EGYPT'S REGULAORY ASSESSMENT – 2015: A Business/Government Intelligence Guide

N Gage Consulting

Public Strategy and Government Relations Specialists

www.ngage-consulting.com

Contents

Introduction

Egypt's legislative and regulatory framework has been constantly labeled as a major deterrent to doing business[1]. Often, legislations in Egypt are outdated, unclear and generally discouraging for investors. The lack of a modern and user-friendly access to new laws, regulations, decrees, and industry standards makes it difficult for businesses to remain compliant. Moreover, the absence of a clear process for drafting, debating and issuing regulations has often resulted in cumbersome outcomes. This state of ambiguity created an unfriendly environment for doing business.

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. With our expertise and specialized scope of work in government relations, we monitor key legislative and regulatory developments that have a significant impact on business. As an enterprise that lobbies for sustainable business regulations, **N Gage Consulting** provides its clients with the required business/regulatory intelligence to establish better visibility to commence or maintain sustainable business operations in Egypt.

The redundant legislative framework was clearly identified by the Government of Egypt (GoE), making legislative reform a cornerstone of its economic development plan. President Abdel Fattah Al-Sisi's first decree when he took office was to form the Supreme Committee for Legislative Reform (**SCLR**). The SCLR acts as a legal advisor for all ministries, reviewing the new laws and amendments before being presented to the President. All ministries were tasked to identify redundant or missing legislations, and draft the amendments. Additionally, the Egyptian Economic Regulatory Reform and Development Activity (ERRADA) was reformed with the mandate of supporting the GoE's efforts in enhancing the current legislative framework and building a regulatory management system. It has the objectives of identifying all business-related regulations, simplifying them and making all regulations accessible to the public. These efforts have resulted in the issuance of a whopping 263 laws (as of August 2015) since the President took office.

However, this may put Egypt in a difficult situation in the near future. Given the lack of standing parliament for almost 3 years now, the President has held the legislative authority until a new parliament is formed. According to the Egyptian constitution, the Parliament has to review all laws issued in its absence within only 15 days. If the Parliament fails to review and approve any of the laws within the mentioned timeframe, issued laws will be suspended.

In light of the upcoming formation of Parliament, this report examines and analyzes the laws issued since President Abdel Fattah Al-Sis took office, to monitor and gauge the GoE's policy direction. This report also discusses the role the upcoming Parliament will play in its early days, and the importance of the first two weeks of Parliament in approving all Presidential Decrees issued since May 2014.

Methodology

For this report, we examine legislations issued in the period from May 2014 to August 2015. The report shall focus more on legislations that have a direct impact on business. Legislations that are relatively unrelated to business will be disregarded; such as the amendment to Law for Universities No.52/2014 which stipulates that university Presidents are appointed via Presidential decree.

Legislations are categorized into four subjects, as follows:

1) General and Taxation
2) Energy-related
3) Non-banking financial sector
4) Government management and institutional reform
5) National mega projects and Infrastructure Legislations

General and Taxation focuses on legislations that either target to enhance the investment climate in general or amend Egypt's taxation policies. As almost any measure of reform can impact investment attractiveness, this category only focuses on laws that are issued entirely for that purpose, such as the new amendments No.17/2015 to the investment law. Second type of legislations is **Energy-related legislations**, which are essentially a category that examines the laws that have an impact on the energy sector, including oil and gas, mining and electricity. The third category, **Non-banking financial,** is concerned with legislations aiming to develop the financial services sector in Egypt. Then, g**overnment management and institutional reform** takes into account laws issued to reform and streamline the operations of Egyptian bureaucracy. The last subject, **national mega-projects,** is concerned with laws providing a

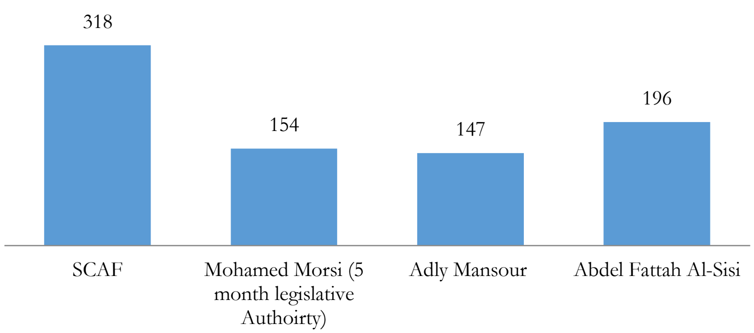
[1] World Competitiveness Report 2014-2015

regulatory framework for mega projects, such as the Suez Canal Development Law No.330/2015.

For the laws in the pipeline, the report shall demonstrate a legislative tracker that tracks laws expected to be issued in the near future. Pipeline legislations are categorized into three stages, **early stage**, **middle stage** and **final Stage**. Early Stage legislations are ones where the draft is still at the ministerial level. Middle stage covers legislations where a draft is completed by the pertinent ministry and at the Prime Minister's office or the SCLR for review. Legislations at final stage are ones waiting for the President's approval to be issued. Some legislations are at final stage, yet are expected to be issued when the Parliament is initiated. These laws are also categorized as Final Stage Legislations. Final Stage legislations can also cover legislations that are at the State Council, through which all legislations are reviewed before being sent to the President.

Legislations Overview 2011-2015

Legislations issued by heads of state.



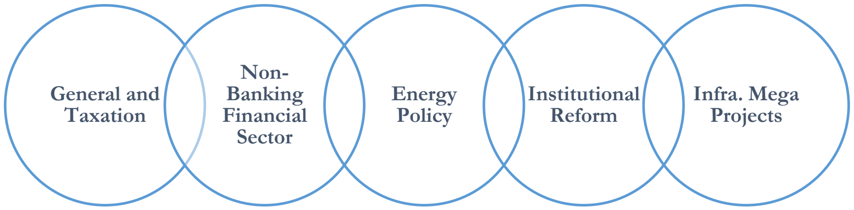
From 2011 to 2015, Egypt saw four different heads of state, the Supreme Council of the Armed Forces (SCAF), former President Mohamed Morsi, Interim President Adly Mansour and current President Abdel Fattah Al-Sisi. During SCAF rule, whopping 318 legislations were issued, albeit more than half of which were budget approvals. President Abdel Fattah Al-Sisi comes second in terms of number of legislations issued, with 196 issued from May 2014 to end of August 2015. This reflects the legislative reform wave triggered by Al-Sisi, as a major component of a wider reform program.

While, the large number of laws issued can be seen positively as a sign for reform, it can also be viewed negatively as a sign of rushed pieces of legislations. Legislations go through a vigorous and in some cases prolonged process before being issued. Laws get reviewed within ministries, the SCLR, the Prime Minister's office, and the State Council before being released for societal dialogue with the pertinent stakeholders, and finally sent to the President. Laws that undergo this lengthy process are often delayed, such as the labor law and the VAT. Then, the revision phase is cut short and the societal dialogue phase is almost eliminated, given the urgency to issue the laws that are seen as an integral part of Egypt's sustainable development strategy. This process sometimes results in flawed or controversial legislations, difficulty in implementation, and continuous amendments to issued laws that often confuse investors.

Out of the 196 legislations issued by President Al-Sisi, and disregarding the 106 Presidential Decrees that are a consolidation of budget approvals for government entities, this report pools the remaining 90 legislations, and examines a selection of 20 business-related legislations.

Business and Investment Legislations

As mentioned earlier, this report focuses on legislations that have a direct impact on business, categorized into five sections.



General and Taxation

In this section, laws that are essentially concerned with the business environment, investment facilitation, and taxation policy are demonstrated. The following laws are not issued to target a specific industry, but targets to influence the macro outlook of investments and doing business in Egypt.

Waves of Income Tax Amendments (2014 & 2015)

In 2014 and 2015, several amendments were introduced to the income tax, prompting applauds at times, and fomenting confusion and wide-ranging criticism at others. Three laws were issued in 2014 to amend the income tax law, and these are Law 44/2014, Law 53/2014 and Law 201/2014. The three laws' main stipulations were as follows:

- Levying an extra 5% "rich tax" on corporations and individuals with a recorded annual income exceeding EGP 1mn for 3 years. The law also stated that the 5% tax may be waived if the tax-payer contributes to the financing of development projects to be decided-upon by the Minister of Finance.
- Levying the income tax on profits made abroad by corporations and individuals based in Egypt.
- Levying a 10% capital gains and dividends taxes.
- Stipulating that corporations should pay income tax electronically.

The above amendments were in line with the GoE's wide fiscal consolidation program at the time, and were defended as means of widening the tax base, increasing the state's revenues and redistribution of wealth. On the other hand, the business and investment community took the amendments with a grain of salt, viewing mainly the 5% "rich tax" and the capital gains tax as major deterrents to doing business at a time when the GoE should be incubating a friendlier atmosphere for investors. The 5% "rich tax" was viewed as a further taxation on "law abiding businesses", at a time when the GoE completely neglected any reforms to tax the huge informal sector. Additionally, the capital gains and dividends taxes were seen to have detrimental effect on the attractiveness and performance of the Egyptian Stock Market. Intense lobbying efforts were exerted against the "rich tax" as well as the capital gains and dividends taxes, more so for the latter. This resulted in the rescindment of both amendments in 2015 via Law 96/2015.

Only a few months in the life of the "rich tax", the GoE's rhetoric changed, with the President, Minister of Finance and Commissioner of the Tax Authority all revealing imminent plans to reduce the income tax cap to 22.5%. Yet, the issuance of the new amendments was delayed, in parallel with GoE's continuous reaffirmation of its imminence which stirred up confusion in the market, negatively affecting investors' confidence in Egypt tax policy. As for the capital gains and dividends taxes, they caused wide confusion and dissent within the investors' community, especially since the executive regulation was described as cryptic, failing to set a clear collection mechanism (beside the fact that it took almost 7 months to come out). Brokers, investors and Chairman of the Stock Market led a very aggressive campaign for their cancellation. This eventually led in the Prime Minister announcing the postponement of the capital gains tax for two years, while retaining the dividends tax in May 2015. The law to promulgate both amendments, Law 96/2015, was delayed and only issued in August 2015, again negatively affecting the confidence in the GoE's seriousness and clarity of policy-making.

Amendments to Sales Tax (2014 & 2015)

Two different sales tax amendments took place in 2014 and 2015, as a measure to increase tax revenues and reduce the chronic budget deficit. The first amendment **No. 58/2014** applied a three-tier tax system on cigarettes and increased the taxes on them, while also increasing the taxes on alcohol. The second amendment **No.12/2015** again increased the taxes on cigarettes.

Key Beneficiaries:
- A measure of fiscal consolidation to tackle the unsustainable budget deficit
- Tobacco industry heavily impacted, especially the imported high-income bracket brands

Decree to amend Customs Tax on Pharmaceuticals No.184/2013

The Decree was issued in early 2015 to change customs on selected pharmaceutical drugs. According to Article 18 that entails that every Egyptian has the right to have access to medicine, and Article 27 that entails that the Egyptian government is mandated to apply a fair tax system, the amendments to the Custom Tax Law comes to ease taxes on specific medications that are required urgently for the Egyptian society.

Key Beneficiaries:
- Pharmaceutical companies producing selected drugs including, organ implant medications, penicillin, anti-biotic, and heart disease medications.

❖ Property Tax Law

The Property Tax Law amendments are made to change and modify tax exemption, granting specific properties, related to the Armed Forces, and other residential locations tax emptions status.

Key Beneficiaries:

- Contractors and partners to the Armed Forces on real-estate projects will feel more comfortable when fiscal concerns on such projects are lifted.

❖ Amendments to the Investment Law No.17/2015

The original Investment Law No.8/1997 was subject to amendments as a measure to streamline investment procedures and incentivize new investments. The President and several ministers have constantly pledged that the law will be issued before the Egypt Economic Development Conference **(EEDC)**, to facilitate investments significantly and give numerous incentives. On the other hand, there was a fierce debate on the draft law where different ministries and other stakeholders disagreed with certain stipulations of the new law. Under pressure, the law was finally issued the night before the EEDC. After the law was issued, several flaws were highlighted, with the amendments expected to be applied soon.

The amendments included new features, such as the activation of a one stop shop for approvals, formation of a dispute settlement committee, facilitating SME procedures, and others. A belated executive regulation was issued months after the law, after societal dialog regarding the rationale behind having one.

Key Beneficiaries:

- Investors willing to invest in Egypt, yet worried about prolonged investment procedures, and dispute settlement
- SMEs who can now go through a streamline SME support system to finalize documentation within the one-stop-shop

❖ Law Granting Preference to Egyptian Goods in Government Contracts No. 39/2015

The law grants Egyptian products a preferential treatment in obtaining government contracts, as long as the price for Egyptian product does not exceed 15% more than the price of an imported substitute. The law identifies an Egyptian product as any product with at least 40% local component. It applies to procurement procedures of Ministries, government authorities, and public enterprises. The law includes the requirement of establishing a committee responsible for government contracts that will grant contracts through item-by-item basis. The law would work as an incentive for local manufacturers, to promote local industries. The law comes in a critical situation where the country is going through a shortage in foreign reserves. The law shall contribute to preserving foreign currency, matching the Central Bank's policies towards the US dollars.

Key Beneficiaries:

- Egyptian manufacturers
- MNCs with strong local industrial presence
- Promoting JVs with Egyptian industrial and manufacturing players

❖ Amendments No.56/2014 to Competition Protection Law No.3/2005

The law amended the provisions of the Competition Protection law in order to make it in line with Chapter 2 of the Egyptian constitution, which highlights the importance of supporting competitiveness and preventing monopolistic practices. Competition Protection Law No.3/2005 was subject to successive amendment waves in recent years, adapting to market changes. One of the key highlights for the latest amendments is that it grants the Egyptian Competition Authority (ECA) the mandate to file cases against non-compliant business operations. The amendments also restructured the fines for non-compliance, to make it account for the size of a non-compliant business organization. The law is in continuous evolution to enhance the lacking competitiveness in the Egyptian economy.

Non-Banking Financial Sector

❖ New Micro Finance Law No.141/2014

Micro-financing activities before the new micro-finance law were not regulated. With a mindset for social inclusion and opening up new sectors for investment, the GoE –through the new law- established a supervisory system for micro-financing. The law states that the rules and outlines to mitigate risks by setting rules for financial solvency and requirements for micro-finance licenses. The new law as such, is proposing a credible system for protecting market players.

> **Key Beneficiaries:**
> - Investors willing to invest in micro-financing and SME funding
> - SMEs and young entrepreneurs who can have better access to less-risky finance

❖**Law No.55/2014 for Real Estate Financing Law**

Low income housing has been under the spotlight since 2014. Presidential Decree issued in May approving the new amendments that would specify a legal system for real estate financing and mortgages. The law is to tackle unlicensed housing units, and sets clear punishment for in licenses real-estate market players. Egyptian President Al-Sisi approved the law that authorizes the GoE and its mandated authorities to allocate land for low income housing projects, and to fund the required infrastructure for the development.

> **Key Beneficiaries:**
> - Real-estate financing and mortgage companies can operate within a legal and regulated market
> - Construction and Real-estate developers for low income housing
> - Infrastructure and engineering companies can capitalize on the need for establishing utilities such as power and water treatment for housing projects

Energy Policy

Oil, Gas and Mining

A number of legislations were issued for the Oil and Gas sector, yet these legislations were mainly contractual Decrees such as Decree No.121./2014 that authorizes the contract of the Egyptian Petroleum Company (EGPC) and Apache for exploration in the Western Desert. The oil and gas as a sector was not impacted by Presidential Decrees to impose market regulation/deregulation. The laws for oil and gas (since President Al-Sisi took office) were more of contractual agreements between the government of Egypt and oil and gas companies.

❖**New Mining Law No.198/2014**

The new law is a key legislation as it sets new guidelines and rules for the mining sector, to replace an obsolete law that has not been amended since the 1950s. 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.

> Key Beneficiaries:
> - MNCs willing to invest in greenfield exploration and production
> - Construction companies, willing to engage in mining megaprojects such as the golden triangle
> - Transportation sector is to boast, especially for freight rail sector

Electricity and Power Generation

❖**Amendment to Law for Renewable Energy Authority No.135/2014**

In 2014, Law No.135/2014 issued to authorize the New and Renewable Energy Authority (NREA) to establish sub-entities for generating renewable energy. This marked the first initiative made for the renewable energy sector, and mainly to grant the NERA an extended financial capability.

> **Key Beneficiaries:**
> - Renewable energy investors to notice the growing maturity for renewable energy in the Egyptian market
> - Contractors and industrial contractors who can engage in a rising renewable energy market

❖**Feed-in Tariff Program No.203/2014**

A second legislation which had its own impact on the sector was law No.203/2014, launching the Feed-in Tariff program. The Feed-in Tariff regulates the prices by which the GoE purchases energy generated from renewable sources from the private sector. It aims to encourage investments in renewable energy to diversify Egypt's energy mix.

> **Key Beneficiaries:**
> - Renewable Energy investments both in Wind and Solar
> - Industries with high dependency on natural gas for energy can choose from new energy sources

❖ **New Electricity Law No.87/2015**

The latest power-related legislation issued was the new electricity law No.87/2015, showing the GoE's resolve to liberalize the energy sector. The new law is set to deregulate the transmission sector through splitting the state owned power transmission company from the Egypt Electricity Holding Company (EEHC). Through this measure, the government is planning to open up investments from the private sector to start investing in the power transmission sector.

Key Beneficiaries:
- Private sector power transmission companies
- Electricity sector players, as sentiment of deregulation is delivered
- Consumer, because of an eventual decrease in electricity prices

National Mega Projects and Infrastructure Legislations

❖ As of August 2015, four legislations were to provide the legislative framework for the Suez Canal Project. Amendment to the **Suez Canal Law No.90/2015** authorized the Suez Canal Authority to establish subsidiaries that can be listed in the Egyptian Stock Exchange. For the industrial phase of the mega project, **Law No.330/2015** was issued in August to set the parameters of the economic zone that shall be built. Four main ports are to be within the jurisdiction of the Suez Canal Economic Zone (now renamed as the General Authority for North West Gulf of Suez), to include East and West Port Said, Suez Port, Ain Sokhna, Al-Adabeya, Arish, and Ismailia Tech Valley. The other two laws were concerning the issuing of a Suez Canal Investment Certificate for funding the canal expansion project, and another for the Suez Canal Development project.

Key Beneficiaries:
- Business organizations (both local and foreign) who consider investments in the Suez Canal axis
- Infrastructure companies to upgrade ports and industrial areas along the axis, plus greenfield projects

❖ **Sinai Development Law No.142/2015**

Sinai Development Law was issued in August 2015, just days after the inauguration of the newly launched canal, to set the guidelines for land ownership in the Sinai Peninsula. The key message of this law is that it restricts land ownership only to Egyptian nationals. The new law restricts ownership of land in Sinai, stated that only Egyptians of Egyptian parents, and companies fully owned by Egyptians can own land in Sinai. The amendments to the law cover that Egyptians with dual nationality and foreigners can own buildings and not land but only after the approval from the Ministers of Interior, Minister of Defense and the General Intelligence.

Key Beneficiaries:
- Development institutions, infrastructure contractors, willing to exploit the prospect of establishing mega-projects in Sinai
- Project managers, consultancy, and contractors who engage in infrastructure projects such as transport and logistics, can capitalize upon this legislation to enhance connectivity to Sinai Peninsula

Legislations targeting Institutional Reform

❖ **Civil Service Law No.18/2015**

Ministry of Planning's celebrated legislation is the new **Civil Service Law No.18/2015**; one of the "midnight" laws issued the night before the EEDC accompanying the long-awaited investment law. The new civil service law promised to end a weak bureaucratic process. The law introduces a more structured HR policy in government agencies, transparent announcements of vacancies, a standardized screening and testing procedure, and proposes a new system of assessing employees.

❖ **Law No.89/2015 for Suspending Regulatory Heads**

Law to Suspending Regulatory Heads was issued by President Al-Sisi to grant the President the authority to suspend directors of regulatory bodies, namely the Central Bank of Egypt (**CBE**), the Egyptian Financial Supervisory Authority (**EFSA**), the Central Auditing Agency (**CAA**), and the Administrative Control Authority (**ACA**), if seen not performing required mandate efficiently, or taking measures that threaten the national security of the country. Egypt might be going through tough security challenge, yet this law initiated some controversy, which will be discussed in a coming section.

❖ **Amendments No. 97/2015 to the Illicit Gain Law**

Additional measure to enhance bureaucratic efficiency and fight corruption, President Al-Sisi issued Law No.97/2015 to authorize for appointing a guardian to manage frozen assets and to preserve its value. The law claimed that revenues to such assets are to be added to owner or any entity that is included in the restriction order, after cutting 10% to the Illicit Gains authority.

Debates on Selected Legislations

- **Civil Service Law No.18/2015**

  Although the Law was propagated on March 12, there is still a debate over who will be subject to its provisions and who will not. Article (1) of the Law states that it applies to "ministries and their departments, government agencies, local administrative units, and public authorities, provided the laws and decrees establishing them do not state otherwise." This means that every government body or agency established by special law, which are plenty, may be excluded from the application of the new Civil Service Law. This ambiguity justifies civil servants' suspicions towards the Law, especially as some ministers and officials were quick to reassure their employees that they were lucky and would not be subject to the Law, thus sending an extremely negative message.

- **New Investment Law No.74/2015 & amendments in Pipeline**

  As much as the issuance of the law did have its positive sentiment on promoting business for the "New Egypt", six months after it seeing the light, actual changes in the investment landscape is still unseen. Discussions were raised regarding the necessity of issuing an executive regulation for the newly released law. While Minister of Investments Ashraf Salman saw that the new law does not require one, an executive regulation **No. 1820/2015** was signed last July 2015. More than six months upon its release, the investment law is currently subject to amendments to integrate the provisions of public and private free zones. In addition to the amendments, an effective One-Stop-Shop is still under construction, and said to be effective in 18 months. This issue of application raises tough question marks from investors.

- **Law for Suspending Heads of Regulatory Bodies No.89/2015**

  The passing of law No.89/2015 which allows the President to suspend heads, directors, and presidents of regulatory bodies is considered by some members of the civil society as unconstitutional, if they threaten the State's national security. Such measure can send uncomfortable signals to potential investors.

- **Special Economic Zones Law**

Law 21/2015 amended the Special Economic Zones, Law 83/2002. The amendments dealt with stipulation on the authority to be formed to manage any special economic zone, and its Board of Directors. Most importantly, the amendments cancelled the special tax treatment of projects within the special economic zones. That is, new projects in special economic zones will be taxed by the national rate, up from a fixed income tax rate of 10% for corporations and 5% for individuals.

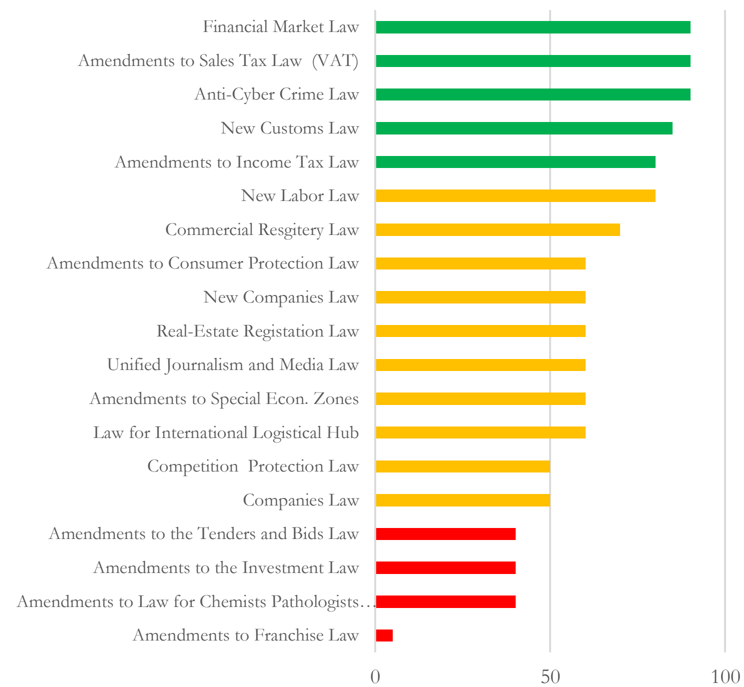
Monitoring Pipeline Legislations

This illustration shows the legislative process at different stages. Note that this is the legislative process before the formation of a Parliament

Early Stage	Mid-Stage	Final Stage
In the first stage of legislative process, it is usually publicized by a competent ministry to draft a new law and to be processed internally. During this phase, policymakers and key regulatory professionals, assigned by the Minister to sit and draft a law. A draft for the law is consolidated, and is often followed by societal dialog initiated by the Ministry. The societal dialog process can often take months to settle on a final draft (given the timely process of integrating concerns of interest groups within the draft).	When reaching an agreed-upon draft, the Ministry sends a draft to the Supreme Council for Legislative Reform (SCLR). The SCLR, formed in the first week of the President's inauguration, given the lack of a Parliament, to carry on the legislative process. The SCLR is set to study research, and propose recommendations to essentially have a law abiding to the 2014 Egyptian constitution.	When reviewed by the SCLR, the draft law is sent as a final draft to Prime Minister's office for review. The Egyptian Prime Minister and his advisors discuss the law, and when required, can call for Ministerial meeting for further discussions. After review, a copy is sent to the State Council, to provide legislative consultation for the law. If the State Council sees law as unconstitutional, the law can be pushed back to Ministerial level for amendments. At the Final Stage, the draft is then sent to the President, and usually takes not more than weeks to be signed. Note that, some laws require an Executive Regulation. The process starts at Ministerial level, then sent to Prime Minister for approval, and signed by the President.

The following graph shows the of pipeline legislations till end of 2015

Early Stage - Middle Stage - Final Stage



Commentary on the Pending Laws

Final Stage Legislations

❖Amendments to Sales Tax Law vs. VAT

The most delayed reform on the GoE's agenda. It was included in the FY2015 budget, earmarked to generate EGP 12.5bn of revenues but got postponed, in fear of its inflationary impact. The shift to the VAT was included in the FY2016 budget as well, earmarked to generate EGP 32bn, but has not been implemented as the first quarter of the year drew to an end. The direction in the GoE is to amend the current General Sales Tax (GST) law, instead of shifting to a full-fledged VAT. However, there is still a fierce debate over the new tax rate and minimum registration limit. The delay in implementing the amendments puts the GoE in a tough position, given very ambitious fiscal targets in FY2016, where a deficit of 8.9% of the GDP is targeted (vs. an expected 11.5% in FY2015).

❖New Customs Law

Customs legal experts who drafted the law focus on two main axes that would positively affect trade. The first is by simplifying release procedures, reducing release documents, and accepting electronic submission of papers. Such initiatives will speed customs release procedures and save money and time for the traders. The second increases the Customs Authority's power in terms of control measures, in order to create an appropriate balance between trade facilitation from one side and border control and consumer protection from the other. The draft law is dedicated to increase penalties, sanctions and fines on all customs law infringements. The second measure will not only include final traders but also other stakeholders in the supply chain. Different related Chambers in Egypt were given a chance to voice their opinions on the draft before its finalization. The draft law is now waiting for the new Parliament for possible discussion and ratification.

❖New Labor Law

New Civil Service Law issue is pushing the new labor law away, given the recent announcement of civil servants' sit-ins. The draft reached the Presidency, yet still pending the President's approval. There is a high probability that this law is to be issued after the formation of a Parliament.

❖Financial Market Law

This new law, initially drafted during the time of former President Mohamed Morsi, is back on the current administration's agenda, and is at its final stage. The Financial Market Law, prepared by the Egyptian Financial Supervisory Authority EFSA shall introduce the *Sukuk*, and apply a system for fighting money laundry within the stock market, and to lower required fees paid by SMEs.

Middle Stage Legislations

❖Commercial Registry Law

No news for some time. Yet, in August we hear that a consortium of four companies is to fund the project, as MCIT official stated. The project of automating the commercial registry is seen progressing, which reflects the progress of the law itself. The law will set guidelines for the commercial registry system, and required documentation for registry.

❖Unified Journalism and Media Law

The law is intended to regulate and set the framework for journalism. As you August, 2015, the law is at the Prime Ministry for review, before being sent to the State Council and then the President. The resignation of the cabinet will delay the legislative process.

❖Law for International Logistical Center

The law is at Prime Minister's office. The law is delayed due to the slow coordination between Ministry of Internal Trade & Supply and Ministry of Defense. Last progress on this front is seen in August, when the draft moved from Ministerial Level to Prime Minister. Our estimates see the International Logistical Center Law will not see the light in 2015.

❖ Amendments to Consumer Protection Law

The new amendments to the consumer protection law focus on deterrence. The law shall include increasing fines on violators of consumer protection provisions that could reach EGP 1mn. Another highlight of the law is that 25% of the fines will be directed to funding consumer protection agencies and NGOs.

- **Real-estate Ownership Registration**
  An attempt to facilitate government registrations and applications for investments, the government is currently in the process of forming a new law specifically for speeding up the process for real-estate ownership registration. The law will prohibit the launching and marketing of any real-estate project without being officially registered, a measure to preserve expectations and as a consumer protection initiative.

- **Amendments to Tenders and Bids Law**
  Amendments to the Tenders and Bids law focus on integrating the Egyptian Product preference law issued early 2015. The law is one of which is expected to see the light after the formation of Parliament. Former interim President Adly Mansoor issued Presidential Decree amending the law, and is seen to continuously change since.

- **Amendments to Special Economic Zones Law**
  According to the Ministry of Investment, the newly passed special economic zones law is to go through some amendments. The amendments are to include the Suez Canal Zone, and the he industrial phase of the Suez Canal project.

Early Stage Legislations

- **Amendments to the Investment Law**
  Integrating the Suez Canal project within the Investment law, as the new Investment law disregarded the Special Economic Zones Law. Amendments will also cover the private free zones' access to land. The situation is pending given that the investment law does not provide the standards and the regulations for land ownership. GAFI is receiving documentation from different authorities regarding land under their jurisdiction and the nature of industries they are willing to accommodate. Minister of Investment, Ashraf Salman, claims that land ownership through the one stop shop is to be applied within 18 months. The amendments shall also integrate the recently passed law of the Egyptian Product Preference law, which favors local products.

- **Amendment to Companies Law No.159/1981**
  The Supreme Council for Legislative Reform (SCLR) already approved the amendment to the Companies Law No.159/1981. The status of the new Companies Law was awaiting former Prime Minister Ibrahim Mahleb's approval. The change in cabinet is expected to delay the law. There is also a high probability that this law will not see the light before the formation of Parliament. The Companies Law is expected to ease procedures for investors willing to exit the Egyptian market, if not bankrupt. The law is also going to tackle issues of liquidity, setting shareholder meetings, procedures to increase companies' capital.

- **Amendments to Franchise Law**
  ERRADA prepared a draft for the new Franchise law, in collaboration with the Egyptian Franchise Association, Competition Protection Agency, representatives from the judiciary, and figures from the business community. The law shall cover the procedures for franchise, the required documents and information to be provided for opening a franchise. The intention is to promote this sector for further investments. Yet, after the most recent cabinet reshuffle, there are minor progression regarding this law.

- **Law of Sanctions – Bankruptcy Chapter**
  Although the Law of Sanctions handles all sanctions to many sorts of violations, the bankruptcy chapter has been neglected for years. In the last two years, the government pledged to amend some sections regarding bankruptcy as a measure to update and reform all procedures for investments in the country. Amendments to bankruptcy chapter in the Law of Sanctions arise again, yet seen as an early prospect.

Parliament - Government Relationship

In early September 2015, the Egyptian government resigned after a corruption scandal involving key figures in the Ministry of Agriculture. Eng. Sherif Ismail, former Minister of Petroleum, was assigned as Prime Minister to establish a cabinet within a week. New Prime Minister chose Ministers aged below 65 years of age, which is a positive sign of a more progressive and active new cabinet. Sixteen new Ministers took office on the 19th of September 2015. It is worth mentioning that the upcoming Parliament will have a definite impact on policymaking. The new parliament will have to form a new government, or can just approve the current one.

The business community is quite accepting the new cabinet reshuffle. Yet, concerns are growing because the new cabinet could be subject to another change in less than 3 months, as the Egyptian constitution entails. It is crucial to understand the Egyptian constitutional provisions that set the relationship between the government and Parliament.

After Parliamentary elections, Parliament will have to approve a newly proposed government by a new Prime Minister set by the President. **Article 146** of the constitution grants the Parliament the right to approve a proposed government within 30 days. If a new government was not accepted, majority party or coalition within the Parliament shall have the authority to form a government.

According to article 101, the Parliament's role is to approve:

- County's general strategy the Executive branch
- Approving State's General Budget set by the Ministry of Finance
- Approving the Sustainable Development Strategy set by the Cabinet

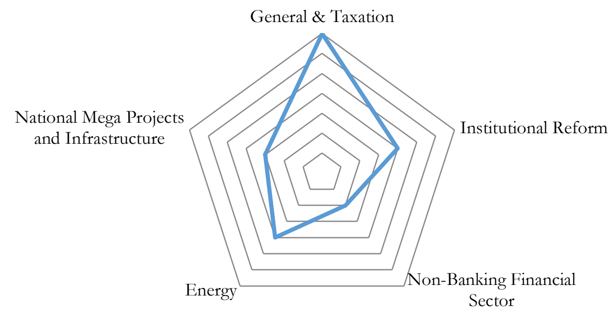
As for policy making and drafting new laws and regulations, the Egyptian constitution grants the executive branch the right to propose new draft laws for the Parliament to discuss. Yet, it is only up for the Parliament to ratify or accept these new legislations.

Another important article that is worth mentioning is Article 127, where if the executive branch required funds for specific projects that are not embedded within the General Budget, the Parliament shall have the authority to approve.

Understanding the Direction of Government

It is important to look at the broader picture of Egyptian policy and legislations to understand the overall direction of government. Legislations that directly affect business (**General and Taxation**, **Non-banking Financial Sector**, **Energy**, and **Mega Projects and Infrastructure**), the landscape seems clearer that legislations impacting the non-banking financial sector and Institutional reform come as least targeted subjects. The government managed to prepare and issue a number of legislations to enhance investment procedures, and apply taxation reforms, energy policy reforms, and projects related legislations, which mostly focus on the national mega-project of the Suez Canal. Yet, the intensive focus on promoting investments and easing investment procedures, while neglected other key subjects such as the non-banking financial sector, and institutional reform.

When considering legislations impacting business, the GoE issued general investment and taxation related legislations more than any type of legislations, followed by energy. Non-Banking financial sector is the least tapped segment



The GoE has made specific measures that had its positive sentiment, such as issued a number of business related legislations, along with legislations to improve the security situation and speed up the political roadmap. Yet, institutional reform come as last among all the categories mentioned in the following graph.

Recommendations for 2016

As the year 2015 ends, Egypt will have established its own Parliament. The new parliament shall become a major player in Egyptian public and foreign policy. The new parliament should focus on specific areas which the 2015 cabinet did not put on top of its agenda. These are:

- Institutional Reform
- Non-Banking financial sector
- Framework for mega projects- for the business community to have a sense that projects are materializing.

Scenarios for 2016: 1H2016 is marked by unpredictable political environment

In 2016, a new parliament will be active with a heavy responsibility highlighted in the previous paragraphs. Business organizations should project the overall direction of government for next year in terms of policy that impacts business.

Downside: Political and Economic instability due to an unstable decision-making process

Possible Symptoms:

- **Economic reform is halted by political instability**
- **Parliament fails to ratify all Presidential decrees** and laws issued by the President within 15 days, which will cause great uncertainty for the business community
- **Inability of Parliament to ratify/accept the government plan**, which can result in its dissolution
- **Rising voices for constitutional amendment**, that can dissolve the parliament

Possible Indicators to Monitor

- **Parliament turns into a field for political rivalry,** turning to an impediment for political, economic and social reform.
- **Protests to hit the streets due to a perceived failure of Egypt's political institutions** among activists and protestors
- **Decrease in investments** due to the negatively affected business sentiment.
- **Egypt's ranking is lowered** in both Ease of Doing Business and World Competitiveness reports.

Likelihood: *Low*

Impact: *High*

Base Case: Stable political environment, yet Egypt fails to reach pre-revolution growth rates

Possible Symptoms:

- **Parliament reviews all legislations** issued by the President within 15 days
- **Momentum for reform is weakened,** with the government adopting populist policies (subsidy bill reform, VAT, and the execution of the new electricity law are postponed)
- **Inability to execute already approved legislations,** resulting in an unfelt reform.

Possible Indicators to Monitor

- **Parliament does not deliver promised reform,** such as passing new law for Financial Markets, new Labor Law, approving amendments to Law for Tenders and Bids, and the long awaited VAT.
- **Egypt's stagnant ranking** in both Ease of Doing Business and World Competitiveness reports.

Likelihood: *High*

Impact: *Low*

Upside: Economic growth as a result of an efficient legislative reform process

Possible Symptoms:

- **Active Parliament**, with swift legislative process
- **Active opposition** that nurtures more decisive policy
- **Parliament maintains eagerness and will to deliver**
- **Government and Parliament ensure the execution of legislations.**

Possible Indicators to Monitor

- **Calls for amending the constitution are halted** by ambitious initiatives to implement adopted reform plans by cabinet
- **Several regulations are taken to address** the distortions of the Egyptian economy
- **Short-term reform felt by the public**, resulting in a stable political environment
- **Enhancement in Egypt's position** in Ease of Doing business and World Competitiveness reports.

Likelihood: *low*

Impact: *High*

Recommendations

Downside:

1. Business organizations should be prepared for possible lack of clarity in terms of policy
2. Aggressive monitoring of upcoming developments and acting accordingly

Base Case:

1. Lobby for more proactive legislative process, to establish sensible business regulation
2. Encourage more dialog with parliamentary figures to mitigate risks of alienating business from decision making

Upside:

1. Capitalize upon government reform and potential deregulation in promising sectors like energy
2. Mobilizing investments in untapped sectors like micro-finance and non-banking financial sector that should be reformed by parliament

For more information, you may contact us via:
Email: info@ngage-consulting.com
Website: www.ngage-consulting.com
Telephone: +202-24618583