

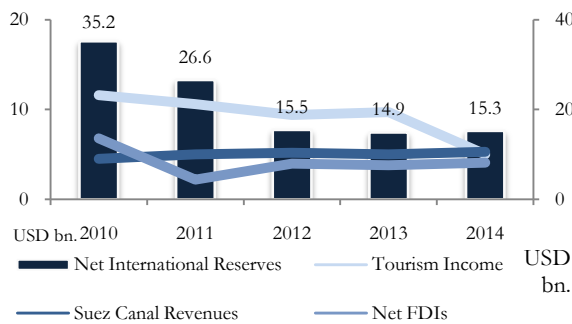
Export Subsidy Program

Since late 2014, the government has been undertaking motivated plans to resolve impediments to Egypt's investment landscape. To achieve that, the government adopted a multi-pillar strategy, working on different levels and scopes to restore investors' confidence. It includes sound economic reforms that aim at cutting red tape, facilitating investment procedures and supporting sustainable private sector-led growth.

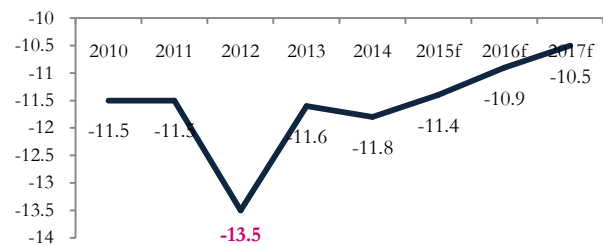
After presenting its vision and strategy at the Egypt Economic Development Conference (EEDC), the Government of Egypt (GoE) is going through tough pressure both nationally and internationally. The government is no longer running with the required pace to achieve immediate prosperity. Domestically, President Al-Sisi has been pushing the Economic Group for short-term results, with tight deadlines for investment procedures, etc. However, most of the EEDC investments, MoUs, and deals signed will only materialize in the long-run. This means that the GoE still needs to find an immediate source of foreign currency income, other than foreign loans or grants.

Given the current state of the Egyptian economy, **exports could become the key driver for short-term yields.** Making use of an already established industry such as the exporting industry will have a sensible impact in a short time frame. Dependency on loans and packages will only further distort the economy, and add to a crippling budget deficit. A chronic budget deficit, a stalled FDI process, and a crippled tourism sector, which impacted the availability of hard currency, are all posing great stress on the economy. **The government's export subsidy bill, which is a subsidy paid for export companies, was never halted even during 2012-2013.** Maintaining the subsidy is only an indicator of how the government is committed to develop its export structure.

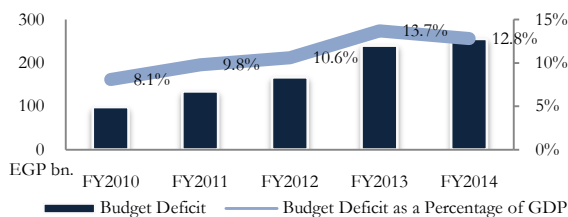
Inflows of foreign currency dried up, as tourism revenues and FDI inflows dipped significantly, while Suez Canal revenues stagnated. This resulted in a huge drop in foreign reserves in the last 4 years.



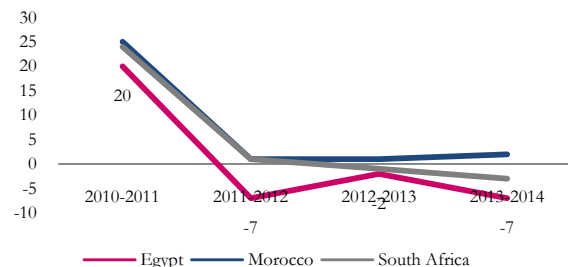
Egypt's Trade Balance has been greatly impacted during 2011-2012, now slowly recovering



Budget deficit widened from 8.1% of the GDP in FY2010 to reach its highest level of 13.7% in FY2013



Export Growth in Value by Country and Year, %

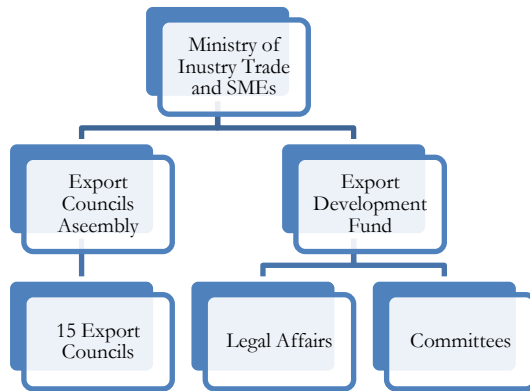


Previously this month, the GoE has announced its intention to increase the budget allocated to the export subsidy fund from EGP 2.6bn to EGP 5bn. This proposal was not enclosed in the new budget that was sent to the President for approval last week. **However, Minister Abdelnour declared in a meeting with the Alexandrian Chamber of Commerce that the Ministry shall review the issue of export subsidy, to come up with a final decision in two weeks.** On a similar note, solid steps have been made in June 2015 by Minister Mounir Abdelnour to change members of the Export Council, to help establish a more effective exporting industry in Egypt. In light of these two events, N Gage Consulting has prepared this brief on the export subsidy, to provide more visibility on the requirements and procedures regarding reclaiming funds.

What is the Export Subsidy Program?

The export subsidy program is a program sponsored by the Ministry of Trade, Industry and SMEs. The program is a mandate of the Export Development Fund (EDF). **Law No.155/2002** was signed to establish the EDF to create an incentive for Egyptian companies to push for more exports. The EDF requires the support of specialized Export Councils, which are responsible for developing Egypt's exports in each sector.

The subsidy ranges from 1-10% of the total value of exports. The financing of the subsidy is through the Export Development Fund, and managed by EDF Executive Director Amany El Wassal. The EDF's Board of Directors includes representatives from different Ministries such as the Ministry of Finance and the Ministry of Investment.



Key Facts on Export Subsidy

In FY2013-14, export subsidies amounted to EGP 2.6bn, with over 2000 Egyptian companies benefiting from the program

N Gage Consulting claimed more than EGP 38mn for two clients in only 1 year

Export Councils

1. Agricultural crop (except cotton)
2. Food Industry
3. Finished Clothing
4. Textile
5. Home furnishing
6. Pharmaceuticals
7. Chemical/ Fertilizers Industry
8. Industrials
9. Leather and leather goods
10. Books and Artifacts
11. Engineered goods
12. Furniture
13. Medical industry
14. Real-estate Investments
15. Handmade products

Eligible Companies for the Export Subsidy Program

The GoE is providing a diverse range of export subsidies, in line with the state's economic development programs. Currently, the sectors that qualify for export subsidies are the agri-foods industries, agriculture products, chemical industries, spinning and weaving industries, leather products, engineering products, furniture products and construction materials industries. These sectors can benefit from export subsidies reaching up to 10% of the export value, depending on several variables such as percentage of local components, geographic location of the factory, export destination, employment incentives, and innovative technologies, among others.

Required Documents & Procedures

Companies that wish to apply for export subsidies need to be members of their relevant industry's export council. Furthermore, they will need to submit their reclaim request within one year of the product's export date to the Export Development Fund (EDF). Any reclaim requests submitted later than the one year deadline will be dismissed by the EDF. The submitted file should include several documents, such as a valid and ongoing ISO certificate from a Government authorized agency, an industrial and export register, among others. After submitting the file to the EDF, it will undergo two rounds of examinations by the specialized committees. Following these examinations, the export subsidy should be released within 6 to 9 months from date of submission.

Reform: from Generic standards to Specified Criteria

In light of ongoing challenges, many exporters still have difficulties processing the new guidelines for receiving export subsidies. Prior to July 2014, export subsidies were generic as each product had a fixed subsidy percentage, regardless of other factors¹. In the new 2014 Ministerial Decree regarding the EDF, export subsidies became criteria-based. Subsidy reclaim can now range from 1% to 10%, depending on several characteristics. As of yet, many exporters have not fully absorbed the new criteria and the requirements needed to fulfill or prove them. Furthermore, some documentation and requirements have not been fully absorbed by some public officials, thus blocking many exporters' subsidies. The Government thus needs to deploy further efforts to ensure that the new export subsidy regulations are fully understood and operational within the bureaucracy.

Debate on Export Development Fund's increase from EGP 2.6bn to EGP 5bn

The value of export subsidies in FY2013/2014 was EGP2.6 billion, while the total value of Egyptian exports stood at USD19.5 billion. However, many economic variables changed during that year, negatively affecting Egyptian exports. First, the ongoing capital controls on buying US Dollars from banks, coupled with strict government measures to combat the currency black market led to a shortage of US Dollars. This reflected negatively on imports as many manufacturers were unable to import their raw materials or other production inputs. Second, the decrease of energy subsidies increased production costs for agricultural and industrial producers. Furthermore, severe energy shortages continued to cripple industrial productivity, with some factories having to shut down production lines or even stop production completely.

These main variables, among other sector-specific issues, caused exports to decrease in FY2014/2015, reaching USD16.9 billion. In the four months since January 2015, Egyptian exports decreased by nearly 20%, compared to the same period in 2014. The most significant drops were in the agri-food, fertilizers and construction materials industries. Consequently, a debate was launched on whether export subsidies should increase in FY2015/2016, in order to save Egyptian exports from further decline. Leading industrial associations and figures have voiced their strong concern over the current state of Egyptian exports, and have called upon the government to take immediate action. In June 2015, the Egyptian Industrial Association submitted a proposal to the GoE to increase export subsidies from EGP2.6 Billion to EGP5 Billion in FY2015/2016.

Initially, the proposal was welcomed by the Minister of Trade and Industry and SMEs. Several reports, including an official government statement, later announced the proposal has been accepted and will be implemented in the new budget. However, these reports were later denied by Minister Mounir Abdelnour, citing **lack of government funding** as the reason for rejecting the proposal. It remains unclear as to whether the Government has officially rejected the proposal or if it is still being considered.

¹ Although Egypt was undergoing a severe political and economic crisis, the GoE continued to support export industries during FY2012/2013 and FY2013/2014 through dispersing export subsidies. This sound policy decision sent a strong positive message to exporters, giving many further incentives to expand their operations. It should thus be continued and further developed, as to integrate more industries in the program and boost Egyptian exports

N Gage Consulting is expanding its ESR department both operationally and strategically. N Gage Consulting is broadening its ESR operations base by servicing new clients and covering new sectors. It is also developing a strategic partnership with the relevant entities and stakeholders so as to get more sectors included in the export subsidy program, facilitate the export subsidy reclamation process and maximizing the GoE's benefits from the program.

Therefore, this is the first in a series of 3 reports that will be released by N Gage Consulting on the GoE's strategies to enhance Egyptian exports. The upcoming report will evaluate the export councils' and the relevant ministries' approach to developing each sector's exports. It will then be followed by an assessment report of Egypt's Free Trade Zones, and how they can be developed to compete regionally and globally.

N Gage Consulting, the leading government relations lobbying and government advocacy consulting firm in Egypt, is allocating a specialized department for *Export Subsidy Reclaim*. We provide a full Export Subsidy Reclaim service to our clients, claiming over EGP 38mn for two clients in 1 year.

For further information on export subsidy reclaim, please contact us at info@ngage-consulting.com