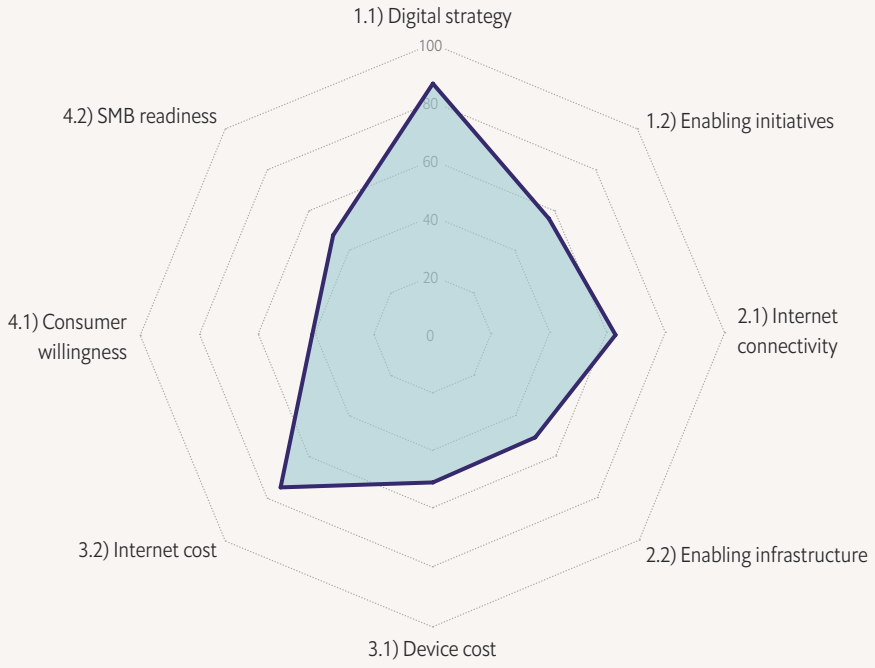
Egypt

- The Egyptian government has made clear efforts to foster digital entrepreneurship, engaging SMBs in government-led projects.
- More investment must be directed towards digital literacy and infrastructure, which would go a long way in bridging the digital divide between the formal and informal sectors.

Figure 1: Category-level scores for Egypt



A digital locomotive of sustainable development

Egypt's large economy is diversified—spanning mining, manufacturing, tourism and agriculture—but income per head is low.[1] Egypt continues to face the dual challenge of pursuing fiscal consolidation, whilst raising spending on key human development sectors, social protection and investment.[2]

Among the development priorities is the digital economy. This was recently affirmed by Egypt's

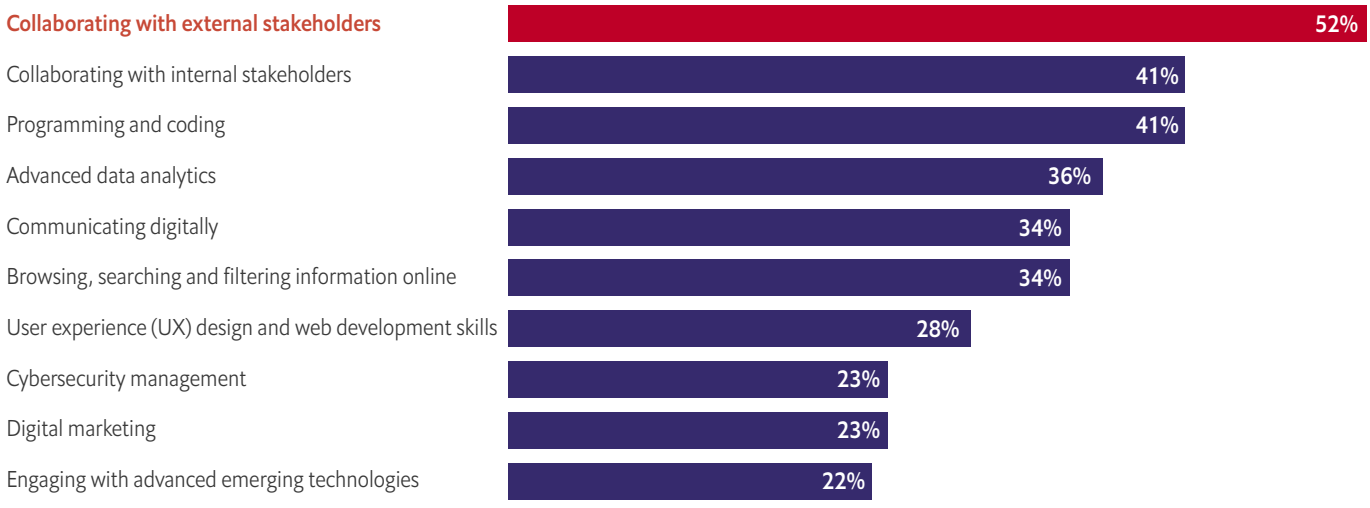
[1] EIU, Egypt Country Report 2022. Available at: https://store.eiu.com/product/country-report/egypt
[2] The World Bank, Egypt Country Overview, last updated in 2022. https://www.worldbank.org/en/country/egypt/overview

Minister of Finance, who pointed to the potential of digital technologies to strengthen the governance of financial systems, improve financial inclusion, and simplify procedures to stimulate investment, among others.[3] These commitments are gradually translating into notable economic gains.

An expansion of the digital economy is expected to bring about tangible benefits, apparent from many regional studies. In 2021, the ICT sector in Egypt contributed 5% of the country's total GDP.[4] A 2021 World Bank study showed that GDP per capita could rise by more than 40% when digital infrastructure services approach universal coverage in low- and middle-income economies of the Middle East and North Africa. Universal adoption of digital technologies would also improve women's labour participation and significantly reduce frictional unemployment.[5] Another 2021 study showed that reducing the digital divide through investments in ICT leads to higher economic growth in the long run in MENA countries. For example, a 1% increase in mobile phone subscribers and internet users can lead to an increase in GDP per capita of 25% and 71%, respectively.[6]

Egypt has made significant progress towards expanding the digital economy. In our assessment framework, the country scores well in policy and regulation, and affordability (71.1 and 60.3, respectively), with positive efforts to foster digital entrepreneurship. However, Egypt's readiness pillar earns a low score (45.4 out of 100) due to weak infrastructure, talent and financial support to enable business and consumer participation. As Egypt's infrastructure pillar scores just 57.4 out of 100, government intervention to enhance internet connectivity and other enabling infrastructures will boost the overall potential of the digital economy.

Figure 2: Digital transformation skills lacking in SMB workforces in Egypt



Source: Economist Impact executive survey, July-August 2022

[3] Daily News Egypt, Digital economy is the locomotive of sustainable development, 2022, https://dailynewsegypt.com/2022/06/14/digital-economy-is-the-locomotive-of-sustainable-development/
[4] Egypt - Country Commercial Guide. Available at: https://www.trade.gov/country-commercial-guides/egypt-information-and-communications-technology-and-digital-economy
[5] The World Bank, The Upside of Digital for the Middle East and North Africa - How Digital Technology Adoption Can Accelerate Growth and Create Jobs, 2021, Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/37058/9781464816635.pdf?sequence=10&isAllowed=y
[6] Kouadri, N and Cherif, A. 2020. The impact of digital divide on economic growth in MENA countries: Evidence from panel ARDL model 2000-2018. Available at: https://www.researchgate.net/publication/351516650_IMPACT_OF_THE_DIGITAL_DIVIDE_ON_ECONOMIC_GROWTH_IN_MENA_COUNTRIES_EVIDENCE_FROM_PANEL_ARDL_MODELS_2000-2018

Leaving no one behind

The Egyptian government has rolled out initiatives to support digital entrepreneurship, even involving SMBs in government-driven digital projects. However, according to Eric Dunand, senior digital development specialist at The World Bank, there is unequal access to the digital economy despite these efforts. Larger cities and regions have greater accessibility to digital entrepreneurship opportunities; some women innovators lack confidence and could be better engaged with targeted incentives and support; and entrepreneurs in informal sectors could be included in the formal sector to improve their access.

This is reflected in the relatively low levels of SMB readiness in the country. Only 21% of executives feel that their business models are completely ready for digital expansion. Greater support is needed to nurture adequate digital skills. Noha Shaker, secretary general at the Egyptian Fintech Association, points to the need to invest in educational systems accessible to the masses: "everybody needs to have an understanding of digital technologies that they can apply across industries because every industry now relies on them to improve and grow in a more sustainable, affordable and scalable way". This need is confirmed by our survey results, which show that over half of SMBs struggle with a limited local talent pool, and almost half find the limited understanding of digital opportunities within management very challenging.

The inclusivity challenges of Egypt's digital economy are particularly felt in relation to generational differences. According to Ms Shaker, younger generations understand digital technologies better and face fewer institutional and trust-related barriers than older generations, where there is a significant element of distrust involved. To combat this, transparency, user-friendliness and accessibility are key, otherwise the gap between generations will widen, and some groups will be left outside the system, explains Mr Dunand.

Improved quality of digital infrastructure will drive technology uptake

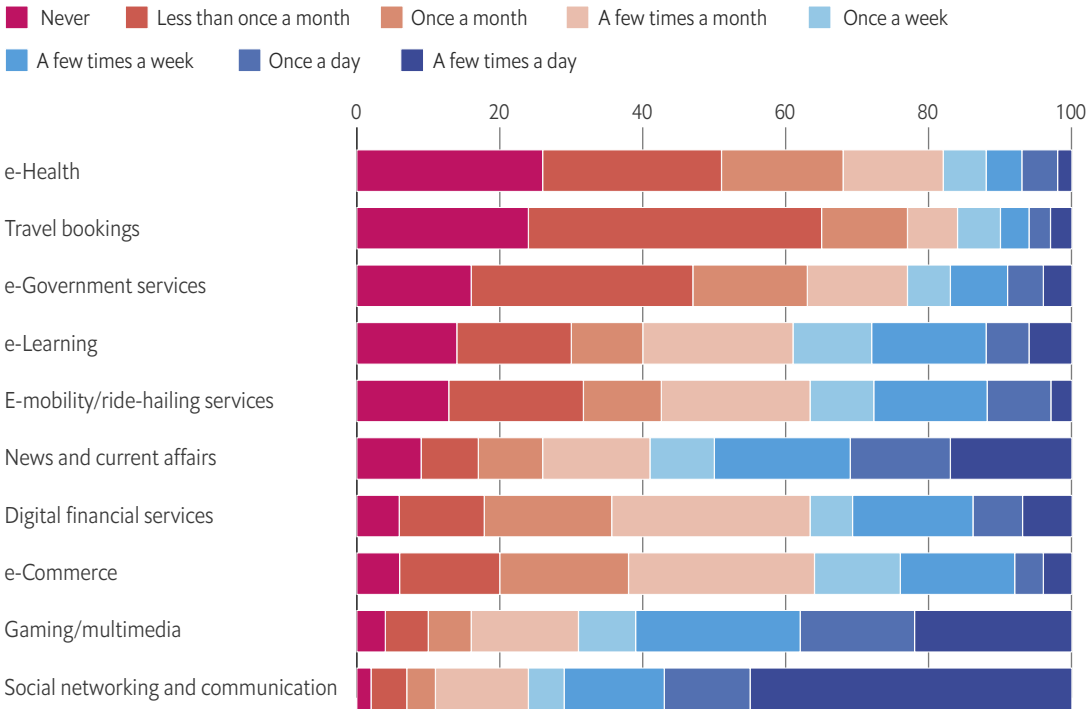
Egypt has made remarkable progress in advancing its digital infrastructure, with substantial investments to improve internet connectivity, technology adoption, digital government services and ICT innovations. The country scores 57.4 out of 100 in the infrastructure pillar, with a higher score in the internet connectivity category within this pillar (63.1 out of 100). In 2020, the Egyptian government allocated more than US$1bn for digital transformation and secured US$3.2bn from development financing to support the private sector (with a focus on micro, small & medium enterprises).[7]

However, Egypt needs to maintain momentum, especially with respect to affordability and device uptake. Smartphones are easily accessible, yet only half of the population uses them. According to Ms Shaker usage is not only determined by cost but also by the perception of need: "Need is driven by the availability of use cases where one can use the device to create value for themselves", she says.

Ms Shaker argues that further improvements are needed to the quality, speed and reliability of connectivity to justify high post-paid mobile costs (scoring 41 out of 100). Moreover, the

[7] Kamel, S. 2021. Economic Research Forum, ERF Working Paper Series, The Potential Impact of Digital Transformation on Egypt. Available at: https://erf.org.eg/app/uploads/2021/09/1488.pdf

Figure 3: Breakdown of digital economy use and frequency in Egypt



Source: Economist Impact executive survey, July-August 2022

benefits of the digital economy should be clearly communicated to consumers.

Located at the crossroads of Africa, Asia and Europe, Egypt holds great potential to become an international data centre hub.[8] The government has already shown its intention for this, with data centres being a crucial component of the country's national Digital Egypt strategy. State-owned Telecom Egypt has developed the largest data centre in the country while multinational companies have also expressed interest. For example, Orange is investing US$135m in building a large data centre in Cairo–a crucial sign of progress.[9]

Greater investment in data centres will bring both direct and indirect benefits. Egyptian businesses that are moving into the digital space stand to benefit from immense data storage and processing power as data centres grow in the country.[10] The spillover effects include a boost to the local economy, more job opportunities, regular updates in connectivity infrastructure and improved transport links.[11]

Egypt is primed to become a regional digital hub but faces crucial infrastructural challenges. Government intent is strong, but efforts directed to improving the quality of connectivity and the availability of use cases could encourage technology uptake. A green approach through sustainable energy could help create more data centres and utilise Egypt's potential in this space. To bridge Egypt's digital divide, greater support is needed for women digital entrepreneurs as well as capacity building initiatives targeted at disadvantaged generations.

[8] Kamel, S. 2021. Economic Research Forum, ERF Working Paper Series, The Potential Impact of Digital Transformation on Egypt. Available at: https://erf.org.eg/app/uploads/2021/09/1488.pdf
[9] https://dailynewsegypt.com/2021/11/06/orange-egypt-building-giant-data-centre-in-new-administrative-capital-with-135m-investments/
[10] https://data.europa.eu/en/news/rising-importance-data-centres
[11] https://copenhageneconomics.com/wp-content/uploads/2021/12/the-economic-impact-of-googles-data-centre-in-belgium-2.pdf

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