N Gage Consulting
Public Strategy and Government Relations Specialists

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Building on EEDC's Success, 60 Days After

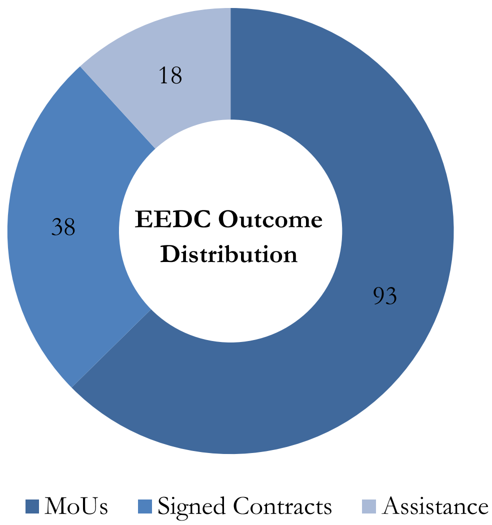
Highlights of Egypt's Economic Development Conference (EEDC)

With just a bit over 60 days, the Government of Egypt (GoE) engaged the world at the Egypt Economic Development Conference (EEDC) to promote its vision and plan for the next five years. After four years of political uncertainty and economic distress, Egypt's economy is slowly starting to recover. On the political front, Egypt is due to conclude the political roadmap by conducting long-awaited parliamentary elections. The GoE has embarked on a series of fiscal and legislative reforms which aim to fix the economy's structural distortions, stabilize the country's macroeconomic outlook, and position Egypt on an improved fiscal trajectory. In addition, the wide-ranging reforms will tap into previously neglected sectors such as mining and renewable energy, and will assist in fully realizing the potential of traditional sectors such as oil and gas, power, logistics, manufacturing and tourism.

The EEDC saw a remarkable attendance, including world leaders and key business figures, amplifying Egypt's regional and international role and capturing the overwhelming support for the nation's reform plan. The summit accommodated 2000 delegates representing 112 countries, including a strong and unprecedented African presence. This comes as a result of the recent shift in Egypt's foreign policy, which places a larger emphasis on regaining the nation's leading role and status in Africa.

Apart from the political success of this event, the EEDC provided the GoE an excellent opportunity to showcase its vision for economic and social reform, as well as present a number of investment opportunities. Fifty projects were offered, along with a large number of signed Memoranda of Understanding (MoU), investment deals and aid agreements. Potential investments and commitments reported during the EEDC ranged from USD 130bn-USD 150bn.

EEDC ended with MoUs worth USD 93bn, forming the largest category, followed by USD 38bn worth of signed contracts, and USD 18bn worth of assistance packages



However, as initial euphoria of the EEDC's success subsides, a number of debates still linger. To truly capture the conference's momentum, these must be appropriately addressed. This report highlights the most important debates faced regarding tax and legislative reform, the controversy of the pending parliamentary elections, as well as feedback on the Suez Canal Development Project and the New Administrative Capital.

Legislative and Regulatory Pipeline:

Pre-EEDC (Since December 2014)	At the EEDC (Since March, 2015)	Post-EEDC (Since April, 2015)
Issued Laws: ▪ New Micro-finance Law ▪ Renewable Energy Law ▪ New Mining Law ▪ Egyptian Product Preference Law	Issued Laws: ▪ Investment Law ▪ Civil Service Law	Issued Laws: ▪ Capital Gains Tax (executive regulation) ▪ Real-estate Financing Law (executive regulation amended)
Awaited Laws: ▪ Investment Law ▪ Electricity Law ▪ VAT ▪ Capital Gains Tax (Executive Reg.) ▪ Labor Law	Awaited Laws: ▪ Electricity Law ▪ VAT ▪ New Mining Law (executive regulation)	Awaited Laws: ▪ Electoral District Law ▪ Electricity Law ▪ VAT ▪ Investment Law (executive regulation) ▪ New Customs Law ▪ Anti-Cyber Crime Law

A Pending Parliament

The Supreme Court ruled the Electoral District Law unconstitutional less than two weeks before the start of EEDC. President Abdel Fattah Al Sisi tasked the competent committee with amending the law within a month. On the 15th of April, the cabinet approved amendments to three laws governing the parliamentary elections (including the Electoral District Law, Exercise of Political Rights Law and the Parliament Law), and the matter has been sent to the State Council for revision. This has caused widespread controversy just 60 days after the EEDC convened.

The amended laws were ill received by a large segment of civil society. A number of political parties, key political figures and legal experts have voiced their discontent with the amendments, with a minority vowing to challenge their constitutionality if approved. One of the biggest points of contention is that the amendments increased individual seats from 420 to 442 while keeping seats allocated for party lists at 120. Some political parties fear that this might further marginalize their role in future parliamentary elections. The biggest controversy is the adoption of the "absolute lists" where a winner party list takes all. Political parties (including Al Wafd, Egyptian Social Democratic Party, Al Geil Democratic Party and Tagamoo' Party) have maintained that "absolute lists" are unconstitutional, promising to challenge them in court. Other points of debate include the mechanism for the division of electoral districts and a cap on the campaign's budget for individual versus party lists.

The absence of a Parliament is causing growing political uncertainty, which may shake investors' trust in the economy. In addition, the turbulent process of amending the elections law raises fears that the Parliament may be ruled unconstitutional if elections go through as planned.

Taxation Debates

Tax reforms were among the most important pledges at the EEDC, with the GoE promising a clear and investment-stimulating tax policy. A number of tax amendments have been announced as in the pipeline, including a shift to VAT (which would cap the income tax at 22.5%), as well as the issuance of executive regulation for capital gains and dividends tax (which would clearly set the calculation and collection mechanism). This section assesses the progress on each of the aforementioned, 60 days after the EEDC.

The Value Added Tax

The shift from the General Sales Tax system to the VAT system has been long awaited. In fact, the VAT had been earmarked to collect EGP 12.5bn of extra revenues in the FY2015 budget. However, the surge in inflation in H1 FY2015, due to the fuel subsidy reforms, and again in H2, due to the more lax monetary policy adopted, was the main factor behind the delay in the implementation of the VAT. In FY2016, the VAT has become a top priority for the GoE and is set to collect EGP 32bn. The appointment of Abdel Monem Mattar, who previously headed the Executive Affairs Sector for the General Sales Tax, as Commissioner, is yet another indicator of the GoE's resolve to adopt the VAT. As a sales tax veteran, Mattar is keen to optimize the collection mechanism of the sales tax, which will greatly increase the toll. Mr. Mattar is fully aware of the numerous perks of the VAT, which is considered a more efficient and effective tax on consumption than the General Sales Tax. The VAT shall enhance the collections of the sales tax as it will bring in unregistered suppliers into the taxpayer base. Therefore, Mr. Mattar is a strong proponent of the shift to VAT. While generally, the private sector welcomes the shift to the VAT, many are concerned that a less-than-optimal shift would cause considerable disruptions.

Among the main concerns is that the GoE is unwilling to give companies a sufficient grace period to gradually shift to the VAT. A number of companies have voiced concerns that they will not have enough time to comprehend and comply with the VAT execution mechanism, as per the law and executive regulation. In addition, companies argue that they need a grace period to make the necessary amendments to their accounting system fit the newly applied tax. Furthermore, companies stressed the importance of issuing executive regulation with the law for it to be applied successfully. On the other hand, the Ministry of Finance maintains that due to the limited state control over prices in Egypt, there is a fear that retailers will start loading and increasing prices as soon as the new tax is announced, even with the inclusion of a grace period. It is worth mentioning that the Ministry of Finance and Tax Authority have held several societal dialogues and have been listening to the concerns of the business community while promising to incorporate all valid concerns. We expect that the VAT rate will stand at 10%.

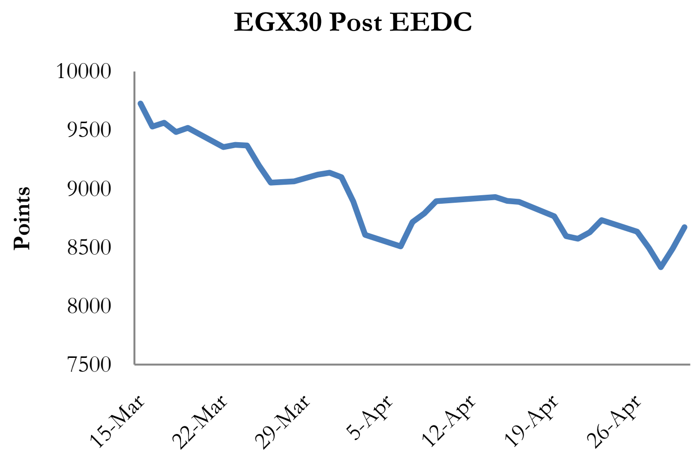
Income Tax

A few days before the EEDC, it was reported that the income tax for individuals and companies would be capped at 22.5%, and the 5% rich tax, which was levied in July 2014, would be cancelled. The Minister of Finance also stated that the tax rate would be unified after reaching agreement, which would entail an increase of the income tax on new projects due to open in the Free and Special Economic Zones from 10% to 22.5%. This move was reiterated by Minister of Investment and former Commissioner of the Tax Authority as pro-investment fiscal stimulus. The business community in general welcomed the announcement, applauding the new "competitive tax rate" as compared to neighboring economies.

However, 60 days after the EEDC, and the income tax cap has not been officially issued. The uncertainty regarding a key component of the tax policy -income tax- is causing a lot of confusion. Recurrent assurances by several Ministers that the income tax cap would come into effect has led a number of businesses to start factoring in the new rate for 2015. This lack of clarity is especially worrying for foreign investors, who had a very bright picture of Egypt during the EEDC. Moreover, the current state of confusion is out-of-line with all the GoE promises at the EEDC that Egypt will have a clear and stable tax policy.

Capital Gains and Dividends Tax

The fiercest and most contested debate in recent months has arguably been the capital gains and dividends tax. In July 2014, amendments to the income tax law levied 10% on capital gains and dividends. The GoE kept investors waiting until April 6, 2015 to issue executive regulation which would set the collection mechanism. Uncertainty was one of the reasons blamed for the stock market's weak performance after the EEDC, as shown in the graph. After reaching 10,046 points on the 4th of February, the stock market's main index, EGX30, fell by 13% to stand at 8,742 points on the 30th of April. Expectations that the stock market would rally after the EEDC were futile, as the EGX30 instead fell further by 12% from the 15th of March until the 30th of April.



After the issuance of the executive regulation, a fierce dispute took place between the Ministry of Finance on one side, and investors, brokers and other government entities on the other. Opposition to the tax can be divided into two positions. The first opposes the tax as a whole and is calling for its cancelation, while the second contests the mechanism of collection. The Ministry of Finance has maintained that cancelling the tax is not an option, and would only discuss amending the collection mechanism. On the 17th of May, the GoE took the decision to freeze the capital gains tax for two years while keeping a 10% tax on stock dividends to be collected once a year. This was following the Prime Minister and the Minister of Investment's opening of the stock market trading session, in a clear show of support.

Investment Debates

The Investment law

The long-awaited reform of the investment law was released only one day before the EEDC, in line with the GoE's promise to release it prior to the summit.

The new investment law still sparks debates and criticism. Before its release, the new investment law was criticized for the extended mandate granted to GAFI, which does not have the adequate capacity to execute provisions of the new law. The One-Stop-Shop was accused of being incapable of handling the newly-added responsibilities, especially issuing permits on behalf of other entities, such as the Industrial Development

Authority. Criticism went as far as to claim that the new law is unconstitutional, given that it allows the Prime Minister the power to grant non-tax exempt status for special investments, such as:

- approval of establishing custom outlets,
- easing or lowering of consumed energy prices, and
- sharing the burden on government spending for technical training.

Releasing the new law had a positive impact of restoring investors' interest and confidence in Egypt. However, investors are still keen to see executive regulation of the law. The executive regulation shall showcase the application process. As the executive regulation has not yet come to light, the Minister of Investment pointed out that the prolonged process of releasing the executive regulation is not a concern. He also claims that some provisions of the investment law are too direct to have executive regulation clarify them. The new investment law, with a functioning One-Stop-Shop, is expected to be effectively running in 18 months.

Labor Law

The Ministry of Manpower and Immigration is currently drafting a new labor law. The new law sparked numerous debates from different interest groups, which explains the prolonged process of enacting it.

According to the Ministry of Manpower and Immigration, both international labor standards and labor standards outlined in the Egyptian constitution are taken into consideration in the new law. Also, women are granted more privileges under the new law, such as longer maternity leave. Regarding efficiency and development, the new law proposes compulsory vocational training for labor. The training programs will be financed by 1% of the employee's wage.

The process of amending the labor law is very sensitive. Campaigns have been mobilized by labor unions, such as, "Towards a Just Labor Law", criticizing the Ministry for taking the side of industries and business. On the other hand, industry, trade, and tourism unions believe that the new law will not drive enough efficiency in the labor market. Investors acknowledge reforms such as the Public Service Law, yet a labor law to regulate the labor market for the private sector will have an impact on doing business in Egypt.

CIVIL SERVICE LAW

Another piece of legislation which passed before the EEDC is Law No.18/2015 for Civil Service, which marked another key milestone on the GoE's agenda. The new law will set a new framework for public servants to operate and become more efficient. Investors at the EEDC expressed a major concern regarding the public sector's inefficiency. The new law shall set guidelines for hiring new public servants based on qualifications and merit. Another key characteristic of the new law is that pay raises will be based on clearly defined success indicators rather than seniority.

Debates in Energy Sector

The energy sector entered a critical phase last year when Egypt witnessed massive and continuous power cuts that crippled the operations of many factories and industrial areas; Now, the government is clearly aware of the crisis. The GoE moved towards solid reform when raising electricity prices. At the EEDC, energy policymakers laid down key challenges of the industry to investors, and presented the plan which the government will adopt to overcome them. Among the challenges are:

- rising supply & demand energy gap,
- undiversified power generation mix,
- subsidies which represent a huge fiscal burden,
- a need to modernize the regulatory framework, and
- complex procedures for the private sector.

A Pending New Electricity Law

As part of the Ministry of Electricity's new reform plan, the ministry revealed in late 2014 that a New Electricity Law would be released after the EEDC. The new electricity law shall deregulate the rigid sector by separating the Electricity Distribution Company from the state owned Egyptian Holding Company for Electricity. Additionally, the new law will open up the distribution of electricity to private companies, ending the monopoly by the Egyptian Holding Company for Electricity and moving towards a more efficient electricity industry.

Renewable Energy to Alter Energy Mix

Another maneuver the government is pushing for is the redistribution of the country's energy mix. Egypt mainly depends on fossil fuels in its energy mix, a critical position when considering the limited fuel resources available in the country. The Ministry of Electricity and Energy took positive steps when it started pushing for a change in energy mix in the country's mid-term plan, where 20% of energy would be generated from renewable energy by 2020. To facilitate investments in this sector, the Egyptian government issued **Law No.184/2013 for Customs on Renewable Energy Components, Feed-in Tariff** and **Law No.203/2014 (the New and Renewable Energy Law)**.

- **Feed In Tariff**

  The Egyptian government proposed the Feed-in Tariff (FIT) in September 2014 to encourage investments in the new and promising sector. The feed-in rates will vary depending on usage. Households will receive EGP 0.848 per kilowatt hour (kWh), commercial producers EGP 0.901 (under 200 kW) and EGP 0.973 for producers of 200 kW to 500 kW. Projects between 500 kW and 20 MW will receive USD 0.136 per kWh and projects between 20 MW and 50 MW will receive USD 0.1434 per kWh. Large-scale projects, which will most likely be financed by foreign currencies, are subject to a tariff rate in USD.

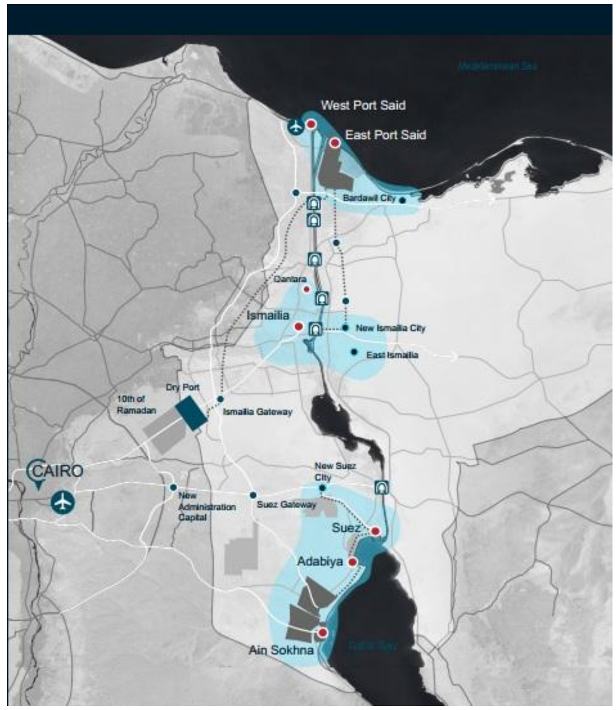
Renewable Energy MARKET Highlight

The government is aiming to produce 4,300 MW of renewable energy, with 2.3 GW from solar (2 GW of large-scale and 300 MW of small scale under 500 kW) and 2 GW from wind. Egypt released a shortlist of 110 pre-qualified applicants for solar and wind projects for the first regulatory period of the feed-in tariff scheme which runs from 2015 to 2017.These 110 applicants include 13 small-to-medium scale solar facilities (up to 20 MW), 69 large-scale solar facilities (20MW – 50MW) and 28 wind facilities (20MW – 50MW). The government will provide 36 plots of land to qualified bidders for large-scale solar projects on a first-come, first-serve basis to encourage investment. Developers who source their own land will need to provide the government evidence of ownership or satisfactory usufruct rights. The FIT will be applied for 25 years for solar projects, and 20 years for wind. This scheme is an aggressive push towards the targeted goal of 2020 for a more sustainable energy mix.

Mega Projects

Suez Canal Development Project

The Suez Canal is one of the major sources of foreign currency for Egypt and it attracted significant investments at the EEDC with the proposed mega Suez Canal Project. The project includes two key stages of development. The first is the digging of a new parallel canal to increase the canal's capacity and reduce the waiting time for ships. The new corridor, around 72-Km long, shall reduce waiting time by around 60%. The second development is the Suez Canal Zone (SCZone). It is a proposed economic zone in the Suez Canal region that will become a hub for industrial and added-value operations. The SCZone project is expected to become an economic and logistical zone in a 500sqkm area.



Source: SCZone

The Suez Canal Legal Framework

Investors are concerned with the legal framework of the SCZone. The SCZone's legal team declared at the EEDC that the site will be governed by the **Special Economic Zones Law No.83/2002**, which proposes the following incentives:

- a 10% income tax on natural persons and on revenues derived from land and non-residential buildings,
- a One-Stop-Shop,
- an authority to supervise the tax system in the SCZone, and
- a special customs service under the supervision of the Supreme Customs Committee.

As discussed above, the GoE is considering unifying the **income tax at 22.5%,** even in special economic zones. Now, with a potentially new income tax code, it is unclear whether the SCZone will be subject to the 22.5% income tax or whether it will receive preferential treatment granted by the Special Economic Zones Law. The discrepancy between the Special Economic Zones Law and the new income tax has caused friction between the Suez Canal Authority and the Ministry of Finance.

The Supreme Council for Legislative Reform announced that amendments to the Suez Canal Law are already taking place to allow the Suez Canal Authority time to establish a subsidiary arm for investments. It is still unclear whether a new independent authority shall take the lead on the Suez Canal development project, or whether the project shall remain under the Suez Canal Authority.

The New Administrative Capital

The Minister of Housing, Utilities and Urban Development, Mostafa El Madbouly, announced during the economic summit plans to create a new administrative and financial capital to ease traffic in congested areas such as downtown Cairo. The proposed city's total area is 700 sq km and would be located 50km to the East of the Fifth Settlement. It would also include*:*

- 21 residential districts,
- 25 dedicated districts,
- 663 hospitals and clinics,
- 1250 mosques and churches, and
- 1 theme park.

Source: SOM

The Strategic Added Value of Egypt's New Capital

The city aspires to accommodate five million people and would create almost 1.5 million jobs. President Abdel Fattah Al-Sisi explicitly requested that the time-frame for building the new city not exceed seven years.

Capital City Partners, a private real estate investment fund led by Mohamed Alabbar, will lead the development of this new mega-project. The estimated USD 45bn project is expected to become a new administrative capital where the presidential palace, government authorities, the Parliament, and embassies would relocate to. However, skeptics predict that the new city will turn out to be a new extension to Cairo, similar to the satellite cities of Six of October, and the Fifth Settlement, etc. It is essential for a project of this size to have a clear and defined strategic objective. If the new city takes an administrative role, early studies of urban planning should be considered, from transportation and accommodation of civil servants, to designating specific locations for critical institutions, etc. It is still ambiguous whether the project developers are targeting specific economic and social classes or whether this will be an inclusive project. Similar projects with a much smaller value served the same purpose, such as Sadat City, which aimed to relocate all government related entities outside of the city to ease traffic in congested downtown Cairo. All of these previous projects failed because they lacked well structured master plans and a full study of the logistical, economic, and social repercussions of building a new city. The new Capital Cairo is an opportunity to make such ambitious dreams a reality.

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