N Gage Consulting
Public Strategy and Government Relations Specialists

Invest in Egypt

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The Egyptian Cultural Centre
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London W1J 5BG.

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About N Gage Consulting

N Gage Consulting rapidly established itself as the first Egypt based firm specialized in providing public strategy advice, government relations assistance and lobbying for sustainable and sensible regulations in the Middle East & North Africa. The firms scope of work covers tax, customs, specifications and regulations prediction and management, bids and tenders processing, public strategy positioning, CSR & CSI platform support as well as stakeholders classification, mapping and relationships build up and management.

We are very confident of our team's ability to leverage their personal relationships and experience, deep understanding of governments operating ways and bureaucracies to help our partners unveil opportunities, identify the right products and services, manage their challenges and reduce their business risks. We ensure to do so whilst operating in a perfectly legal, sustainable and profitable way.

N Gage Consulting was able to secure solid partnerships with key operators that include the largest multinationals and local business groups operating in Egypt. N Gage Consulting is becoming a trusted advisor to its partners as well as one of the partners of choice for a number of key governmental entities.

With a solid reading of the regulatory terrain of Egypt and the region, and with solid confidence in the potential growth of the Egyptian and regional economies, N Gage Consulting has been advising and navigating its clients through the most turbulent times, providing them with insight, regulatory advice and lobbying support.

Most recently, N Gage Consulting has supported a number of government activities such as the build up for the VAT Law and its societal dialogue efforts, advice on regulatory reform with the Egyptian Regulatory Reform And Development Activity, as well as follow up and execution support to the Ministry of International Cooperation on the preparation of the Egypt Economic Summit scheduled for March 2015. We are also in negotiations with the National Telecommunications Regulatory Authority and the Ministry of Communications and Information to assist in the development of the pertinent regulations and advise the government on the best practices to utilize the IT sector to boost the economy.

With a net turnover of more than EGP 4 Million in the first 18 months of operations and a client portfolio of more than 13 well established multination corporations, N Gage Consulting has already initiated its expansion plan of its footprint in key strategic sites across the MENA Region, with plans to have an operational footprint in Casablanca and the Levant region by Q1 2015.

Executive Summary

After the January 25th revolution, the political uncertainty and security vacuum that engulfed Egypt hit the economy hard. Things started to change after the announcement of the political roadmap on the 3rd of July 2013, as the nation moves steadily towards political stability and as the state managed to enhance the security conditions. Business confidence was revived considerably and most economic indicators witnessed an upturn which brightened the outlook for the Egyptian economy. Real GDP growth picked up slightly in FY2014 to record **2.2%**, up from an average of 2% for FY2011, FY2012 and FY2013. The effect of the revived business activity is more obvious when examining the quarterly growth rates for FY2014. The economy registered growth rates of 1% and 1.4% for quarters one and two respectively. As Egypt moved towards political stability and the security conditions enhanced noticeably, the economy rallied to register growth rates of **2.5%** and **3.7%** in quarters three and four respectively. The official outlook for FY2015 stands at **3.8%.** As for public finance, Egypt's budget deficit contracted to **12.8%** of the GDP in FY2014, down from 13.7% in FY2013. The considerable increase in investments has captured the restored investors' trust the most. Inflows of Foreign Direct Investments (FDIs) increased from $ 3.8 bn. in FY2013 to **$ 4.1 bn**. in FY2014, while total investments increased from EGP 242 bn. to **EGP 265 bn**. Furthermore, unemployment decreased from 13.3% to **13.2%** in the third quarter of 2014. There is still a long way to go for Egypt. The government has prepared an ambitious and clear development plan that sets clear targets for FY2018. By FY2018, the government targets to reach a growth rate of **7%,** contract the deficit to **9%,** increase FDIs to **$15 bn**., total investments to **EGP 650 bn**. and reduce the unemployment rate to **9%.**

The road to reach the targets is not easy, therefore, a set of robust measures were taken. To begin with, Egypt is firmly following the Political Roadmap that is due to be concluded with the imminent parliamentary elections. Moreover, a set of tough but necessary fiscal reforms have been adopted to enhance Egypt's fiscal standing. These include the partial curtailment of **fuel subsidies**, raising **electricity prices**, amending the **income tax law**, enforcing the **maximum wage** on public employees and raising the **taxes on alcohol and cigarettes**. These reforms were praised by the World Bank and IMF, resulting in a very positive outcome of the IMF's **Article IV consultations**. On a parallel track, the government has identified the need to enhance Egypt's redundant regulatory framework, governing investments. The **Supreme Committee for Regulatory Reform** was formed and the **Egyptian Regulatory Reform and Development Activity (ERRADA)** was reactivated to act as mechanisms regulatory reform. A large number of regulations have been pinpointed for reform. The reform revolution can be divided to three phases, the **first of which** constitutes the laws that have been already been issued or amended, such as the Competition Law, the Mineral Resources Law, the Renewable Energy Law and the Microfinance Law. **Phase two** constitutes the laws that are due to be issued before the March Summit and include the Investment Law and the Executive Regulation of the capital gains tax. **Phase three** entails the laws that are in the reform process but still need more discussion time and are due to issued after the March Summit, such as the Labor Law, Unions' Law, Industry Law, Unified Land Law and Real Estate Registry Law.

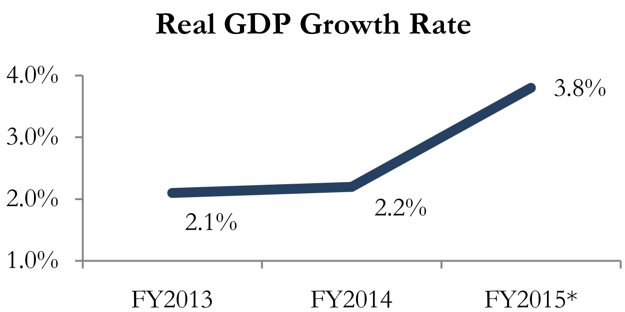
The government is also resolved on settling the ongoing disputes between the state and investors. Former President Adly Mansour issued amendments to the investment law that prohibited any third party from challenging government contracts. Additionally, **law 32 for 2014** was issued to prohibit privatization reviews unless crimes were committed during the process. The government targets to end 75% of current disputes before the March Summit. As of January 2015, **230 disputes** were settled from a total of **360 disputes**. To overcome the problem of shortages in resources, Egypt has placed a renewed emphasis on the role of the **Public-Private Partnership (PPP)** program that started in 2010. Currently, the government is mulling the feasibility of **nine projects** to be executed via the PPP scheme worth **EGP 8.5 bn.,** including the automation of real estate registry and the establishment of 1,000 schools.

Annexes I, II and III examine the **renewable energy sector**, the **Suez Canal Development Project** and the **Mineral Resources Sector** in Egypt.

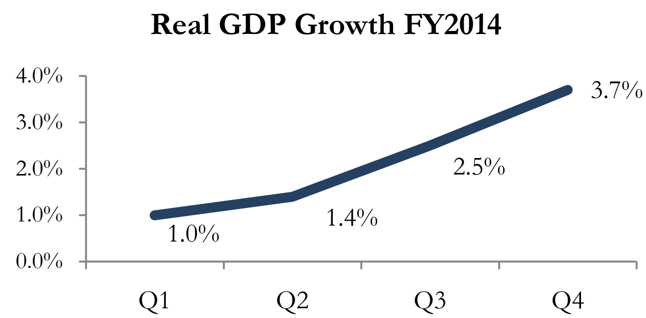
Egyptian Economy

After the January 25th revolution, the state of turmoil that engulfed Egypt hit the economy hard. The Political uncertainty and security vacuum that persisted since 2011 inhibited the performance of economy. Things started to change after the announcement of the political roadmap on the 3rd of July 2013, as the nation moves steadily towards political stability and as the state managed to enhance the security conditions. Business confidence was revived considerably and most economic indicators witnessed an upturn which brightened the outlook for the Egyptian economy. However, there is still a long way to reach the pre-revolution levels. The government has prepared an ambitious development plan that sets clear targets for FY2018.

GDP Growth



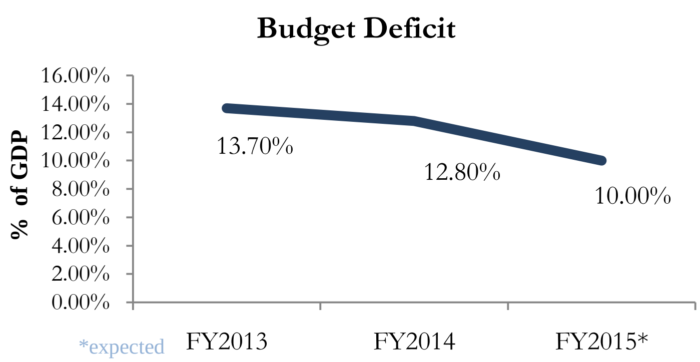
*expected
Source: Central Bank of Egypt



Source: Ministry of Planning

The economy grew at an average rate of 2% in FY2011, FY2012 and FY2013. Business confidence rose significantly after the announcement of the political roadmap, yet, waves of violence swept through the country affected the economic performance for the first two quarters of FY2014. The economy registered growth rates of 1% and 1.4% for quarters one and two respectively. As Egypt moved towards political stability and the security conditions enhanced noticeably, the economy rallied to register growth rates of 2.5% and 3.7% in quarters three and four respectively. Most economic sectors achieved very solid growth rates, with the manufacturing and real estate sectors standing out, growing at 21.9% and 13.3% respectively. The government targets a 3.8% growth rate in FY2015 and a 7% rate by FY2018.

Public Finance



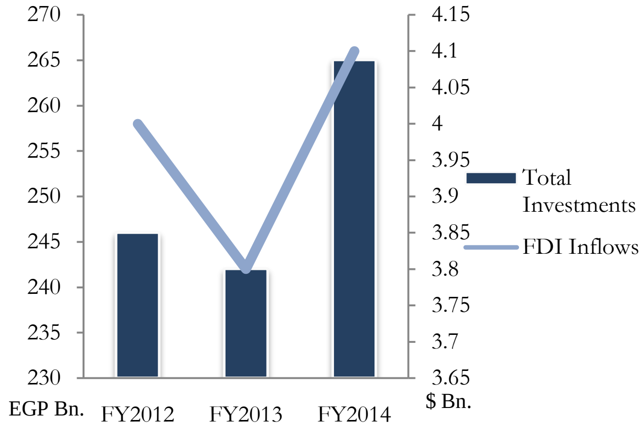
*expected
Source: Ministry of Finance

Public finance in Egypt has always been plagued with chronic structural distortions resulting in high budget deficits. On the expenditure side, constantly inflating wage, subsidy and interest bills, have been eating the state budget for years. Around 80% of the state's expenditure went to wages, subsidies and interest payments instead of going to upgrade education, health or infrastructure. On the receipts front, the tax system in Egypt is rather inefficient and unjust. Egypt's tax receipts as a percentage of the GDP is expected to reach 14.2% in FY2014 which is drastically low compared to international figures that stand at 23% for low-income countries, 28% for emerging economies and around 36% for developed countries. The budget deficit has become unsustainable, reaching 13.7% in FY2013 and was due to reach around 15% in FY2014, if not for the generous Gulf support resulting in a 12.8% deficit. The government has adopted several reforms, such as the partial curtailment of the fuel subsidy bill, raising electricity prices and amending income tax law, to narrow the budget deficit to

10% in FY2015. More reforms are expected to take place (VAT, real estate tax and the complete removal of fuel subsidies with five years) to narrow the deficit further to 9% by FY2018.

Investments

Political unrest and the security conditions shook the investors' confidence in the economy hard, scaring away local and foreign investments. After the 30th of June 2013, both the Beblawi and Mehleb government's placed attracting investments at the very top of its agenda. Late in 2013, the Beblawi government launched two stimulus packages worth around EGP 60 bn. to stimulate the economy that was shocked by the waves of violence spread through the country. Mehleb's government has taken several measures to prop up investments as well, including increasing public investments, adopting regulative reforms and paying back the debt owed to international oil companies. Foreign Direct Investments (FDI) inflows decreased in FY2013 to $ 3.8 bn., from $ 4 bn. in FY2012. In FY2014, FDI inflows recovered to record $ 4.1 bn. Total investments have witnessed the same trend. In FY2012, total investments stood at EGP 246 bn., only to decrease in FY2013 to EGP 242 bn. before rebounding again in FY2014 to EGP 265 bn. The government is pursuing an investment-led growth, therefore, increasing investments is a top priority. By FY2018, the government targets to increase FDI inflows to $ 15 bn. and total investments to EGP 650 bn.



Source: Ministry of Planning

Employment

Egypt boosts a huge labor force, around 27.6 million individuals. The weak growth rates since 2011 limited the economy's ability to create jobs and absorb new entrants to the labor market, estimated at 700,000 per year. Moreover, Egypt is plagued with structural distortions in its labor market. To elaborate more, the Egyptian labor market suffers from a chronic mismatch between the demand and supply of labor, as evident by the fact that holders of university and higher degrees constitute the largest portion of the unemployed, with 22.6%. Unemployment is one of the major challenges facing Egypt in the coming period. Unemployment increased from 9% in 2010 to 13.3% as in the second quarter of 2014[1], only to decrease slightly in third quarter to 13.1%. A 9% unemployment rate is targeted by FY2018.

[1] Labor Force Bulletin, Central Agency for Public Mobilization and Statistics (CAPMAS).

Getting There

Political Roadmap

More than three years of political uncertainty has destabilized Egypt in every sense. The economy was going downhill, protests and unrest were out of control, and the state could not reinstate security. Therefore, the need for a clear political vision was obvious. On the 3rd of July 2013, then-Minister of Defense Abdel Fattah Al Sisi announced the political roadmap that would stir the nation to stability. The first milestone on the roadmap was to amend the 2012 constitution. Amendments to the constitution were made via a 50-member committee that represented all groups of the population. The constitution passed on the 15th of January via a public referendum, with a whopping 98% approval. The next was milestone was electing a president. In May 2014, Hamdeen Sabahy (third-placed in 2012's elections) and Abdel Fattah Al Sissi, former Minister of Defense, faced head-to-head in the presidential elections. With a turnout of 47.5% of the electoral body and 96.9% approval rate, Abdel Fattah Al Sisi was elected president. The third and final milestone is holding the Parliamentary elections which are scheduled for next March. Therefore, the political outlook for Egypt is much more stable now, with a clear political leadership, much fewer protests and enhanced security.

Fiscal Reforms

Constant increases in public expenditure relative to public receipts since 2010, in turn, increased the budget deficit as a percentage of GDP from 8.1% in FY2010 to almost 14% in FY2013. It has become crystal clear that the chronic fiscal distortions in Egypt pose a serious threat to the long-term welfare of the country, negatively affecting the economy's credibility and investors' confidence. Egypt's inflated subsidy bill and ineffective tax system have rendered the country's fiscal standing unsustainable. For years, consecutive governments have been reluctant to reform such distortions in fear of causing dissent. Nevertheless, the current government signaled the start of a new era by announcing a number of fiscal reforms. This rejuvenated confidence in the economy significantly, while gaining the blessings of the IMF and World Bank. These reforms are as follows:

- Partial removal of the fuel Subsidy that raised fuel prices by up to 78%, saving around EGP50 bn. with a clear plan to curtail fuel subsidies completely within five years;
- **Prime Ministerial decree 1257** to raise **electricity prices** gradually for five years;
- **Law 58 for 2014** to increase in taxes on **alcohol and cigarettes**;
- **Prime Ministerial Decree 1256 for 2014** to impose a **maximum wage** on public employees of EGP 42,000;
- **Law 53 for 2014** to amend the **income tax** imposing a 10% tax on capital gains and a short-term 5% tax on individuals and companies earning more than EGP 1 million, while also taxing the revenues incurred abroad by individuals and companies based in Egypt;
- **Law 117 for 2014** to amend and pave the way for the execution of the **real estate tax**
- The imminent shift from the general sales tax to **VAT**.

The IMF has conducted Article IV consultations last November which were delayed since the ouster of Mubarak. Article IV consultations entail an IMF delegation conducting a thorough assessment of the financial and economic affairs of a member state. Their report gave very positive feedback on the back of the reinstated sense of political stability and security, but mainly due to the recent fiscal reforms.

Regulatory Reform

For so long, redundant legislations and regulations governing investments in Egypt have been pinpointed as a major impediment to doing business. The President and the government have acknowledged this fact and intense work has been exerted to reform the regulatory framework governing business activity with the aim of encouraging investments and stimulating growth.

Mechanisms for Regulatory Reform

Supreme Committee for Regulatory Reform: it was formed via the first presidential signed by President Al Sisi. The committee has the mandate of preparing, researching and studying draft laws as well as decrees issued by the president and prime minister that must be amended in order to comply with the articles of the 2014 constitution.

Egyptian Regulatory Reform and Development Activity (ERRADA): it was reactivated to report to the Minister of Foreign Trade, Industry and SMEs. ERRADA is an initiative that aims to support the government's efforts to build a regulatory management system to review and streamline business related regulations. It has the objectives of identifying all business-related regulations and decrees; amend and simplify them to avoid redundancy and duplication; make all regulations accessible to the public electronically and introduce Regulatory Impact Assessment (RIA). ERRADA' work is based on a dialogue between public and private institutions and civil society, aimed at increasing economic efficiency, competitiveness and creating more job opportunities.

Regulation Identified for Reform

Intense efforts for the identification and reform of the most problematic laws resulted in pinpointing a number of flawed laws governing investments and business activity. The regulatory reform revolution can be divided into three phases, as follows:

Phase I:
Laws already issued

- Conflict of Interest Law
- Competition Law
- Mineral Resources Law
- Microfinance Law
- Renewable Energy Law

Phase II:
Laws in the pipeline

- New Investment Law
- Executive Regulation for the Capital Gains Tax
- Special Economic Zones Law
- Companies Law
- Law for Preference of Egyptian Products

Egypt Economic Development Conference (13-16 March)

Phase III:
Laws that need more discussions

- Labor Law
- Unified Land Law
- Bankruptcy Law
- Industry Law
- Unions' Law
- Real Estate Registry Law
- SMEs Law

Dispute Settlements

A large number of disputes have occurred between the state and investors in the last four years, significantly shaking investors' confidence. The disputes can be divided to four topics, these are: privatization, tax, energy and property. In March 2014, the administrative court canceled the privatization of seven companies, seen as a mishandling of Egypt's public funds. Among the seven companies privatized during the Mubarak regime are Omar Afandi, El Nasr Boiler and Pressure Vessel Manufacturing, and Tanta Flax and Oil. Litigations regarding the purchase of lands that included big names such as, Palm Hills, Talaat Mostafa Group and SODIC have occurred in the past years.

The government is resolved to end the dilemma of investors' disputes. In an effort to reinstate investors' confidence, former President Adly Mansour issued amendments to the investment law that prohibited any third party from challenging government contracts. As another step forward, and only two months after cancelling the privatization of these companies, law 32 for 2014 was issued to prohibit privatization reviews unless crimes were committed during the process. This law initially limits the pressure on government contracts. More recently, the government has geared-up the efforts to settle disputes. The government targets to end 75% of current disputes before the March Summit.

To consolidate this ambition, a Dispute Settlement Committee has been formed with the mandate of handling the matter of investors' disputes. According to Chairman of the General Authority for Investments (GAFI), Hassan Fahmy, Egypt has already settled a number of disputes that saved the state EGP 10 bn. Among the disputes settled are with Al Futtaim and Orascom Construction. As of January 2014, the Dispute Settlement Committee, governed by the Ministry of Investment, ended **230 disputes** from a total of **360 disputes**.

Public-Private Partnership (PPP)

As a result of resource shortages and, often, the lack of the technical know-how, the government cannot, on its own, execute all the projects on the nation's economic and development plan. For this reason, Egypt placed a renewed emphasis on the role of the PPP program that started in 2010. PPP is a long-term contractual agreement between the public sector and a private party where the private party delivers a project or a service that is normally provided by the public sector. In this type of contract, the private sector supplies public services over an agreed period of time and is paid either by the end user or by the public sector.

PPP's main advantage is that it utilizes the role of the private sector's capital and skills, often filling the gap between the public capacity, in terms of available resources or technical skills, and project requirements. For the public sector, PPPs are useful as they partially transfer the risk to the private sector. Additionally, PPPs play an important role in transferring the know-how technology to the public sector. This leads to:

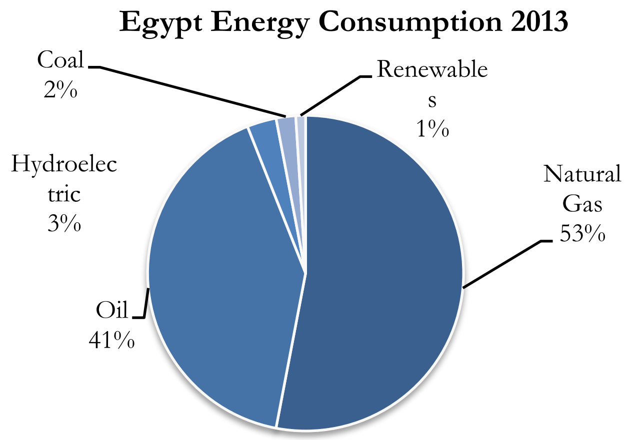
- A new source of capital that is necessary for the implementation of the project;
- Better services for the public;
- Creating much more jobs.

In Egypt, **Law No. 67 for 2010 (the PPP Law)**, provides a framework for the obtainment of infrastructure projects as well as other utility projects and services under a public-private partnership model. The PPP Central Unit at the Ministry of Finance is the technical, financial and legal expert regarding the PPPs. Furthermore, the Supreme Committee for PPP Affairs, chaired by the Prime Minister, is in charge with overseeing national policy and general approaches towards PPPs and with approving PPPs in the coming period.

The coming period will see the government utilizing the PPP tool more in order to enhance the role of the private sector in development. Currently, the government is mulling the feasibility of **nine projects** to be executed via the PPP scheme worth **EGP 8.5 bn.** These include:

- 1,000 public schools;
- Desalination plant in Hurghada;
- Wastewater treatment plant in Helwan;
- Automation of the real estate registry;
- Adoption of energy-efficient technologies in Alexandria to reduce power consumption.

Annex I: Renewable Energy



Source: BP Energy Review 2014

Egypt's energy problem is considered among its biggest challenges and one of the main impediments to development. The nation's electricity network is faced with fuel supply shortages that have triggered repeated outages. This is because Egypt depends mainly on fossil fuels in its energy mix, a mixture that became very unsafe when taking into consideration the limited fuel resources currently available. For that exact reason, the Ministry of Electricity and Energy is working very hard to change its energy mix to accommodate for **20% renewable energy** by **2020**. Solid steps have been taken to encourage investments in renewable energy, such as the issuance of **Law for Customs on Renewable Energy Components (law 184 for 2013), Feed-in Tariff** and the **New and Renewable Energy Law (law 203 for 2014).**

Currently, the total renewable energy investments reached **$ 7 billion (EGP 50 billion)**. These investments are for the production of **4,660 MW of energy by 2017**, of which 2,340 MW will be wind energy and 2,320 MW will be solar energy. The private sector will provide $ 6 billion of the total investments for the production of 4 GW solar and wind energy, applying the Feed-in Tariff. The other $ 1 billion will be investments from the Ministry of Electricity and Energy for the generation of 660 MW of which 320 MW will be generated using solar and 340 MW will be generated using wind energy.

According to the plans, the current **550 MW** energy generated from wind will increase to **750 MW** by February **2015** and to **1,100 MW** by end of **2016**. Moreover, there is an additional 2,000 MW of energy from the feed-in tariff projects. This totals to an amount of 3,100 MW of energy produced from wind by 2017. When it comes to the solar energy 320 MW will be carried out by the New and Renewable Energy Authority (NREA) and 2,300 MW will be from the feed-in tariff projects. This totals an amount of 2,620 MW to be reached during the coming two years. Below, is table summarizing the data provided by the NREA:

Renewable Energy in Egypt	
Investments in 2014	**$ 160 mn.**
Investments in 2015	**$ 500 mn.**
NREA's Budget for FY2015	**EGP 220 mn.**
NREA Total Land Tracts	**7,600 km^2**
Current Electricity generated from Solar and Wind Power	**570 MW**
Electricity generated from Wind and Solar power by 2017	**5720 MW**

Source: New and Renewable Energy Authority (NREA)

In Egypt, there are three mechanisms to establish Renewable Energy Projects. They are as follows:

- Projects built by New and Renewable Energy Authority (NREA) as a developer;
- Build-Own-Operate (BOO) projects by Egyptian Electricity Transmission Company (EETC), through tendering and Commercial Projects;

- Feed-in Tariff.

There are a number of shortages faced with the first two mechanisms, such as, the sovereign guarantees needed, the lack of effective demand on Renewable Energy, the vulnerability of the financial structure of the EETC & NREA and that the fact that the Renewable Energy fund is not active. For these reasons, the Ministry of Electricity decided to introduce a third mechanism which is the Feed-In Tariff, which is faster in achieving Renewable Energy targets, is for small and medium projects, accompanies escrow accounts instead of sovereign guarantees and has less technical losses.

The Feed-In Tariff

The feed-in tariff is a mechanism that encourages the adoption of renewable energy sources. Egyptian Electricity Utility and Consumer Protection Regulatory Authority has set the required regulations and procedures for executing the renewable energy feed-in tariff. The feed-in tariff will be applied on projects with a maximum capacity of 50 MW solar or wind energy. For solar energy the feed-in tariff will be 102.5 pt. for each kW and for wind energy it will be 83 pt. for each kW.

The total target for the feed-in tariff is **4,300 MW**, divided as follows:

- **300 MW** small PV installations (below 500 KW);
- **2,000 MW** large PV installations (between 500 KW and 50 MW);
- **2,000 MW** wind energy (between 20 MW and 50 MW).

The value of the tariff will be revisited as either the target is achieved or the two years regulatory period is elapsed, whichever happens first. The system ensures the economic and financial viability of the renewable energy projects and is supposed to reduce the investment risk to manageable levels. Moreover, under feed-in tariff regime fluctuations in revenues of wind power projects depend only on fluctuations in generation and not on potentially volatile electricity prices. The feed-in tariff will be based on the production cost and will be calculated as follows:

Feed-In for PV Projects	
PV Power Plant Capacity	**Tariff.**
Residential	**84.4 piasters per kW**
Installed capacity = 200 kW	**90.1 piasters per kW**
200 kW =Installed capacity < 500 kW	**97.3 piasters per kW**
500 kW =Installed capacity < 20 MW	**13.6 cents per kW**
20 MW =Installed capacity = 50 MW	**14.34 cents per kW**

Source: New and Renewable Energy Authority (NREA)

The PV projects' feed-in tariff has a flat rate during the entire 25 years contractual period. The PV projects' feed-in tariff for installed capacities more than **500 kW**, is being paid in Egyptian pounds according to the following equation:

PV Projects' Feed-in Tariff (L.E.) = [15% of Feed-in Tariff ($.Cent) X 7.15(L.E.)] + [85% of Feed-in Tariff ($.Cent) X exchange rate on the bill issuance day, as stated in the contract]

<u>The government also provides some facilities for the support schemes including:</u>

1. Introducing the necessary regulations for public land allocation for projects through usufruct rights;
2. Either transmission or distribution companies depending on the case, are committed to dispatch renewable energy on the grid;
3. Issuing the necessary sovereign guarantees for projects above 20MW;
4. Provision of concessions from Ministry of Finance through soft loans: 4% interest rate for residential projects and up to 200 kW, and 8% interest rate for projects ranging between 200 kW and 500 kW;
5. Forcing the Supreme Council of Energy to inject investments of EGP 2 Billion for establishing transmission and distribution grids.

Law for Customs on Renewable Energy Inputs- Law 184 for 2013

In a bid to encourage investments in renewable energy, law 184 for 2013 was issued to ease the customs due on inputs required for renewable energy projects. According to this law, imported equipments, components and spare parts used by licensed factories of new and renewable energy (either wind or solar energy) are faced with customs equivalent to **<u>2%</u>** of the value of the product or its tax assessment whichever is less, down from **<u>10%</u>**.

Renewable Energy Law- Law 203 for 2014

The New and Renewable Energy law was issued to encourage the production of electricity from renewable energy sources. The law has the following objectives:

- The establishment of production plants for renewable energy on the basis of allowable systems and mechanisms;
- Encouraging local and international investors to invest in renewable energy projects for the production of electricity;
- Easing the burden on oil and gas resources, reducing the need to import fuel, and achieving a 20% share of renewable energy from the total electricity produced in Egypt until 2020.

This law includes a set of interrelated and integrated measures to encourage the entry of the private sector into the field of electricity production from renewable energy sources. It sets clear procedures and stipulations to regulate and incentivize the entry of private companies to the renewable energy sector.

- Investors will have the right to establish, own and operate the plants and the electricity generated will be sold to the electricity transmission or distribution companies licensed under a contract to purchase the energy based on the feed-in tariff for a maximum period of 25 years;
- Investors will have the right to contract the consumers directly to sell the produced energy, using the transport and distribution grids, based on the price and period agreed upon in the contract;
- The allocation of land needed to construct the projects will be based on the usufruct system
- All the licensed electricity transmission or distribution companies are committed to linking the electricity production plants from renewable energy sources to the grid

Annex II: The Suez Canal Development

It is considered to be the flagship project of the current government. It entails two phases, the first of which is the digging of a parallel canal from the 60th km to the 90th km and increasing the depth of the existing one to increase the canal's capacity and drastically reduce the ships' waiting time. After the completion of the first phase, the Canal's capacity will increase from 49 ships/day to 97 ships/day and the revenues from around $5.5 bn. to $13 by 2023. Funds for this phase were collected through investment certificates and domestic debt. Investment certificates were issued to Egyptians only, in local currency for citizens working inside the country and in dollars for those working abroad. The government collected EGP 61 bn. in a matter of days through the investment certificates.

The following table represents the expected revenues from the Suez Canal for the coming 10 years and the stages of the implementation of the project:

Suez Canal's Expected Revenues during coming 10 years					
Total Revenues ($ mn.)	**Additional Revenues ($ mn.)**	**Revenues of the Canal ($ mn.)**	**Payload (thousand tons)**	**Number of ships**	**Year**
5,111		5,111	915467	45	2013
5,572		5,572	988704	49	2014
6,018		6,018	1067801	52	2015
6.787	158	6,629	1153225	57	2016
7,462	159	7,303	1245483	61	2017
8,206	161	8,045	1345121	66	2018
9,025	163	8,862	1452731	71	2019
9,928	165	9,762	1568950	77	2020
10,923	169	10,754	1694466	83	2021
12,019	172	11,847	1830023	90	2022
13,226	175	13,050	1976425	97	2023

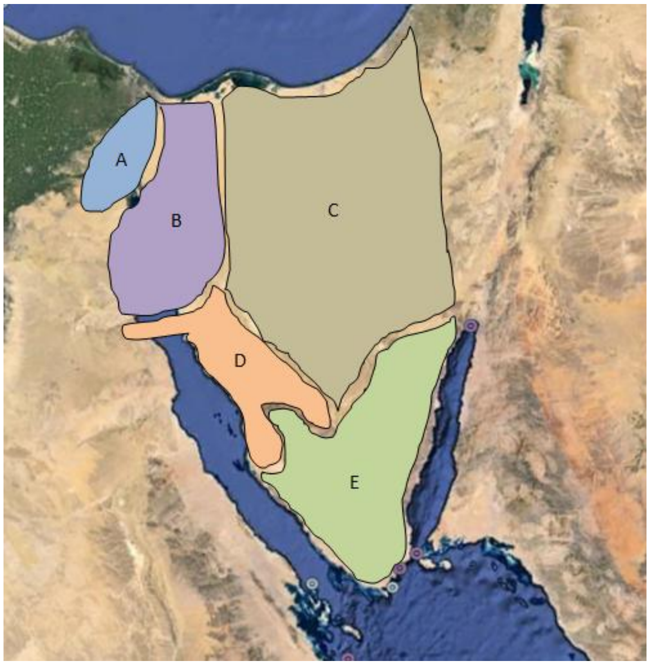
Source: Suez Canal Authority

The other phase entails the development of the lands and facilities adjacent to and in the proximity of the canal, mainly in the Suez, Ismailia and Port Said. A consortium, led by the Bahraini-based Dar El Handasa and includes Sari El Din & Partners Legal Advisors, CID Consulting, Currie & Brown, IPA Investment Strategy and Ernst & Young, won the tender to develop the master plan for this phase. According to Dar El Handasa's Managing Director, Yehia Zaki, projects in transportation, logistics, ICT, energy, heavy industries and tourism are planned in the three main cities, as follows:

- **Port Said:** Capitalizing on its location facing the Mediterranean, a logistical center will be established there, while the Port will be upgraded. An industrial zone that focuses on light-intermediate industries will also be established and connected to the Port and logistical center for exportation. Industries will include agribusiness, textiles, automotive assembly and parts, pharmaceuticals and other export-oriented industries.
- **Ismailia:** will mainly have light industries as well, such as agribusiness and textiles. In addition, renewable energy plants will be developed. The city is planned to be a hub for the ICT industry where the Egyptian Tech Valley will be established.

- **Suez and Ain Sokhna:** Planned to be a major industrial hub servicing both the domestic and international markets, capitalizing on its links to the rest of Egypt and the availability of a top-notch port. Moreover, an industrial zone and logistical center will be established in the vicinity of the port. Industries will be a mix of light-intermediate and heavy industries, including, petrochemicals, building materials, automotive assembly and manufacturing of energy components.

The following map illustrates the plan for development of the area.



Zone A: Agriculture;

Zone B: Logistics, industry, maritime, renewable energy and agriculture;

Zone C: Mining and extractive industries, tourism, renewable energy and agriculture;

Zone D: Mining, tourism and renewable energy;

Zone E: Tourism and renewable energy.

42 projects were planned, with six projects having top priority, these are:

- Upgrading the Cairo-Suez and Ismailia-Port Said to free roads;
- Establishing Ismailia tunnel to link the eastern and western banks of the Suez Canal;
- Establishing a tunnel in the South of Port Said to link the eastern and western banks of the Suez Canal;
- Develop Nuweiba Port to form a free-zone there;
- Upgrading Sharm El Sheikh Airport;
- Establishing a water by-pass on Ismailia canal up to the site of the water desalination station at the east of the Canal.

Other projects include:

- Upgrading 6 ports (Eastern Port Said, Western Port Said, Al Arish, Adabeya, Tur and Ain El Sokhna);
- Establishment of an international shopping zone;
- Establishment of a commodities exchange and logistical support facilities;
- Establishment of a mining industry and a number of industrial zones,
- Establishment of schools and universities, power plants, desalination plant and free zones along the three governorates of Suez, Ismailia and Port Said;
- Establishment of a Tech Valley;

- Establishment of a number of hotels and resorts.

Annex III: Mineral Resources

Egypt is blessed with a vast array of mineral resources including, inter alia, coal, gold, phosphate, granite, petroleum and natural gas, with large areas of untapped potential. The extractive industries sector has been a driver for growth for the Egyptian economy; however, the sector has been underperforming since the January 25th revolution, recording growth rates of -2.7% and -5.5% for FY2013 and FY2014 respectively. This can be attributed to the drop in the investments in the sector during the past four years for a number of reasons. The most important is Egypt's large accumulated debt to international oil companies, estimated at around $ 5 bn., which discouraged the companies from investing in the sector. Moreover, a number of disputes between the state and investors have taken place during the last four years, with some in the extractive industries sector. Most notably is the dispute with Centamin, the operator of Egypt's largest gold mine Al Sukari, where a 2012 court ruling cancelled its mining license. With all the troubles in the sector, it accounted for 15% of total investments in FY2014.

The sector has great potential and may provide a much needed impetus for the economy in the coming period. For this, the government is resolved to revive the sector in every way and has already taken a number of measures for that, as follows:

- The government rescheduled its debt to oil companies late in 2014 and has already paid around $ 2.1 bn. back;
- The dispute with Centamin is due to be concluded with both the Egyptian General Petroleum Corporation (EGPC) and the Egyptian Mineral Resources Authority (EMRA) stating that the dispute is settled. This became more evident when then-interim President Adly Mansour granted Centamin the permission to expand its mining activities in 2014;
- As part of Egypt's regulatory revolution the government identified the 60-year old mineral resources law as a major impediment to the sectors wellbeing. Therefore, the President issued a new **law 198 of 2014**, to amend the mineral resources law to better regulate the sector in Egypt;
- A number of projects have been announced that aim to exploit Egypt's wealth of mineral resources, most importantly The Golden Triangle.

Therefore, the outlook is much brighter for the sector, especially given the fact that Egypt's mineral resources are largely untapped; with most of the nation's land unexplored or unexploited. According to the Egyptian Ministry of Petroleum and Mineral Resources, there are possibly 120 gold mines unutilized in Egypt's Eastern Desert, as well as the nation's resources of phosphate rocks, tantalite and limestone. Apart from the oil and gas, mineral resources contribute with a mere **0.4%** to the GDP.

Snapshot Egypt's Mineral Resources	
Resource	**Reserves**
Oil	4.2 bn. barrels (2013)
Natural Gas	1.8 tn. Cubic meters (2013)
Gold	5000 tons (2013
Phosphate rocks	2 bn. tons (2013
Tantalite	48 million tons (2012)
Coal	50 mn. tons (2012)
Limestone	580 bn. tons (2013)
Glass Sands	5 bn. tons (2013)

Source: Egyptian Mineral Resources Authority, BP and US Geological Survey.

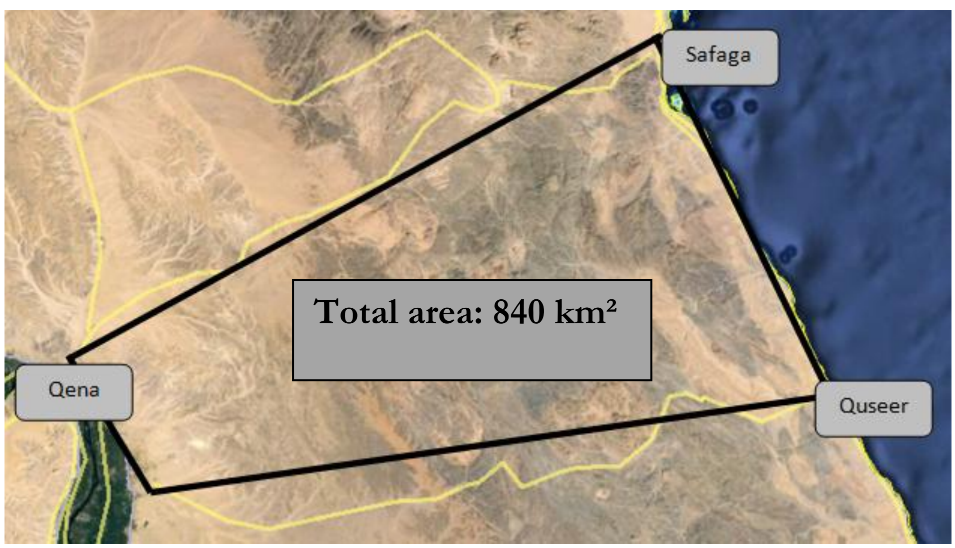
Mineral Resources Law- Law 198 for 2014

Egypt is witnessing solid steps towards regulatory reforms viable for development and investment. One regulatory amendment, the new mineral resources **law No. 198 for 2014**, shows how the Egyptian government is making effort in restructuring laws that were kept untouched since the 1950's. The law was publicized through a Presidential Decree on December 9th 2014 replacing the previous **law No. 66/1953**. The new law covers mineral resources, however is not applied to oil and gas materials. The new law sets Egyptian Mineral Resources Authority (EMRA) as the governing body of this matter. The old law granted licenses through a first come-first served, however the new law shall grant licenses through competitive bids. This approach ensures that licenses will only go to companies of high standards and quality. EMRA will grant two types of licenses exploration and production. Exploration licenses are granted for a maximum of two years, and can only be renewed once of the same period. On the other hand, exploration licenses are given to 15 years, a step ensuring seriousness compared to the old 30 year license imposed by the previous law.

The new mining law allows competent authority to negotiate rent values, royalty and license fees with licensees. The new law claims a calculated percentage of annual production to be given to the government, unlike the fixed royalty approach claimed by the old law. It also claims a minimum of 5% of the annual production to be given to EMRA, and 1% to be given to governorate where operations are existent, to be directed to social development investments. To ensure seriousness, the law claims that companies with operating licenses must start their operations after granted land, allowing a maximum period of one month for commencement.

The Golden Triangle Project

A number of mega-projects have been announced to exploit Egypt's natural resources, the most significant of which is the Golden Triangle Project. The Golden Triangle entails linking the Red Sea port cities of **Safaga** and **al-Qusayr** along with the Upper Egyptian Governorate of **Qena** and establishing a new economic zone to capitalize on several advantages in this area, as follows:



- The **location** of the area. That is, the area has an 80 km-beach, is on the world trade route and is linked to the Nile which qualifies it to be transformed to a key logistical and trade hub;
- **Mineral wealth** in the triangle and the areas adjacent to it. The area is blessed with considerable amounts of phosphate rocks, high quality-limestone, gold, glass sands, shale rocks, and other heavy metals.
- Availability of **labor and housing capacity** in the nearby Upper Egypt cities;

- **Touristic destinations** in the triangle (therapeutic and beach tourism in Safaga and Qusear) or in the areas nearby (Marsa Alam, Gouna and Hurghada);
- Availability of the primary **infrastructure** required to swiftly develop an economic zone. There are roads (Safaga-Qena, Qusayr-Koft, Marsa Alam-Edfo and the Red Sea Road), railroad (Qena-Safaga), three ports (Qusayr, Safaga and Al Hamrawen) and three airports (Luxor, Hurghada and Marsa Alam).

A ministerial committee has been formed to study the economic activities that may be established in the area. Four technical sub-committees for mining, urban planning, transportation and tourism were then formed to conduct the feasibility studies of the project.

The **mining committee** found that the area possesses:

- **1.1 bn. tons of phosphate rocks** that allows the establishment of:
  - **Eight factories** with a total cost of **EGP 1.5 bn.** and expected annual revenues of **EGP 2 bn.** for **mining and treatment**;
  - **Four factories** with a total cost of **EGP 7.2 bn.** and expected annual revenues of **EGP 4 bn.** for producing **phosphoric acid;**
  - **Four factories** with a total cost of **EGP 3.6 bn.** and expected annual revenues of **EGP 5.4 bn.** for producing **Phosphatic fertilizers.**

- **230 bn. tons of limestone** that allows the establishment of:
  - **10 factories** with a total cost of **EGP 500 mn.** and expected annual revenues of **EGP 1 bn.** for **mining and treatment;**
  - **Four factories** with a total cost of **EGP 4.2 bn.** and expected annual revenues of **EGP 2.6 bn.** for **cement production**.
- **1.5 bn. tons of glass sands** that allows for the establishment of:
  - **Four factories** with a total cost of **EGP 500 mn.** and expected annual revenues of **EGP 400 mn.** for mining and treatment;
  - **Four factories** with a total cost **EGP 2.4 bn.** and expected annual revenues of **EGP 1.4 bn.** for producing **glass and crystal;**
  - **Two factories** with a total cost of **EGP 1.2 bn.** and expected annual revenues of **EGP 1.9** bn. for producing **Silicon chips.**
- **2000 tons of gold** that allows the establishment of:
  - **Three factories** with a total cost of **EGP 10 bn.** and expected annual revenues of **EGP 2.1 bn.** for mining and treatment;
  - **One factory** with a total cost of **EGP 4.2 bn.** and expected annual revenues of **EGP 3.7 bn.** for **refining and filtering.**

The **Urban Planning Committee** concluded that:

Targeted within 20 years	
Economic Sector	**Employment opportunities (thousands)**
Tourism (development of two tourism areas in Safaga and Qusayr)	50
Mining and Extractive Industries	25
Industrial Activities	125
Regional Services	40

Financial and Logistical Services Center in Safaga	**20**
Ports	**20**
Construction	**20**
Total jobs in primary sectors	**300**
Employment Multiplier	**0.6:1**
Indirect Jobs	**180**
Total Jobs Created	**480**
Labor Residing in the Triangle	**240-288 (50%-60%)**
Total Size of Inhabitants in the Triangle	**1.1 million**

The Committee also proposed to develop the following areas for housing:

- New Qena City;
- Extension of Qusayr (part of the re-planning of the City);
- Extension of Safaga (part of the re-planning of the City);
- New urban communities as per the detailed studies later.

Housing		
Housing Groups	**Percentage**	**Number of Units (Thousand)**
Luxury	**19**	**60**
Average	**50**	**158**
Social	**31**	**98**
Total	**100**	**315**

The **Transportation Committee** concluded that the network of roads and airports in its current state and after the planned gradual expansions can accommodate for the transportation and distribution of the goods manufactured in the zone, either in the domestic market or for exportation. Expansion and rehabilitation are required for:

- **150 km** of the **Qena-Safaga Railroad** to operate 6 trains per day with 35 carts each with a total capacity of 7000 tons/day;
- Expansion of the **Safaga Port** to bring its total capacity to 40 mn. tons;
- Expansion of **Abu Tartoor Port** (Part of the Safaga Port);
- Expansion of **Al Hamrawen Port.**

The **Tourism Committee** scanned the cities of Hurghada, Safaga, Qusayr and Marsa Alam and found the presence of:

- 55 five stars-hotels;
- 74 four stars-hotels;
- 46 three stars-hotels;
- 22 two stars-hotels;
- 8 one star-hotels.

This brings the total capacity to almost 71,000 rooms and 135,500 beds.

Based on the findings of the technical committees, the Ministerial Committee proposed to elaborate a master-plan that has mining, industrial, housing, agriculture, infrastructure development and tourism-related activities. The government has invited 21 consulting firm to bid for developing the master-plan, seven expressed interest and three have actually presented offers. The government is expected to choose the winner in the coming period.

Preliminary execution phases: