, D., Gregory, N., & Wagle, D. (1997). *Foreign direct investment. Lessons of experience series ; no. 5.* Washington DC: World Bank.

Wells, L. T., &Wint, A. G. (1990). Marketing a Country: Promotion as a Tool for Attracting Foreign Investment (Washington, DC: International Finance Corporation).

Wells, L. T., &Wint, A. G. (2000). *Marketing a country: promotion as a tool for attracting foreign investment*. IFC-International Finance Corporation.

Whyte, R., Ortega, C., & Griffin, C. (2011). Investment regulation and promotion: Can they coexist in one body. *World Bank Group Investment Climate In Practice*, (16).

Wint, A. G. (1992). Public marketing of foreign investment: Successful international offices stand alone. *International Journal of Public Sector Management*, *5*(5).

World Bank. (n.d.). *Doing Business Report Series*. Retrieved from Doing Business: http://www.doingbusiness.org/reports/

Young, S., & Hood, N. (1994). Designing developmental after-care programmes for foreign direct investors in the European Union. *Transnational Corporations*, *3*(2), 45-72.

Young, S., & Hood, N. (1995). Attracting, managing and developing inward investment in the single market. *Behind the Myth of the European Union: Prospects for Cohesion*, 282-304.

Zakari, A., Aliero, H. M., & Abdul-Quadir, A. B. (2012). The role of Nigerian investment promotion commission (NIPC) in attracting foreign direct investment in Nigeria. *European Scientific Journal, 8*(7), 149.

Zurawicki, L., & Habib, M. (2010). Corruption and foreign direct investment: What have we learned? *The International Business & Economics Research Journal, 9*(7), 1.

Annex 1

Post-Establishment Services	
Governmental Services	• Issue the residence permits and their renewals (1 year then renewed another 1 year then 3 years; depending on his seriousness in investment) • Issue work permits and their renewals for foreigners (1 foreigner for every 9 Egyptians) • Give recommendation regarding bringing labor and dependents • Approve Foreign Companies Representative Offices and Branches (opening – modifying – closing)
Technical Services	• Ratifying importing and exporting invoices • Giving recommendations on custom duties regarding importing machines and equipment necessary for projects operation • Giving recommendations on getting exemptions from registration fees and taxes for land contract, mortgages, and loans
Legal Services	• Ratifying meeting minutes for either the board of directors or general assembly (ordinary or unusual) • Issuing decrees of the legal amendments in companies ’ articles of association • Modifying the company's form, name, type of activity, number of partners) • Closing of companies
Publication Services	• Publishing company's contracts, articles of association and any related legal amendments • Publishing special decrees and documenting copies of Investment Gazette to be ratified by Ministry of Foreign Affairs
Tax Exemption Services	• Forming committees, which determine date of business start up and its executive status and ratifying its reports. • Issuing certificate of tax exemption

Source: Author, based on the interviews