

## Measuring Foreign Direct Investment (FDI) in Egypt's ICT sector

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The Information Centre of the Ministry of Communication and Information Technology (MCIT-IC) has conducted a study to measure foreign direct investment (FDI) in Egypt's Information and Communication Technology (ICT) sector in cooperation with the World Bank and an international expert in the area of Balance of Payments and Foreign Direct Investment.

The project has started due to the concern that current measures of FDI in the ICT sector may under-report its true level because they do not cover the whole ICT sector or because of inconsistent figures between agencies. The project has started in 2008 in order to provide accurate and reliable indicators on FDI in the ICT, which in turn helps Egypt to attract more foreign direct investment (FDI) from foreign ICT entities, hence achieve the further development of the ICT sector and promote its services. *Foreign Direct Investment (FDI) is defined as Investment by a foreign resident entity, the Direct Investor (DI), who makes an investment that gives control or a significant degree of influence on the management of an Egyptian enterprise, the Direct Investment Enterprise (DIE).*

Phase one of the project started in October 2008 and involved providing a clear definition for the ICT sector and its products and services in addition to FDI definitions. This phase has also involved exploring the discrepancies between data sources, namely from the Central Bank of Egypt (CBE)'s foreign exchange statistics used in balance of payments (BOP) statistics and the General Agency for Investment (GAFI) statistics. Both sources proved to contradict and to fail in capturing sizeable FDI flows into the ICT sector. As a result, it was agreed that the most accurate methodology to conduct this project is through collecting the data directly from the ICT multinational companies. Hence, a survey was designed and a sample of FDI enterprises was defined to collect the necessary data for a more precise and standard calculation of FDI. A series of meetings and visits to the companies took place for data collection. After that calculations were carried out, and *preliminary results* were produced for the years 2006 - 2008. FDI stock was collected for the financial year (FY)2006, FY2007, and FY2008, while the flow of FDI was collected for FY2007 and FY2008.

The designed survey tries to capture data about items like shareholders fund, equities and reinvested earnings, which are originally found in the companies' balance sheets and financial statements. The survey's sample included 15 Direct Investment Enterprise (DIEs), including the biggest three FDI companies (the three mobile operators), while the rest of the DIEs listed in the (GAFI) under the title of ICT sector, were considered as residuals and given a weight to estimate the value of FDI generated by them. This approach has been considered after it proved impossible to collect data from the small DIEs, who are either complete affiliates to international mother company and do not have independent financial statements, or act in Egypt as only liaison office with no FDI coming into the country. Measures and survey design comply closely with IMF *Balance of Payments and International Investment Statistics Manual sixth edition*, and *Balance of Payments Compilation Guide*.

In this regard, it is worth noting that the FDI has four components:

1. New issues (less redemptions) of shares purchased by the Direct Investor (DI).

2. Reinvested earnings of the Direct Investment Enterprise (DIE).
3. Claims on and liabilities to the DI (and related/associate companies).
4. Purchase or sales of existing shares by DI's (takeovers).

Phase two of the calculations has taken place in December 2010 which involved a second round of data collection for FY2009, resulting in *preliminary results*, that should be improved after increasing the response of ICT DIEs towards submitting the requested data. Data was also recollected for FY2007 and FY2008 so as to revise the previous figures. In spite of the incomplete response by DIEs, data is considered satisfactory as the three large mobile businesses which dominate the industry and three of the smaller businesses responded, while values for the rest companies in the sample have been estimated. Phase two of the project with data for FY2009 and revised earlier data are better data than previously available. The revisions to previous years turned out not to be that large which suggests that data compiled in 2009 (for FY2008 and earlier) were a reasonable indicator of the flows and stocks of FDI for FY2007 and FY2008.

Results show that **FDI stock and flow** in Egypt's ICT sector has grown quickly in the recent years as the following figures show (*preliminary figures*):

FY ending:	FDI Stock at end of year (Million EGP)	FDI Flow during the year (Million EGP)
30 June 2006	3,235	n.a.
30 June 2007	14,473	11,238
30 June 2008	15,932	1,459
30 June 2009	17,106	1,174

A number of matters were investigated during the second phase, and the recommendations that that were arrived at includes the continued collection of FDI data from companies, with steps to be taken to improve the response rates from businesses in the survey and to expand gradually the coverage of the survey.