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Assessing the Efficiency of National Investments with Emphasis on Commodity Sectors in Egyptian Economy During the Period from 1992 till 2005

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Abstract: National investments play an important role in meeting the requirements of economic development, increasing the magnitude of economic activity and production, contributing to the solution of the problem of unemployment and poverty and increasing economic development rates. There is a strong relation between saving and investment, as saving is considered the main pillar of investment. When investment matches investment needs, economic activity can do without foreign loans to finance developmental processes. Similarly, when investment decreases, this indicates that there is an investment gap that requires foreign loans to bridge that gap. Therefore, it is natural that the countries of the world, especially developing countries including Egypt, compete to attract more investments in order to enhance the efficiency of national economy and promote development levels. The investment policy in Egypt witnessed developments which differed according to the nature of the prevalent economic activity in each stage. As Egypt moved towards market economy and freeing economy during the second half of the 1970s (economic openness), the investment policy focused on encouraging and increasing the contribution of the public sector as well as economic activity. This orientation increased after the implementation of the economic reform program and the privatization of the public sector in the interest of the private sector to drive the train of economic development. In order to achieve this, it was necessary to prepare the appropriate investment climate and work towards the achievement of political, economic, legislative and administrative stability within the framework of Egyptian economic reform policy. Despite the tax incentives, guarantees and exemptions provided by Egypt for investors, the investment return is still limited because of the obstacles which hinder the investment process in Egypt

Key words: National investment, investment obstacles, economic indicators, efficiency of investments, commodity sectors.

INTRODUCTION

The success of the economic development program in all countries of the world including Egypt depends mainly on the size of available investments, the good and efficient use of them and the efficient distribution of them to economic activities and sectors. Investment plays an outstanding role in the economic and social development process and in meeting its requirements through increasing production, contributing to the solution of the problem of unemployment and poverty and increasing economic development rates. Investment means sacrificing a certain current consumption for the sake of a future uncertain consumption. This means spending money on setting up new projects or developing existing ones with the aim of maximizing the return on invested funds (Kenawy, 2004). Therefore, it is natural that the countries of the world, especially developing countries including Egypt, compete to attract more foreign investments and improve the exploitation of national resources in order to enhance the efficiency of national economy and promote development levels.

Egypt's investment policy witnessed remarkable developments according to the nature of the prevailing economic system in each period. This policy served to encourage the public sector and a limited role of the private sector during the period of centralized planning and socialist orientation till mid 1970s. With the State's orientation towards freeing economy and adopting market economy after the second half of the 1970s (economic openness), this policy was based on encouraging the private sector and curtailing the public sector in driving the train of

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economic development. These developments were intended to manage Egyptian economy on sound economic foundations, enhance the efficiency of using economic resources and expand the scope of the private sector in economic activity. To achieve this, it was necessary to prepare an appropriate atmosphere for investment and achieve political, economic, legislative and administrative stability within the framework of the economic reform policy adopted by Egypt since early 1990s (Shoura Council, Egypt, 1992).

Significance of the Study:

The Present Study Gains Special Significance in Egypt Because of the Following:

It is consistent with the governmental orientation in the present stage by working towards increasing investments which contribute to raising individuals' standard of living, increasing economic growth rates and reducing the rates of unemployment and poverty, which are two of the problems to which Egypt pays special attention.

It clarifies the extent of integration or variation in the distribution of investments between the public and private sectors and also in the distribution of investments among different economic activities to show how efficient the exploitation of these investments is. The optimal distribution of investments among economic sectors leads to the achievement of the desired economic development within the framework of the economic development program.

Problem of the Study:

The problem of the present research lies in the poor magnitude and efficiency of investments in commodity sectors and hence their limited effect on increasing the rate of economic growth rate and of the development of commodity sectors despite the attention which the economic development program in Egypt pays to increasing the magnitude of local and foreign investments, enhancing the efficiency of these investments and reducing the complications and problems which face investment in general and foreign direct investment in particular.

Research Objective:

The present research aims at identifying the development of investment climate in Egypt and the factors influencing it in order to show the reasons behind the poor magnitude and efficiency of investments in commodity sectors and their limited effect on increasing the rate of economic growth rate through reviewing some economic indicators relevant to investment.

The present research also aims at studying the relationship between the magnitude of national investments, gross domestic product and national saving; identifying the sector distribution of national investments, showing the most significant obstacles which hinder the investment process in Egypt; and trying to make some suggestions for enhancing the efficiency of investment and reducing these obstacles.

Research Hypotheses:

The present research is based on three main hypotheses:

1. There is a direct relation between investment expenditure and economic growth.
2. The multiplicity of the problems from which investment in Egypt.
3. The misdistribution of investments among different economic sectors.

Research Methodology and Data Sources:

To achieve the objectives of the present research, the descriptive and quantitative analytical method was used along with some statistical analysis tools such as the percentage and arithmetic mean. Step-wise regression, simple regression equations, the simple correlation matrix and general temporal trend equations were also used. Use was also made of some total economic indicators which have direct and indirect effects on the magnitude of investment. In addition, the researcher used some measures of the efficiency of investments in commodity sectors.

The present research also relied on the published and unpublished statistical data relevant to the topic of the research such as the data issued by the Central Agency for Public Mobilization and Statistics, the General Agency for Investment in Egypt and the Ministries of Investment, Planning, Foreign Trade and Industry. It also relied on the economic reports and bulletins issued by the Central Bank of Egypt and the National Bank of Egypt.

Research Plan:

The present research is divided into four sections in addition to the introduction, results and recommendations.

Section 1: The Reality and Nature of Investment Climate in Egypt.
Section 2: Economic Indicators Related to National Investments.
Section 3: Efficiency of Investments in Commodity Sectors.
Section 4: Investment Obstacles in Egypt.
Section 5: Results and Recommendations.

Section 1: The Reality and Nature of Investment Climate in Egypt

First- Development of Investment Climate in Egypt:

The investment climate in Egypt has witnessed great developments represented in the following stages (El-Siessy, 1994):

1. The Economic Open door Policy Period (1977-1982): This period was characterized by economic openness to the outside world and the issuance of a set of laws which included several advantages, guarantees and exemptions to attract Arab and foreign investment. Among the most important of these laws were Law 43 for the year 1974 and Law 32 for the year 1977. This was followed by the issuance of other laws aimed at remedying the shortcomings of the previous laws. The magnitude of national investments during that period amounted to about 19.6 billion pounds.
2. The Endorsed Planning Period (1982-1987): During that period the State set the general features of the economic plan to be implemented by the private sector and its different institutions. This period was characterized by the consolidation of investment laws with the aim of facilitating investment procedures and encouraging investors to invest in certain fields according to the State's economic and social development plan. The General Agency for Investment played an outstanding role in investment promotion of some projects, something which led to increasing the magnitude of national investments to about 56.2 billion pounds, i.e., greater than the previous period by 186.7%.
3. The Partial Freedom Period (1987-1992): This period witnessed the release of the private sector to play an outstanding role in the developmental process beside the public sector through canceling all constraints and control over it. During that period the magnitude of national investments increased by 138.4% to reach about 134 billion pounds. This period was characterized by the reconsideration of the economic laws hampering economic growth and investment, as Law 43 for the year 1974 was revoked and Law 230 for the year 1986 was issued with the aim of granting several guarantees and exemptions to investors in remote areas.
   In order to achieve economic stability, the government issued treasury bonds in 1991 to finance the deficit in the balance sheet which reached about 18% of the gross domestic product. With the issuance of Law 203 for the year 1991 and the establishment of the public business sector a new strategy was set within the framework of the economic reform program by virtue of which most public sector companies would be privatized with the aim of separating ownership from management, something which led to an increase in the magnitude of investment. The exchange rate was also freed in February 1991 with the aim of stabilizing prices.
4. The Full Freedom Period (1992-2005): This stage was characterized by economic and political stability. Law 8 for the year 1997 was issued and that law include the foreign investor's right to possess land and property in Egypt, besides exempting investment projects in new settlements or remote areas from taxes for up to 15 years. The executive regulation of the previous law was also issued and this regulation gave the General Agency for Investment and Free Zones the right to enforce law, study the laws related to investment and suggest new fields needed by the country. After that Law 13 for the year 2004 was issued to add new investment advantages and guarantees and an independent ministry was established for investment. During that period the magnitude of national investments increased by 139.4% to reach about 320.9 billion pounds. The data and statistics about the reality of investment expenditure in Egypt during the period 1992-2005 indicate that the magnitude of investment expenditure was marked by a state of instability whether in terms of its growth rates or in terms of its contribution to the gross domestic product. This may be attributed to many factors closely related to the investment process. If we trace the development of national saving, we can notice that it is always unable to cover national investment, as the gap between national saving and national investment increased to 9 billion pounds in 2004-2005 compared with 3 billion pounds in 2003-2004. The process of financing this gap is influenced by the investment climate and the economic and political developments at the local, regional and international levels(Central Bank of Egypt,2004).

Second- Domestic Product, Domestic Saving and National Investment:

Table (1) shows that the gross domestic product reached about 293 billion pounds during the period 1992-2005. It reached its maximum, i.e., 467 billion pounds in 2004-2005, with an increase of 320.9 billion pounds and a percentage of about 219.5% compared with 1992-1993.

Equation (1) in table (2) indicates that the domestic product increases by 25.9 billion pounds per annum. This increase is statistically significant at 0.01 and represents 8.9% of the average gross domestic product during the period under study which reached about 293 billion pounds. Table (1) also shows that domestic saving during the period under study reached about 44 billion pounds. It reached its maximum, i.e., 68.2 billion pounds, in 2003-2004, then it decreased by about 2.1 billion pounds (3.1%) in 2004-2005. Equation (2) in table (2) indicates that domestic saving increases by 3.8 billion pounds per annum. This increase is statistically significant at 0.01 and represents 8.5% of the average domestic saving during the period under study which reached about 43.9 billion pounds. The total value of national investments reached about 65.3 billion pounds during the period under study. It reached its maximum, i.e., 94.6 billion pounds, in 2004-2005, with an increase of 198.9% compared with 1992-1993, as shown in table (1). Equation (3) in table (2) indicates that national savings increase by 5.8 billion pounds per annum. This increase is statistically significant at 0.01 and represents 8.9% of the average national investments during the period under study.

Table 1: Domestic product, domestic saving and national investments and their percentage of domestic product by the cost of production factors during the period 1992/1993-2004/2005 (in L.E. billions).

	Item							
			National Investments					
Year	Gross Domestic Product by the Cost of Production Factors	Domestic Saving	Public Sector	%	Private Sector	%	Total	% of National Investments to Domestic Product
1992/1993	146.160	25.8	21.10	66.7	10.54	33.3	31.64	21.6
1993/1994	162.967	26.5	22.23	66.5	11.22	33.5	33.45	20.5
1994/1995	191.010	30.6	23.28	59.0	16.14	41.0	39.41	20.6
1995/1996	214.185	29.1	23.41	53.1	20.70	46.9	44.11	20.6
1996/1997	239.500	27.5	29.45	53.3	25.83	46.7	55.28	23.1
1997/1998	262.220	43.1	22.10	35.7	39.91	64.3	62.01	23.6
1998/1999	293.005	49.2	22.87	33.3	45.73	66.7	68.59	23.4
1999/2000	316.404	44.0	22.85	31.3	50.26	68.7	73.11	23.1
2000/2001	339.600	48.1	22.74.	28.3	57.76	71.7	80.50	23.7
2001/2002	363.144	53.3	24.17	28.3	61.33	71.7	85.51	23.5
2002/2003	388.060	60.4	24.63	28.0	63.57	72.0	88.20	22.7
2003/2004	462.048	68.2	24.80	26.8	67.70	73.2	92.50	21.7
2004/2005	467.048	66.1	24.95	26.4	69.65	73.6	94.60	20.2
Mean	293.027	43.992	23.736	36.35	41.565	63.65	65.301	22.3

Source:

1. Ministry of Planning, Economic and Social Development Plan, Different Issues.
2. National Bank of Egypt, Economic Bulletin, Different Issues.
3. Central Agency for Public Mobilization and Statistics, Statistical Year Book, Different Issues.

Table 2: Equations of the general temporal trends of domestic product, domestic saving and national investments during the period 1992-2005.

Equation No.	Equation	Relative Change Rate %	Annual Mean	R/2	F	Significance
1	$\hat{Y}_{1w}$ = 111.096 +25.99 Xw (33)	8.87	293.027	0.99	1089	0.01
2	$\hat{Y}_{2w}$ =17.677 +3.759 Xw (11.247)	8.54	43.992	0.92	126.5	0.01
3	$\hat{Y}_{3w}$ =24.692 +5.797 Xw (223.216)	8.88	65.282	0.98	539	0.01
4	$\hat{Y}_{4w}$ =22.546 +17 Xw (1.106)	0.72	23.737	0.10	1.222	Not significant
5	$\hat{Y}_{5w}$ =2.223 +5.62 Xw (18.859)	13.52	41.565	0.97	355.7	0.01

Where Xw= time variable in year

X = 1, 2, ……. (13)

$\hat{Y}_{1w}$ = gross domestic product in billion pounds

$\hat{Y}_{2w}$ = total domestic saving in billion pounds

$\hat{Y}_{3w}$ = national investments in billion pounds

$\hat{Y}_{4w}$ = national investments in billion pounds in the public sector

$\hat{Y}_{5w}$ = national investments in billion pounds in the private sector

Table (1) shows that national investments are limited to two sectors: the public sector (36.3%) and the private sector (63.7%) during the period under study (1992-2005). This table shows that the value of national investments in the public sector reached its maximum, i.e., 29.5 billion pounds, in 1996-1997, then it decreased by 15.3% in

2004-2005. This is attributed to the carrying out of the second stage of the economic reform program, the support for privatization and the encouragement of the private sector to increase its contribution to economic sectors. The same table shows the value of national investments in the private sector increased until it reached its maximum, i.e., 69.7 billion pounds, in 2004-2005, with an increase of about 560.8% compared with 1992-1993. Equation (4) in table (2) indicates that national investments in the public sector increased by about 0.17 billion pounds per annum and the significance of the estimated correlation has not been established, while equation (5) in the same table indicates that national investments in the private sector increased by about 5.6 billion pounds per annum. This increase is statistically significant at 0.01 and represents about 13.5% of the average value of national investments in the private sector during the period under study which reached about 41.6 billion pounds.

Third- National Investments and Economic Sectors:

National investments are distributed to three economic sectors with the commodity sectors having the greatest share (44.33%), followed by social service sectors (32.02%) and finally production sectors (23.65%) during the period 1992-2005 as shown in table (3). The table shows that the value of investments in commodity sectors reached its maximum (i.e., 44.9 billion pounds) in 2001/2002, while it reached its minimum (i.e., 15.6 billion pounds) in 1993-1994, representing about 52.5% and 46.6% of the total value of national investments during the same period, respectively. The value of investments in production service sectors reached its maximum (i.e., 25.2 billion pounds) in 2004/2005, representing about 26.5% of the total value of national investments. Finally, the value of investments in social and personal service sectors reached its maximum (i.e., 35.3 billion pounds) in 2001/2002, while it reached its minimum (i.e., 15.6 billion pounds) in 2003-2004, representing about 38.5% of the total value of national investments, while it reached its minimum (i.e., 8.8 billion pounds), representing about 28.1% of the total value of national investments during the same period.

Table 3: Distribution of national investments to different economic sectors during the period 1992/1993 – 2004/2005 (in billion pounds).

	Item						
		Commodity Sectors		Production Service Sectors		Social & Personal Service Sectors	
Year	Total National Investments	Value	% of National Investments	Value	% of National Investments	Value	% of National Investments
1992/1993	31.6	16.0	50.5	6.8	21.4	8.8	28.1
1993/1994	33.4	15.6	46.6	8.2	24.4	9.6	29.0
1994/1995	39.4	17.5	44.4	9.8	24.9	12.1	30.7
1995/1996	44.1	19.9	45.1	11.7	26.6	12.5	28.3
1996/1997	55.2	22.5	40.7	16.0	29.1	16.7	30.2
1997/1998	62.0	25.1	40.5	13.7	22.2	23.2	37.3
1998/1999	68.5	32.1	46.8	14.5	21.2	21.9	32.0
1999/2000	73.1	34.5	47.1	15.7	21.5	22.9	31.4
2000/2001	80.5	39.7	49.3	17.2	21.4	23.6	29.3
2001/2002	85.5	44.9	52.5	16.6	19.5	24.0	28.0
2002/2003	88.2	32.5	36.8	21.4	24.3	34.3	38.9
2003/2004	92.5	33.1	35.8	24.1	26.1	35.3	38.1
2004/2005	94.6	42.8	45.2	25.0	26.5	26.8	28.3
Mean	65.28	28.94	44.33	15.44	23.65	20.9	32.02

Source: Ministry of Planning, Annual Follow-up Reports on the Economic and Social Development Plan, Unpublished Data, Cairo.

***Section 2: Economic Indicators Related to National Investments*:**

Inspection of table (4) shows that national investments and national saving increased during the period under study and that there is a strong relation between saving and investment. Saving is considered essential for meeting investment needs in economic activities. When saving is not adequate for meeting investment needs, there will be an investment gap that is mostly covered by borrowing from abroad. It is worth mentioning that saving rates in Egypt are considered low as they do not exceed about 14% of the gross domestic product due to the misdistribution of incomes and the fact that a limited category of people obtain the greatest share of the gross domestic product, something which badly affects saving rates. The same is true when this percentage increases as its direct positive effects are reflected in the increase of investment and, therefore, the decrease of unemployment rate and the reduction of deficit in the State's balance sheet (Ammar, Samiya, 1999).

The increase in national investments are due to the increased contribution of the private sector in investment activity through the incentives and guarantees provided for this sector and the issuance of laws which encourage the increased contribution of this sector in investment. The increase in saving is considered an indicator of the

Table 4: Economic variables influencing national investments

Year	National Investments in L.E. billions (Y)	National Saving in L.E. billions (X1)	Number of Population in million people (X2)	L.E./$ Exchange Rate (X3)	Interest Rate on Loans (X4)	Interest Rate on Deposits (X5)	Discount Rate (X6)
1992	31.64	21.4	56.400	3.335	15.7	13.6	15.0
1993	33.45	26.5	57.600	3.360	17.2	11.1	16.7
1994	39.41	30.1	57.510	3.780	18.0	10.3	14.0
1995	44.11	29.1	58.755	3.380	17.9	10.5	13.5
1996	55.28	38.8	60.080	3.380	17.2	10.2	13.0
1997	62.01	43.2	61.341	3.380	13.5	9.5	12.25
1998	68.59	51.0	62.639	3.400	13.2	9.5	12.0
1999	73.11	60.0	63.979	3.560	13.1	9.3	12.0
2000	80.50	64.0	65.292	3.580	13.5	10.1	12.0
2001	85.51	67.0	66.628	4.520	14.1	10.2	11.0
2002	88.20	74.0	67.976	6.032	13.4	9.2	15.0
2003	92.05	90.5	69.330	6.190	13.2	9.2	15.0
2004	94.06	95.2	70.432	5.780	13.4	9.1	15.0

Table 4: Continue

Year	Deficit in the Balance of Trade in L.E. billions (X7)	Deficit in the Balance of Payment in L.E. billions (X8)	Deficit in the Balance Sheet in L.E. billions (X9)	External Debt (X10)	% of External Debt to National Product (X11)	% of External Debt Service to Exports (X12)	Economic Growth Rate % (X13)	Inflation Rate % (X14)	Egyptians' Transfers from Abroad in L.E. billions (X15)
1992	7.3115	4.547	5.520	30.3	64.5	17.4	4.7	11.1	7.291
1993	7.3098	0.191	3.697	30.9	59.8	15.1	4.0	9.0	4.046
1994	7.8535	-0.385	2.537	33.0	54.6	13.8	4.6	9.4	4.197
1995	9.4980	-0.185	2.996	31.1	46.2	13.4	4.7	9.6	3.521
1996	10.2194	0.1186	2.300	28.8	38.8	10.7	5.0	6.2	4.145
1997	11.7706	-2.478	2.820	28.1	34.0	9.3	5.5	4.6	4.403
1998	12.5625	-1.723	12.730	28.2	31.4	9.5	6.0	4.2	4.869
1999	11.4723	-1.163	12.300	27.8	28.2	9.6	5.9	2.8	4.679
2000	9.3631	-0.0334	16.00	26.6	28.5	8.7	3.4	2.4	2.661
2001	7.5165	0.6142	9.623	28.7	33.7	12.2	3.2	2.4	2.952
2002	6.6149	1.943	9.946	28.7	41.5	12.1	3.2	3.2	2.962
2003	7.5227	3.729	11.747	28.9	37.8	10.8	4.3	2.7	2.999
2004	2.1937	1.927	7.709	29.5	38.7	10.8	5.1	4.7	4.290

Source: National Bank of Egypt, Central Bank of Egypt, Economic Bulletin, Different Issues.

improvement of income level and increased attention paid to investment activity. The table shows that the exchange rate reached its maximum (i.e., L.E. 6.19) in 2003/2004, then it decreased by 6.6% in 2004/2005 due to the modifications approved by the Central Bank regarding the freeing of exchange rates in 2003/2004. As for interest rates on loans and deposits, the table shows that they began to decrease by about 4.6% and 4.5%, respectively, until they reached 13.4% and 9.1%, respectively, in 2004/2005 compared with 1994/1995 and 1992/1993, respectively. This is considered one of the trends of monetary policy regarding reducing interest on loans and deposits in order to encourage investments. The table also shows that discount rate increased to 10% in 2004/2005, with a discount rate of about 6.7% compared with 1993/1994.

As for the deficit in the balance of trade, it has been shown that this deficit reached its maximum (i.e., 12.6 billion dollars) in 1998/1999. This deficit is attributed to the Asian crisis in South-East Asia which resulted in the increase in Egyptian imports of cheap commodities. The table also shows that the deficit in the balance of trade decreased by 66.7% (i.e., 8.4 billion dollars) and reached about 2.2 billion dollars compared with 1998/1999. This was because Egypt joined many regional and international economic blocs and the attention it paid to the encouragement of exports and the reduction of imports in order to reduce the deficit in the balance of trade. As for the deficit in the balance of payments, it reached its maximum (i.e., 2.5 billion dollars) in 1997/1998. Then it began to decrease until it completely vanished as of 2001/2002. In 2003/2004 it achieved a surplus of about 3.7 billion dollars. This decrease in the deficit is attributed to the increase in Egyptian petroleum exports and the increase in tourist revenues. The table also shows that the deficit in the balance sheet reached its maximum (i.e., 16 billion dollars) in 2001/2002, then it decreased by 51.9% (i.e., 8.3 billion dollars) and reached about 7.7 billion dollars in 2004/2005 compared with 2000/2001. This is attributed to the success of the government in implementing the economic reform program and the adjustment of the deficit in the balance sheet through rationalizing public expenditure and putting in place a new tax system to increase the State's resources. As for foreign debt, the table shows that it reached its minimum (i.e., 26.6 billion dollars) in 2000/2001, then it increased by 10.9% and reached

29.5 billion dollars in 2004/2005 compared with 2000/2001. This is attributed to the dropping of a part of Egypt's external debts to implement the economic reform program and also to Egypt's regular payment of its debts and the service of external debts to gain the trust of the international community, besides the improvement of economic growth. As regards the ratio of external debt to domestic product, the table shows that it decreased until it reached 28.2% in 1999/2000, then in 2004/2005 it began to increase by 10.5 % and reached 38.8%. This is attributed to the increase in external debt compared to the increase in gross domestic product, especially after the 2001 events. The table also shows that the ratio of external debt service to exports fluctuated between increasing and decreasing until it reached about 10.8% in 2004/2005 with a decrease of about 6.6% compared with 1992/1993. As for economic development rate, it reached its maximum in 1998/1999, then it began to decrease and increase until it reached about 5.1% in 2004/2005, with a decrease of about 0.9% compared with 1998/1999. Inflation rate reached its minimum (2.4%) in 2000 and 2002, then it began to increase until it reached about 4.6% in 2004/2005, with an increase of 2.3% compared with 2000 and 2002. Finally, the table shows that the value of Egyptian transfers from abroad reached its maximum (7.3 billion dollars) in 1992/1993, then it began to decrease and increase until it reached about 4.3 billion dollars in 2004/2005, with a decrease of 41.1% compared with 1992/1993. This decrease is attributed to the Second Gulf War and its consequences which led to the return of Egyptian labor from the Gulf countries and the Anglo-American War against Iraq and its consequences besides the September 11 events in 2001 and its continuous effect on the war against terrorism.

The effect of these variables on national investments were studied through establishing simple regression correlations between these variables and national investments as shown in table (5). The estimated relations were all significant at 0.01 and 0.05 as shown in the table. However, the estimated relations between national investments and deficit in the balance of trade, the deficit in the balance of payment and economic growth rate were not significant as shown in table (5).

Table 5: Simple regression equations between national investments and the variables under study during the period 1992/1993-2004/2005.

Equation No.	Equation	R^2	F	Significance Level
1	$\hat{Y}_w = 17.219 + .905\ X_1w$ (13.128)	0.94	172.333	0.01
2	$\hat{Y}_w = -231.865 + 4.723\ X_2w$ (18.859)	0.97	355.67	0.01
3	$\hat{Y}_w = 2.257 + 12.257\ X_3w$ (3.724)	0.56	14.00	0.01
4	$\hat{Y}_w = 207.352 - 9.524\ X_4w$ (4.835)	0.68	23.375	0.01
5	$\hat{Y}_w = 206.601 - 13.937\ X_5w$ (3.667)	0.55	13.444	0.01
6	$\hat{Y}_w = 197.817 - 10.670\ X_6w$ (9.950)	0.90	99.00	0.01
7	$\hat{Y}_w = 82.488 - 2.009\ X_7w$ (0.0761)	0.05	0.579	Not significant
8	$\hat{Y}_w = 62.535 + 1.889\ X_8w$ (0.395)	0.014	0.156	Not significant
9	$\hat{Y}_w = 39.475 + 3.360\ X_9w$ (3.167)	0.48	10.15	0.01
10	$\hat{Y}_w = 322.105 - 8.772\ X_{10}w$ (2.822)	0.42	7.966	0.05
11	$\hat{Y}_w = 125.497 - 1.457 X_{11}w$ (3.819)	0.57	14.581	0.01
12	$\hat{Y}_w = 136.688 - 6.05\ X_{12}w$ (3.061)	0.46	9.370	0.05
13	$\hat{Y}_w = 87.026 - 4.739\ X_{13}w$ (0.677)	0.04	0.458	Not significant
14	$\hat{Y}_w = 101.767 - 6.557\ X_{14}w$ (7.079)	0.82	50.111	0.01
15	$\hat{Y}_w = 108.667 - 10.634\ X_{15}w$ (2.275)	0.32	5.167	0.05

Where $\hat{Y}_w$ = national investments in L.E. billion. X_1w = national saving in L.E. billion X_2w = number of population in millions. X_3w = $-L.E. exchange rate. X_4w = interest rate on loans. X_5w = interest rate on deposits. X_6w = discount rate. X_7w = deficit in the balance of trade in $ billion. X_8w = deficit in the balance of payment in $ billion. X_9w = deficit in the balance sheet in $ billion. $X_{10}w$ = external debt in $ billion. $X_{11}w$ = the ratio of external debt to the gross domestic product. $X_{12}w$ = the ratio of external debt service to exports. $X_{13}w$ = economic growth rate. $X_{14}w$ = inflation rate. $X_{15}w$ = transfers of Egyptians working abroad in $ billion.

Equation (1) shows that the increase of national savings by about one billion pounds leads to an increase in national investments by about 0.91 billion pounds. Equations (2) and (3) show that the increase of the number of population by about one million people and the increase of exchange rates by about 1.0 pound lead to an increase in national investments by about 4.7 and 12.3 billion pounds, respectively. Equations (4), (5) and (6) also show that the decrease of exchange rates on loans and deposits and the decrease of discount rate by about 1% lead to an increase in national investments by about 9.5, 13.9 and 10.7 billion pounds, respectively. Equation (9) shows that the increase of the deficit of the balance sheet by about one billion pounds leads to an increase in national investments by about 3.4 billion pounds. On the other hand, equations (10), (11) and (12) in the same table show that the decrease in external debt by about one billion pounds, the decrease in the ration of external debt to domestic product by 1% and the decrease in the ratio of external debt service to exports by about 1% lead to an increase in national investments by about 8.8, 1.5 and 6.1 billion pounds, respectively. Table (14) also shows that the decrease in inflation rate by about 1% leads to an increase in national investments by about 6.6 billion pounds. Finally, equation (15) in the same table shows that the increase in the transfers of Egyptians working abroad by about one billion dollars leads to an increase in national investments by about 10.6 billion pounds.

To determine the most important factors affecting national investments, the simple step-wise regression method was used through several steps. The first step is to calculate the correlation matrix of all variables in several stages which start with the selection of the variables that are most highly correlated with the national investments variable. In the next stages, we select the variable which is entered based on the significance of F calculated for that variable using the analysis of variance to test the statistical significance based on which the variable is entered into the model. It has been shown that the most important factors affecting national investments are the number of population and the ratio of external debt to the gross domestic product. The estimated relation is significant as shown by the following equation:

$$\hat{Y}_w = - 177.162 + 4.107\ X_2w - 0.386\ X_{11}w$$
$$(26.822) \qquad (-6.236)$$
$$R^2 = 0.99 \qquad F = 835.057$$

Where the value of the determination coefficient indicates that 99% of national investments is attributed to the number of population (X_2w) and the ratio of external debt to the gross domestic product ($X_{11}w$).

Section 3: Efficiency of Investments in Commodity Sectors

First- Indicators of the Assessment of the Efficiency of Investments in Commodity Sectors

There is no doubt that distributing investments according to the relative advantages of every sector in national economy leads to increasing productivity and raising the rate of growth in gross domestic product. Optimal allocation of investments to economic sectors is the main determinant of stability and growth in the long run. There are several indicators of the assessment of the efficiency of investments in national economy including investment coefficient, investment rate, the productivity of the invested pound, employment coefficient and investment concentration coefficient (Central Bank of Egypt, 1994 and El-Hennawy, 2003). The following is an application of these indicators to commodity sectors in Egypt.

1. Investment Coefficient: It is the value of investment expenditure required by every sector to increase the production of the sector by one unit. It is calculated through dividing the value of investment in the sector by the product of the sector. Table (6) shows the development of investment coefficient during the period 1992/1993-2004/2005. The data in the table indicates that the electricity sector needs the greatest investments to produce one unit of the product, followed by the petroleum sector and its products, then the industry sector and its products, then the construction sector and finally the agriculture and irrigation sector. The investment coefficient of each of these as an average of the period under study is about 1.0, 0.28, 0.24, 0.18 and 0.16, respectively.

Table 6: Development of the investment coefficient in commodity sectors in Egypt during the period 1992/1993-2004/2005.

	Sector				
Year	Industry & Mining	Petroleum & its Products	Electricity	Agriculture & Irrigation	Construction
1992/1993	0.2	0.2	0.7	0.1	0.4
1993/1994	0.2	0.2	1.3	0.1	0.2
1994/1995	0.3	0.2	1.2	0.1	0.1
1995/1996	0.3	0.3	1.1	0.2	0.1
1996/1997	0.3	0.3	1.1	0.1	0.1
1997/1998	0.2	0.4	1.0	0.1	0.1
1998/1999	0.3	0.4	0.7	0.2	0.5
1999/2000	0.3	0.2	0.6	0.2	0.1
2000/2001	0.3	0.2	0.8	0.2	0.2
2001/2002	0.3	0.3	0.6	0.2	0.2
2002/2003	0.1	0.3	0.7	0.2	0.1
2003/2004	0.1	0.3	0.9	0.2	0.1
2004/2005	0.2	0.3	0.8	0.2	0.1
Mean	0.24	0.28	1.0	0.16	0.18

Source: Calculated from tables (11) and (12)

2. Invested Pound Productivity Coefficient: It is the converse of investment coefficient and is calculated through dividing the value of the product of the sector by the value of the investment expenditure of the same sector. This indicator is used to measure the efficiency of using investments in different activities. When this indicator is high in a certain activity, it is considered an indication that investments are used in a highly efficient way.

Table (7) shows the development of the invested pound productivity coefficient in commodity sectors during the period 1992/1993-2004/2005. The data in the table indicates that the construction sector comes first followed by the agriculture and irrigation sector, then the industry and mining sector, then the petroleum sector and finally the electricity sector. The invested pound productivity coefficient of each of these as an average of the period under study is about 8.9, 6.6, 5.1, 4.1 and 1.2, respectively. When the invested pound productivity coefficient is higher, this indicates that the production costs are low and the income is high as a result of high investment efficiency. The opposite is true; when this coefficient is low, the production costs are high and income is low as a result of low investment efficiency.

Table 7: Development of the invested pound productivity coefficient in commodity sectors in Egypt during the period 1992/1993-2004/2005.

	Sector				
Year	Industry & Mining	Petroleum & its Products	Electricity	Agriculture & Irrigation	Construction
1992/1993	4.3	4.4	0.6	9.7	4.9
1993/1994	4.4	4.7	0.8	8.6	4.7
1994/1995	3.5	4.5	1.2	7.0	12.5
1995/1996	3.3	3.5	0.9	6.6	10.0
1996/1997	3.3	3.3	0.9	8.6	10.5
Mean	3.8	4.1	0.9	8.1	8.5
1997/1998	5.9	2.8	1.5	6.5	11.8
1998/1999	3.7	2.8	1.6	5.5	11.1
1999/2000	3.6	5.8	1.6	5.3	7.5
2000/2001	3.2	6.6	1.3	4.9	6.6
2001/2002	3.7	3.3	1.6	5.5	8.6
Mean	4.0	4.3	1.5	5.5	8.6
2002/2003	10.4	3.4	1.3	5.6	8.6
2003/2004	10.8	3.8	1.1	7.1	14.0
2004/2005	6.5	3.9	1.3	5.4	7.3
Mean	9.2	3.7	1.2	6.0	10.0
Mean of the Period	5.1	4.1	1.2	6.6	8.9

Source: Calculated from tables (11) and (12)

3. Investment Rate: It is the ratio of change in the investments of a sector to the change in the product of that sector. This indicator measures the required amount of capital units required to produce an additional unit of the product. When this indicator is low, this shows that the marginal production of the sector needs fewer capital units as a result of the improved economic efficiency of investments. This indicator also measures the optimal distribution of resources when the marginal rate of capital is equal in all sectors. The opposite is true; when the marginal rate of capital is not equal in all sectors, this means that resources are not optimally distributed, in which case they must be redistributed in such a way as to suit the efficiency of each sector.

   Table (8) shows the development of investment rate in commodity sectors during the period 1992/1993-2004/2005. The table shows that the construction sector is the most efficient sector in investments, followed by the industry and mining sector, then the agriculture and irrigation sector, then the electricity sector and finally the petroleum sector. The table also shows that the indicator is not equal in any sector compared with other sectors during that period. This indicates that resources are not optimally allocated to different sectors, something which necessitates that investments be redistributed in such a way as to suit the efficiency of each sector.

Table 8: Development of the marginal rate of capital in commodity sectors in Egypt during the period 1993/1994-2004/2005.

	Sector				
Year	Industry & Mining	Petroleum & its Products	Electricity	Agriculture & Irrigation	Construction
1993/1994	0.1	(1.0)	(8.0)	0.4	1.0
1994/1995	1.1	0.4	(1.0)	1.2	(2.3)
1995/1996	0.6	(9.0)	0.5	0.4	0.5
1996/1997	0.3	1.3	1.0	0.1	-
1997/1998	(0.1)	0.7	(0.1)	1.2	0.1
1998/1999	1.3	(0.1)	-	0.9	0.1
1999/2000	0.4	(0.3)	0.7	0.2	0.8
2000/2001	1.0	(1.0)	2.5	0.4	-
2001/2002	0.1	2.1	2.5	(0.1)	0.3
2002/2003	(1.5)	(1.0)	3.0	-	1.3
2003/2004	(0.1)	0.4	2.5	0.1	0.5
2004/2005	6.9	0.1	0.3	0.6	11.0
Mean	0.8	(0.5)	0.3	0.4	1.0

• The value between parentheses is negative. • Source: Calculated from tables (11) and (12)

4. Investment Concentration Rate: It shows the concentration of investments in different sectors and the contribution of investments in each sector to the generation of domestic product. It is calculated by dividing the ratio of the value of investments in each sector to the total investments by the ratio of the product of that sector to the gross domestic product. When the coefficient equals 1, this indicates that the sector receives investments which equal its contribution to the gross product. When the coefficient is greater than 1, this indicates that the sector receives investments which are greater than its contribution to the gross product. Table (9) shows the development of investment concentration coefficient in commodity sectors during the period 1992/1993-2004/2005. The table shows that the investment concentration coefficient in both the agriculture and irrigation sector and the construction sector is less than 1, as it reached 0.7 and 0.6, respectively, as an average of the period under study. This shows that the agriculture and irrigation sector and the construction sector received investments which are less than their contribution to the gross product. On the other hand, the investment concentration coefficient in the industry and mining, petroleum and its products and electricity sectors reached about 1.1, 1.01 and 4.3, respectively, as an average of the period under study. This indicates that these sectors, especially the electricity sector, received investments which are greater than their contribution to the gross product.

Table 9: Development of the investment concentration coefficient in commodity sectors in Egypt during the period 1992/1993-2004/2005.

	Sector				
Year	Industry & Mining	Petroleum & its Products	Electricity	Agriculture & Irrigation	Construction
1992/1993	1.1	1.0	7.3	0.4	0.9
1993/1994	1.1	0.9	5.9	0.5	0.9
1994/1995	1.3	1.0	5.5	0.6	0.4
1995/1996	1.3	1.1	4.3	0.6	0.4
1996/1997	1.3	1.3	4.9	0.5	0.4
1997/1998	0.9	1.8	3.4	0.8	0.4
1998/1999	0.8	1.5	2.5	0.7	0.4
1999/2000	1.2	0.8	2.7	0.8	0.6
2000/2001	1.2	0.6	3.0	0.8	0.6
2001/2002	1.2	1.2	2.6	0.7	0.7
2002/2003	0.6	1.5	4.6	0.9	0.7
2003/2004	0.7	1.6	5.6	0.9	0.4
2004/2005	0.7	1.3	3.8	0.9	0.7
Mean	1.1	1.01	4.3	0.7	0.6

Source: Calculated from tables (11) and (12)

5. Employment Coefficient: It measures the value of investments in a certain sector divided by the total labor in that sector in order to determine per capita investments in the sector. When this coefficient is low in a certain sector, this indicates that the number of laborers and employees is greater than the magnitude of investments in that sector, something which requires increasing the magnitude of investments in that sector in order to create more job opportunities and reduce unemployment. The employment indicator is considered an indication of the density of labor and capital in the sector.

Table 10: Development of the employment coefficient in commodity sectors in Egypt during the period 1992/1993-2004/2005.

	Sector				
Year	Industry & Mining	Petroleum & its Products	Electricity	Agriculture & Irrigation	Construction
1992/1993	2.7	77.5	37.7	0.5	0.9
1993/1994	2.7	72.5	29.1	0.6	1.5
1994/1995	3.6	78.0	27.2	0.7	0.5
1995/1996	4.0	97.6	25.4	0.8	0.7
1996/1997	4.5	104.7	25.8	1.1	0.7
1997/1998	3.6	138.6	24.2	1.4	1.0
1998/1999	6.0	136.1	23.4	1.7	1.1
1999/2000	6.3	81.6	24.6	2.0	1.6
2000/2001	7.1	73.5	31.3	2.3	1.5
2001/2002	7.9	105.0	27.2	2.2	1.9
2002/2003	3.0	115.6	19.2	2.2	1.4
2003/2004	3.0	125	24.7	2.0	9.0
2004/2005	4.9	86.2	26.5	2.6	1.6
Mean	4.6	99.4	26.6	1.5	1.2

Source: Calculated from tables (11) and (12)

Table (10) shows that the mean of the employment coefficient in the agriculture and irrigation, industry and mining, petroleum and its products, electricity and construction during the period 1992/1993-2004/2005 reached about 1.5, 4.6, 99.4, 26.6 and 1.2 thousand pounds per laborer, respectively. The table shows that the employment coefficient in the agriculture and irrigation, construction and industry and mining sectors is low although these sectors attract a great proportion of labor compared with other sectors. The problem lies in the low investments directed to these sectors unlike other sectors. Therefore, the investments directed to these sectors must be supported and increased in order to achieve real development and create more job opportunities.

Table 11: Distribution of investments in commodity sectors to different economic activities during the period 1992/1993-2004/2005.

	Sector										
		Electricity		Industry & Mining		Petroleum & its Products		Agriculture & Irrigation		Construction	
Year	Investments of Commodity Sectors	Value	%	Value	%	Value	Value	%	Value	%	Value
1992/1993	16.0	4.0	25.0	5.2	32.5	3.1	19.3	2.3	14.3	1.4	8.7
1993/1994	15.6	3.2	20.5	5.3	33.9	2.9	18.5	2.7	17.3	1.5	9.6
1994/1995	17.5	3.1	17.7	7.2	41.1	3.2	18.2	3.4	19.4	0.6	3.4
1995/1996	19.9	3.0	15.0	8.3	41.7	4.1	20.6	3.7	18.5	0.8	4.0
1996/1997	22.2	3.1	13.7	8.9	39.5	4.5	20.0	4.9	21.7	0.8	3.5
1997/1998	25.1	3.0	11.9	8.0	31.8	6.1	24.3	6.8	27.0	1.2	4.7
1998/1999	32.1	3.0	9.3	13.7	42.6	5.8	18.0	8.2	25.5	1.4	4.3
1999/2000	34.5	3.2	9.2	15.2	44.0	4.0	11.5	9.9	28.6	2.2	6.3
2000/2001	39.7	4.2	10.5	17.8	44.8	3.9	9.8	11.6	29.2	2.2	5.5
2001/2002	44.9	3.7	8.2	18.9	42.0	8.4	18.7	11.1	24.7	2.8	6.2
2002/2003	32.6	4.9	15.0	7.2	22.1	7.4	22.7	11.1	34.1	2.0	6.1
2003/2004	34.2	6.4	19.3	7.1	21.4	8.0	24.1	11.5	34.7	1.2	3.6
2004/2005	43.2	7.4	17.2	11.8	27.5	8.1	18.9	13.6	31.7	2.3	5.3

Source: Ministry of Planning, Economic and Social Development Plan, Different Issues.
National Bank of Egypt, Economic Bulletin, Different Issues.Central Agency for Public Mobilization and Statistics, Statistical Year Book, Different Issues.

Table 12: Contributions of commodity sectors to domestic product and employment during the period 1992/1993-2004/2005.

	Sector											
			Electricity		Industry & Mining		Petroleum & its Products		Agriculture & Irrigation		Construction	
Year	Domestic Product in L.E. Billion	Total Labor in Thousands	Value	Labor	Value	Labor	Value	Labor	Value	Labor	Value	Labor
1992/1993	67.2	7554	2.3	106	22.4	1876	13.5	38	22.2	4620	6.8	914
1993/1994	69.6	7766	2.4	110	23.3	1952	13.7	40	23.1	4682	7.1	982
1994/1995	73.3	7968	2.5	114	25.1	2031	14.5	41	23.7	4744	7.5	1038
1995/1996	76.4	8171	2.7	118	27	2099	14.4	42	24.4	4812	7.9	1100
1996/1997	97.5	8088	2.8	120	29.3	2038	14.7	43	42.3	4747	8.4	1140
1997/1998	126.2	8385	4.5	124	46.8	2182	16.9	44	43.9	4820	14.1	1215
1998/1999	133.4	8670	4.9	128	51.3	2297	16.1	46	45.5	4904	15.6	1295
1999/2000	153.2	8953	5.2	130	55.3	2412	23.3	49	52.8	4985	16.6	1377
2000/2001	160.6	9250	5.6	134	57.8	2533	25.7	53	56.9	5069	14.6	1461
2001/2002	181.2	9202	5.8	136	70	2405	27.8	58	61.0	5119	16.6	1484
2002/2003	188.8	9123	6.2	255	74	2216	28.8	64	62.6	5153	17.2	1435
2003/2004	198.9	9316	6.8	259	76	2338	30.5	64	67.8	5206	16.8	1449
2004/2005	206.9	9564	8.9	264.4	76.7	2400	31.2	94.6	73.4	5310	16.7	1495

Source: Ministry of Planning, Economic and Social Development Plan, Different Issues.
National Bank of Egypt, Economic Bulletin, Different Issues.Central Agency for Public Mobilization and Statistics, Statistical Year Book, Different Issues.

Second- The Factors Influencing the Efficiency of Investments in Egypt

There are several factors which positively and negatively influence the efficiency of investments in Egypt. Among these factors are the following:

1. Growth Rate of Gross Domestic Product:

Studies indicate that increasing investment whether in development of resources or in research, development, education and training contributes to increasing the growth rate of gross domestic product through its positive effect on productivity. Also, increasing the growth rate of product gives investors an optimistic indicator of the future of

overall demand and economic performance and this gives motivation to carry out new investment projects. There is a positive relation between the rate of gross domestic product and private investment. This relation has its roots in the flexible accelerator theory assuming that the production index reflects a consistent relation between the stock of capital commodities in economy and the level of real gross domestic product (Green and Villanueva, 1992 and Klaus Schmidt-Hebbel, *et al*.,1994).

2. External Debt and the Rate of External Debt Service:

The problem of external debts has a twofold effect on the economies of developing countries, including Egypt. On the one hand, it is considered the main source of financing developmental plan investments with the foreign currency required to import capital commodities such as tools, machines and factories. There will be no fear of the growth of external debts if the State makes good use of loans in useful investment projects that support economic growth. This is the predominant case in poor developing countries in the first stages of the economic growth process. On the other hand, when payment of the premiums of loans and their interests is due, this negatively affects the investment climate and consumes rare foreign currency resources available to developing countries, which negatively affects investment through several channels (Sachs, Jeffrey,1988).

First- The magnitude of annual payments to serve external debts depends on the interest rates that are predominant worldwide as well as on the local currency exchange rate and the trade exchange rates. When payment of debts is due, there is uncertainty about what the policies and other procedures which the State can adopt and which aim at providing adequate balance of foreign currency. This makes payment of loans have a negative effect on investment in the country (Moustafa, M.,1996)

Second- Some balances of foreign currency from the returns of exports or new loans can be allocated to payment of existing loans instead of financing new investments.

Third- Increased deficit in the checking account due to external debts can make the State lose trust in borrowing in international stock markets and this reduces the State's opportunities to obtain the funding required for investment and increases the costs of external funding, which negatively affects the magnitude of possible new investments.

3. Economic Policies:

Egypt suffers from a continuous deficit in the balance sheet. To remedy this Egypt has not resorted to increasing its revenues from other sources like taxes because of the negative effect that this action may have on private consumer demand, but it could retain the relative stability of the taxes imposed on companies, then it took serious steps towards the amendment of the tax law in 2004 so as not to hamper economic activity and this had its positive effect on the investment process.

As regards the interest rate on loans, it reached high rates as it exceeded 16% and this rate is considered high. High interest rate usually affects the investment process negatively. As for interest rate on deposits, its rates are low and do not exceed 8% and this low interest rate leads to reducing savings, which negatively affects the investment process (Moustafa, 1996). Egypt suffers from a problem related to financing investments, as the ration of total bank deposits to gross domestic product always exceeds the ratio of banking credit to gross domestic product. Also, the percentage of credit granted by banks is considered modest because banks do not accept the risks resulting from the lending process. Studies indicate that the investment process depends mainly on the financial and monetary policy through changing cash flows and the loans granted to private investments which directly affect the investment decision (Blejer and Khan, 1983).

4. Government Investment Rate:

Some people see that the relation between government expenditure and private investment may be an inverse one, considering that government expenditure may compete with private investment over funding sources when financing the deficit in the balance sheet through loans from individuals, agencies or banks. Increased government expenditure under the deficit in the balance sheet reduces the funds available to lend the private sector and raises the interest rates on loans and, consequently, increases the capital costs of investment projects and this negatively affects private investment. Thus, we find that government expenditure has positive supplementary effects as well as negative competitive effects on private investments. The net effect of government expenditure on private investment is the sum of the forces influencing in every direction (Balass, 1988).

A study on the effect of government and private investment on economic growth has shown that there needn't be a contradictive relation between government and private investment. Rather, government investment may supplement private investment. The study has indicated that the effect of private investment on economic growth is greater than that of government investment (Khan and Rinlauhart, 1990).

Some people think that the capital coefficient to product alone does not reflect the changes in the magnitude of capital. Rather, this depends on other factors such as climate. The marginal capital coefficient to product is high in cold countries because of the high costs of equipments and buildings, unlike hot or mild areas where costs are low. In addition, over-population and its concentration in certain areas leads to the deterioration of the infrastructure and, therefore, to the need for capitals for replacement and expansion. Productive art also plays a remarkable role, as the capital coefficient to product is higher when using productive arts with dense capital and the opposite is true when using productive arts with dense labor (Abdel-Fadeel, 1994).

***Section 4: Investment Obstacles in Egypt*:**

Despite the numerous incentives and guarantees granted by the State to protect and encourage the investor within the framework of the package of investment laws aimed at removing the obstacles and facilitating procedures, the last of which was the presidential decree No. 231 for the year 2004 on establishing the Ministry of Investment with the aim of developing and attracting investment to the Egyptian market, there are many obstacles which limit the magnitude of investments in Egypt and reduce the efficiency of investment. Among the most important investment incentives granted by Egypt to the investor, whatever nationality he has, were the right to own land and property to do different activities, the allocation of the State's land to the projects necessary for achieving balanced development, the establishment of free zones and exempting projects set up in them from customs and taxes and the exemption of commercial and industrial activities from taxes for five years which may be extended to ten years in new settlements and industrial areas and twenty years in remote areas (Kenawy, 2004).The aim behind this was to expand the development of areas, create more job opportunities, increase production and, therefore, increase exports. Although the State lost the tax returns on these projects and the customs which could have been collected on the imports of these investment companies, which was reflected in the deficit in the balance sheet of the State, the misallocation of resources and the decline of the efficiency of investments, this investment orientation had short-term and long-term goals as regards attracting investment.

Among the most important guarantees granted by the State to the investor in this framework was not to nationalize or confiscate investment companies because of the investor's fear of the consequences of the Nasserian Era in which investment companies in Egypt were nationalized. Investors' licenses were not to be revoked or suspended and not administrative authority would not price the products of the project or determine its profit. In addition, investment disputes would be settled in the way agreed upon with the investor. Law 13 for the year 2004 was passed with the aim of amending the rules of Law 8 for the year 1997 on investment incentives and facilitating investment procedures (Central Bank of Egypt, Economic Bulletin, 2005).

Despite these numerous incentives and guarantees, there are many obstacles which hinder the activation and increase of the magnitude of investment. Among these obstacles are the following:

1- The multiplicity of laws before investors led to instability and weakness of investments.
2- The complexity and slowness of investment procedures.

In 2002 the registration of any new commercial or investment work required about 13 procedures, about 52 days and a cost which equals 61% of per capita share in gross domestic product in Egypt and this would cost much compared with most developing countries. The procedures required to put contracts into effect amounted to about 17 procedures which would take 202 days on the average (El-Ahram Economy, November, 2004).

The Business Environment Report for the year 2004 shows the attractiveness of the investment environment in a certain country and, according to the foundation indicators, it consists of sub-components which are the number of procedures required to register a company, the period of time required to complete procedures and the cost of completing procedures. This report has shown that the number of procedures in Egypt in 2004 reached about 13 and it was the same as 2003, while Algeria reduced the procedures from 18 in 2003 to 13 in 2004, Jordan reduced the procedures from 13 in 2003 to 11 in 2004 and Morocco reduced the procedures from 11 in 2003 to 5 in 2004. According to this component, Egypt was considered one of the countries which had many procedures hampering investment and only Algeria exceeded it. As for the second component which is related to the period of time required to obtain licensure, it reached about 43 days in Egypt in 2004, in Morocco 11 days and in Mauritania 82 days.

3-Defective and Slow Mechanisms of Dispute Settlement:

The average time litigation takes is four and a half years. The levels of support services such as training centers and labs for awarding quality and origin certificates are absent and defective and there is lack of a database which will help take rational decisions. In addition, funding and transaction costs are high. The lending coefficient in Egypt

reached about 13% while in Singapore it reached 5.8%, in Japan about 2.2% and in Malaysia about 7.3%(World Bank, World Development Indicators, 2001).

4-Poor Efficiency of the Stock Market and its Sensitiveness to Current Events:

Such as terrorists accidents in El-Azhar, Sharm El-Sheikh and Sinai in Egypt and international events such as September 11 events in America in 2001 and the attack on the underground stations in London in 2005. All these reduced transactions in the stock market and affected its primary role which is the optimal allocation of resources.

5-Lack of Optimal Allocation of Investments among Economic Sectors:

There is inequality in distributing investments among economic sectors and within each sector. For example, in the industry sector, investments are concentrated in petroleum products and raw petroleum which takes up 37% of the total industrial investment. The food industry sector comes second as it takes up 24.4% of the total industrial investment, while mineral product investments take up about 0.9%. The textile sector in which Egypt has relative advantage takes up only 11.4% of the total industrial investment (General Agency for Investment and Free Zones, 2005).

6-Poor Efficiency of Workers and Employees in Different Sectors in Egyptian Economy:

For example, in Egypt it is noticed that the ratio of wages to productivity is 1.3 pounds, in the sense that every 100 pound productivity is equivalent to about 130 pound wages. This means that wages are 30% higher than productivity. In contrast, the ratio of wages to productivity in Indonesia is about $ 0.6 and in Thailand $ 0.3. It has also been shown that the relation between wages and productivity in Egypt goes in an uneconomic way(El-Ahram Economy, May, 2005).

Section 5: Study Results & Recommendations:

In the light of the foregoing presentation and analysis, the study reached the following results:

- The investment climate in Egypt is influenced by the prevailing economic climate according to the degree of economic freedom and the advantages and guarantees granted to investors. The study indicates that the magnitude of investment expenditure is characterized by a state of instability whether in terms of its growth rates or in terms of its contribution to the gross domestic product.
- The gap between national saving and national investments increased to 9 billion pounds in 2004/2005 compared to 3 billion pounds in 2003/2004. Also, funding this gap is affected by the economic and political developments at the local and international levels.
- The contribution of commodity, social and personal services and production services sectors reached about 44.33%, 32.02% and 23.65%, respectively, of the total national investments during the period 1992-2005.
- The simple step-wise regression analysis indicates that the number of population and the ratio of external debt to domestic product are considered two of the most important factors influencing national investments. The determination coefficient value indicates that 99% of changes in national investments are attributed to these factors.
- The investment efficiency indicator is considered one of the important tools in economic analysis, as it shows the causal relation between economic growth rate and investment rate and helps determine the magnitude of investments required to achieve a certain rate for the growth of gross domestic product.
- The percentage of the contribution of national investments to gross domestic product reached about 22.3% during the period under study.
- The study used some indicators of the efficiency of commodity investments such as the investment coefficient, investment rate, the productivity of the invested pound, employment coefficient and investment concentration coefficient. The investment coefficient in the industry and mining sector, the petroleum sector, the electricity sector, the agriculture and irrigation sector and the construction sector during the period 1992-2005 reached about 0.24, 0.28, 1.0, 0.16 and 0.18, respectively. As for the investment rate indicator, the study shows that the contribution of the investments to product in the agriculture and irrigation sector and the construction sector is low as the concentration coefficient in them is less than 1, unlike other sectors such as industry and mining, petroleum and electricity in which the concentration coefficient in them is greater than 1. As for the ratio of the marginal rate of capital to product, the study indicates that the indicator is not equal during the period under study, something which requires the reallocation of investments according to the efficiency of each sector.
- As for the productivity indicator of the invested pound in commodity sectors, the study has shown that the

construction sector comes first, followed by the agriculture and irrigation sector, then the industry and mining sector, then the petroleum sector and finally the electricity sector, as it amounted to about 6.6, 5.1, 4.1 and 2.1 pound productivity per invested pound, respectively. As for the employment coefficient, the study has shown that it is low in the agriculture and irrigation, construction and industry and mining sectors is low, while it is high in the electricity and petroleum sectors. Therefore, the investments directed to the sectors in which the employment coefficient is low in order to solve the problem of unemployment.

- The study has indicated that the advantages and guarantees granted to investors are not proportional to the investment return achieved in economic sectors because of the numerous obstacles in Egypt such as the multiplicity of investment laws, the complexity of procedures and bureaucracy to obtain investment licensure, the ineffectiveness of the mechanisms required to settle investment disputes, the long period of time litigation takes, the sensitivity to world political events and lack of optimal distribution of investments among economic sectors.

In order to activate the investment climate and raise the efficiency of investment in economic sectors, the following recommendations should be taken into account:

- Issuing and consolidating economic laws, getting rid of bureaucracy, facilitating investment licensure and reducing high taxes after the end of the tax exemption period.
- Increasing the contribution of the private sector in investment projects; providing more guarantees and advantages for investors; and providing infrastructure for stock markets so that these markets can mobilize local savings and increase them through raising the interest rate and directing them to medium and long-term investments.
- Reallocating investments in such a way as to fit with the efficiency of each sector in order to increase investment return and domestic product and raise the economic growth rates.
- Integrating investment policy with other policies and providing the appropriate economic climate for investments through reducing the burden of external debt on Egyptian economy, because increased external debt and the accumulation of its payments negatively affect the resources available to investment. In addition, the over-population phenomenon should be reduced and the exchange rate should be stabilized.

Conclusion:

The present research includes four sections in addition to the introduction, results and recommendations. The first section deals with the reality and nature of investment climate in Egypt in terms of the development of the investment climate through different stages since the beginning of the second half of the 1970s till the period of full economic freedom in 2005. In addition, this section shows the relation between domestic product, domestic saving and national investments and sheds light on the distribution of national investments to economic sectors such as commodity, social and personal services and production services sectors. The second section presents the most important economic indicators related to national investments, such as number of population, exchange rate, interest rate on deposits and loans, the deficit in the balance of trade, the deficit in the balance of payment, the deficit in the State's balance sheet, external debt, economic growth rate, inflation rate, transfers of Egyptians working abroad, in order to show the most important factors influencing national investments. The third section deals with the indicators of the efficiency of investments in commodity sectors, such as investment coefficient, investment rate, the productivity of the invested pound, employment coefficient and investment concentration coefficient. In addition, this section treats of the most important factors influencing the efficiency of investments in Egypt. Finally, the fourth section deals with the most important obstacles hampering the investment process in Egypt. The study concludes with a presentation of the most significant results that have been reached. Results show that the gap between national saving and national investment increased to 9 billion pounds in 2004/2005 and that the contribution of the private sector to national investment increased by 63.7%. The study also indicates that the number of population and the ratio of external debt to the gross domestic product are considered two of the most important factors influencing national investments. The study has also indicates the poor efficiency of investments in commodity sectors. Finally, the study presents some recommendations for activating the investment climate and raising the efficiency of investments in economic sectors. Among these recommendations are issuing economic laws, facilitating investment licensure procedures, reducing taxes, getting rid of bureaucracy, reducing the burden of external debt, stabilizing exchange rate, reducing over-population, increasing the contribution of the private sector in economic activity, increasing savings through raising interest rate and reallocating investments in such a way as to fit with the efficiency of each sector in order to increase investment return and raise the economic growth rates.

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