



# Egypt in Transition: Infrastructure & Development



Spring 2015

A Report by British Expertise

# Table of Contents

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Introduction	2
<b>Part 1: Why Egypt 2015?</b>	<b>3</b>
Political Scene	3
Economic Scene	4-6
Market Fundamentals	7-8
<b>Part 2: Sectors and Projects</b>	<b>9</b>
Transportation	9-15
Buildings & Construction	15-17
Tourism	17-19
ICT	19-23
Renewable Energy	23-25
PPP	25-27
Suez Canal	27-30
Other Projects	30-31
<b>Part 3: Doing Business in Egypt</b>	<b>32</b>
Risk and Mitigation	32-33
Entering the Market	33-37
Working in Egypt	37-39
Appendix A: List of Interviewees and Contributors	40-43
References & Bibliography	44

# Project Introduction

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Egypt is a pivotal country in the Middle East, the Arab World, Africa and the Islamic World. It is the most populous country in the MENA region, with a diversified economy serving a young population and a growing middle class. The country benefits from a skilled and competitive labour force, and is favourably located in the middle of the MENA region with easy access to regional and international growth markets.

In recent years Egypt has had to deal with formidable challenges: a global financial crisis in 2008 and two popular uprisings in 2011 and 2013. However, there are growing signs that the country is starting to look to the future with more confidence and optimism, and is promising to offer strong and attractive business opportunities.

This report aims to advise on business opportunities in Egypt, and equip its reader with practical guidance on how to capitalise on these opportunities and do business in Egypt. In order to achieve its aim, the report sets out to answer three key questions:

- 1 Why is Egypt 2015 an attractive business proposition for companies working in infrastructure development?
- 2 What sectors and projects offer the best business opportunities?
- 3 How to do business in Egypt and benefit from these opportunities?

The report is divided into three parts, each tackling one key question. Part 1 surveys the political and economic scene, and explains how improved political stability, growing economic confidence and strong market fundamentals are combining to make Egypt an attractive destination for British businesses in 2015.

Part 2 looks at some key sectors and projects that will be of interest to British Expertise members and the wider business community in the UK, including transportation, buildings and construction, tourism, renewable energy and information and communication technology. Part 2 also includes a section dedicated for the promising PPP programme, and another section focusing on the ambitious development plans in the Suez Canal region.

Finally, Part 3 provides practical guidance and advice on how to access the Egyptian market. It starts with identifying the key risks to doing business in Egypt, and how these risks can be mitigated, then moves on to survey the legal environment and the main laws governing business, investment, labour and taxation.

## 1 Political Scene

Egypt became a republic following the Free Officers coup in 23rd July 1952. President Gamal Abdel Nasser, the leader of the Free Officers, came to power in 1954, and was succeeded by President Anwar Sadat, another member of the Free Officers, in 1970.

Following President Sadat's assassination in 1981, former President Hosni Mubarak came to power, and remained at the helm for 30 years, until he was deposed following the popular uprising on 25th January 2011.

The Supreme Council of the Armed Forces (SCAF) held power after the ouster of former President Mubarak, until 30th June 2012, when former President Mohamed Morsi - a leading figure of the Muslim Brotherhood movement and its political arm, the Freedom and Justice Party (FJP) - won a tight presidential race and became the first democratically elected president of Egypt after the 25th January 2011 revolution.

Twelve months into his first term, however, former President Morsi was beset by a series of political crises, an ailing economy, deteriorating state services and a growing popular resentment to his rule (approval ratings declined from 78% after 100 days in power to 42% eight months later). This came to a head on 30th June 2013, when mass protests erupted, voicing disaffection and demanding fresh presidential elections.

Having failed to heed the demands of the mass demonstrations, now rising in scope and tenor, the Egyptian Armed Forces acted on an ultimatum they issued days earlier to former President Morsi and all political parties and players to defuse the political crisis and removed former President Morsi from power on 3rd July 2013.

A new roadmap was put in place, which identified three key milestones: new constitution, new presidential elections and new parliamentary elections. The head of the highest court in Egypt was also instated as an interim president.

In early 2015, and after a stormy four years of political convulsions and upheavals, Egypt appears to be navigating more stable political waters. A new constitution was drafted and ratified with overwhelming majority in January 2014, and a new president - former head of the Armed Forces, Abdel Fattah El-Sisi - was sworn in, in June 2014, having won the presidential elections in May 2014. The third and final key milestone of the transitional road map, the parliamentary elections, is scheduled to take place in the first half of 2015.

President Sisi continues to enjoy strong popular support (approval ratings over 85% in December 2014). This has brought an element of political stability to Egypt, and has enabled the president to tackle Egypt's pressing problems, especially the ailing economy and the fraught security situation, head on. His administration has already made some necessary but unpopular cuts to the long standing subsidies policy, and has announced ambitious structural reform and development programme.

The threat of terrorism has not disappeared and, coupled with concerns over political divisions, led the Economist Intelligence Unit (EIU) to rate Egypt's political risk 'CCC'. However, the current administration's efforts to confront the threat of terrorism, the conclusion of the transitional road map after holding the parliamentary elections in early 2015, and the expected economic reform and progress, will likely lead to containing and minimising the threat of terrorism.

## 2 Economic Scene

The Egyptian economy is well diversified, was able to achieve healthy 7+% growth pre-financial crisis, and managed to ride the global financial crisis better than most. Notwithstanding, recent political upheavals and uncertainties have taken their toll on the country's economic performance and cast doubts on its ability to survive and grow.

### Real Economy Indicators

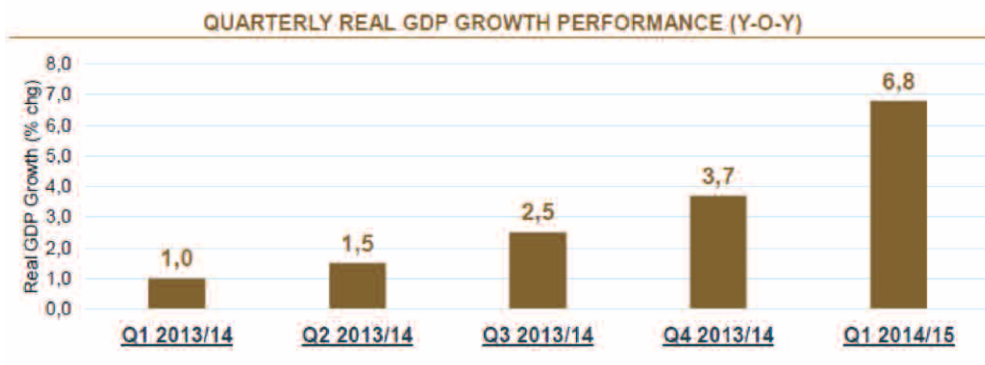
	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13	July-March 2013/2014
Nominal GDP at market prices (US\$ bn)	189.1	218.9	236.1	257.3	271.9	278.2	215.9
Real GDP Growth (%)	4.7	5.1	1.8	2.2	2.1	2.3	1.6
Population (mn)	76.8	78.7	80.4	82	84.7	83.7	86.2
Real GDP Per Capita (US\$)	2,486	2,814	2,966	3,126	3,250	3,325	3,355
Share of Private Sector in GDP (%)	61.9	62.7	62.3	61.8	61.4	61.3	62.9
Unemployment (%)	9.4	9	12	12.4	13.3	13.2	13.4

Source: Ministry of Finance, CAPMAS, Central Bank of Egypt, Ministry of Planning

### Returning confidence

The Minister of Finance identified 'restoring international confidence' as the most important priority for stimulating growth. The improving political situation has had a positive impact on the economy and contributed to a renewed sense of confidence and optimism. Throughout our visits to Egypt over the past 12 months and the interviews we held with leading decision makers and key players in the Egyptian market, there has been an unmistakable sense of growing optimism (albeit guarded at times) and confidence. There is evidence that these sentiments are based on facts on the ground, and are shared regionally and internationally.

The latest reported nine-month GDP growth figure of 1.6% (average of Q1, Q2 and Q3, from July 2013 to March 2014) does not tell the more interesting story of steady economic recovery and growth, especially since the new president was sworn in, in June 2014. The Ministry of Planning (MOP) reported that GDP grew at around 3.7% in Q4 of FY 2013/14, and the EIU reported that in Q1 of FY 2014/15, growth surged to 6.8%. The IMF expects GDP growth in FY 2013/14 to hit 2.2%, rising to 3.5% thereafter, while the Minister of Finance expects growth to be 'north of 4%' in FY 2014/15.



Source: Ministry of Finance

The most significant indication that international markets were taking note of the positive developments in Egypt came in late 2014, when, in quick succession, both Moody's and Fitch Ratings upgraded Egypt's outlook to 'Stable'. Moody's stated that the upgrade 'reflects our expectations of an improving fiscal and economic environment, building on a number of developments over the past year that reduce downside risks to the rating', and attributed it to the stability of the political and security situation in Egypt and the launching of government initiatives seeking to achieve financial discipline together with indicators of the recovery of growth, the macroeconomic improvement and the strong support from foreign donors.

International financial institutions including the EBRD, World Bank, EIB, AfDB and IFC are back funding projects in Egypt. The World Bank has a US\$ 5.5 billion portfolio in Egypt covering 27 projects, and the World Bank's Multilateral Investment Guarantee Agency (MIGA) advised potential investors in Egypt to 'take a calculated risk and move in now'.

Locally, MasterCard's consumer confidence in Egypt rose from 54% in 2013 to 78% in 2014. In September 2014, the Egyptian government succeeded in raising over US\$ 8.5 billion, in less than two weeks, from the local market, signalling the Egyptian people's confidence in their economy and leadership.

### **Economic Recovery Plan**

During the Euromoney Egypt Conference in September 2014, the Minister of Finance stressed that the government has got 'the policies, the programmes, and above all ... the political will' to reform and stimulate the economy and 'build for the future of this country'.

The Egyptian government's economic recovery plan is built on three pillars:

- **Fiscal consolidation and sustainability:**

Structural macroeconomic reform, including reducing the deficit, cutting subsidies and increasing tax revenues

- **Economic stimulus for growth:**

Wide ranging legislative reform, aiming to streamline key regulations, including investment law, bankruptcy law, energy law and employment law, as well as expanding private sector investment opportunities and developing key infrastructure projects

- **Foreign Direct Investment (FDI) and external support:**

Inviting FDI through investment incentives, including presenting serious investment opportunities in projects in Egypt, and settling legacy disputes with investors.

Fiscal consolidation: The Oxford Business Group (OBG) Egypt 2014 report highlighted the fiscal deficit as a key challenge to the Egyptian economy, and called for structural reform, including overhauling the expensive subsidy system and reforming the tax regime.

In 2014, the Egyptian government made a series of reforms aimed at reducing the deficit and restoring fiscal sustainability, reducing expenditure and boosting revenues. The OBG Egypt 2014 report acknowledged the Egyptian government's serious steps to tackle these challenges head on.

The most notable step towards cutting expenditure was the phasing out of subsidies on all fuel products (other than LPG for needy households) and electricity to cost recovery levels in five years. The government has also enhanced the efficiency and flexibility of bread and food subsidies distribution schemes, and reduced its wage bill and eliminated some tax advantages for government employees.

In order to boost revenues, the government has broadened the tax base to dividend incomes, capital gains and residents' incomes attained abroad (10% tax). Tax regime for MSME was simplified and taxes on cigarettes and alcohol were raised. The government also levied a new tax on second properties and a temporary 5% wealth tax for incomes over EGP 1,000,000 (£88,000).

Economic stimulus: Following the election of President Sisi in mid 2014, the government has embarked on an aggressive legislative reform initiative to improve the business and investment environment in Egypt. The government has already issued the Microfinance Law, the Renewable Energy Law, and the Mining Law, and is currently reforming the Special Economic Zones Law, the Capital Market Law, the Electricity Law, and most importantly, the Investment Law. The government has also settled arrears with oil and gas international companies (outstanding balance reduced to US\$ 3.1 billion at the end of 2014).

The legislative reform, coupled with the development of key investment projects and the expansion of private sector investment opportunities, is stimulating growth and contributing to the renewed sense of optimism and confidence within business and investment circles in Egypt.

FDI: Support from the GCC countries, especially Saudi Arabia, UAE and Kuwait - to the tune of US\$12 billion in financial support and low-interest loans - played a crucial role in buttressing the Egyptian economy, and helping it survive a critical juncture following the overthrow of former President Morsi. GCC support enabled Egypt to meet its short term obligations, replenish its foreign currency reserves, and repay US\$ 6 billion to Qatar that were extended during former President Morsi's administration.

Having survived the immediate difficult period and risks, the Egyptian government is seeking to attract FDI in the medium term through an ambitious investment programme targeting high growth sectors: Energy; Mining; Housing; Utilities; Agriculture; Tourism; Industry; Transportation; and ICT.

Towards this objective, the government is organising an international economic and investment conference in March 2015, where it plans to present a host of investment opportunities and incentives.

#### **Egypt Economic Development Conference**

Egypt Economic Development Conference (EEDC) will be held in the Red Sea resort of Sharm El-Sheikh on 13th to 15th March 2015. The EEDC organisers expect it to attract upwards of 2,000 participants, including heads of states, key decision makers in leading global corporations, and international investment and financial institutions.

The Egyptian government aims to use this conference to put Egypt back on the international investment map, through demonstrating the government's commitment to economic reform, and presenting a host of investment projects to international investors.

The government is currently working to complete its legislative reforms and settle legacy disputes with investors, in order to demonstrate commitment and competence, and to be able to present its comprehensive economic reform and development plan to the conference.

The government has also engaged a dozen investment banks in Egypt to draw up feasibility studies and investors' information packs for over 20 key development projects that the government intends to present to the conference.

### 3 Market Fundamentals

Market fundamentals in Egypt remain as strong and attractive as ever. In its 'Doing Business in Egypt' report, UKTI noted that the Egyptian economy enjoyed healthy 7+% growth in pre-financial crisis years, and asserted that there was 'every reason to believe that once political, economic and social stability return to the country these growth rates can and will be achieved again.'

#### **Central geographic location**

Egypt enjoys an unrivalled central geographic location, affording easy access to the 300+ million-strong MENA markets and the 1+ billion-strong African markets. The Suez Canal further enhances this advantage, with 8% of world trade passing through the vital waterway. Plans to develop the Suez Canal region, and the waterway expansion project that is currently underway, ensure the Egyptian economy will continue to benefit from this strategic asset.

#### **Access to regional and global growth markets**

Egypt has positioned itself as a regional business hub, as it enjoys easy access to the Middle East and Africa, and is favourably close to European and Asian markets. Egypt has preferential trade agreements with major trading blocs, including a partnership agreement with the EU and membership in the Common Market for Eastern and Southern Africa (COMESA). Egypt also has long standing double taxation treaties with several countries, including the UK.

In recent months, Egypt has demonstrated its intention and commitment to re-engage with Africa and open up African markets, with several bilateral agreements in place. Egypt enjoys strong ties with the GCC countries, which is likely to be highlighted and enhanced during the EEDC in March 2015.

Egypt has long standing relationships with the United States and Europe; however, Egypt has recently worked to strengthen relationships with China, Russia and India, with the objective of attracting investments from these key countries and opening up their markets for Egyptian exports.

#### **Skilled and competitive labour force**

Egypt's 27 million strong labour force is the largest in the MENA region. For decades, Egypt has been a net regional exporter of educated, skilled labour, especially engineers. 300,000 university graduates join the labour market every year, of which 20,000 are trained engineers and 15,000 are educated in related science and technology disciplines. Local wages for engineers and professionals remain among the most competitive in the MENA region. It is therefore no surprise that major corporations, including Vodafone in telecoms and Dar Al Handassah in engineering consultancy, use Egypt as their regional business hub.

#### **Favourable market size**

At just under 90 million, Egypt is the most populous country in the MENA region. The country enjoys a young population, with over 50% of Egyptians aged 15-44, creating a substantial productive power. Per capita income has more than doubled from 2005/06 to 2011/12, significantly expanding the middle class and fuelling demand for jobs, services and infrastructure.

#### **Diversified and resilient economy**

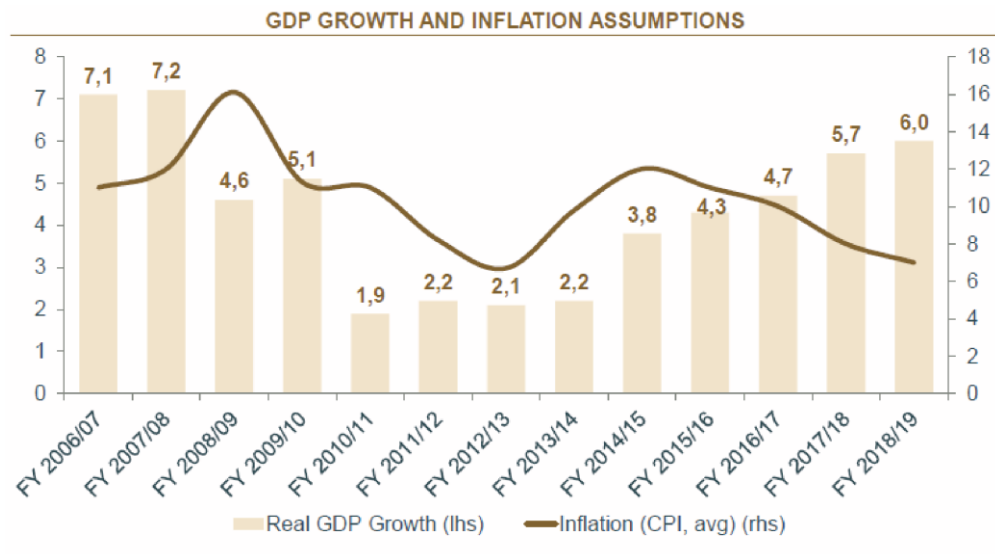
The Egyptian economy is among the most diversified in the MENA region. It has shown remarkable resilience in weathering the 2008 global financial crisis better than most countries in the region and the world. Despite the serious political turmoil and uncertainty over the past four years, and serious pressure on Egypt's foreign currency reserves, the Central Bank of Egypt (CBE) managed to protect the Egyptian Pound (EGP) and was able to maintain a steady foreign exchange rate and avoid shocks to the exchange markets.



## High growth prospects

It is worth noting that despite the global financial crisis in 2008, and two popular uprisings in 2011 and 2013, the Egyptian economy continued to grow and never experienced contraction. The relative political stability brought about by the new administration has already been reflected in encouraging growth figures of 3.7% in Q4 of FY 2013/14, and 6.8% in Q1 of FY 2014/15. The IMF expects the GDP to grow from 2.2% in 2014 to 3.5% in 2015, while the Minister of Finance expects growth in 2015 to be upwards of 4%.

Indeed, the Egyptian economy managed to achieve 7+% growth pre-2008. Despite the fact that the rewards of this growth were not fairly shared in the country, the fundamental advantages of the market coupled with an improved political environment and economic reform, could see a repeat of these growth figures on a sustainable basis. The Ministry of Finance projects 6% GDP growth and under 8% inflation, by the end of the five year economic reform plan.



Source: Ministry of Finance

The Egyptian government has shown resolve and political will to embark on an ambitious investment and development programme in key growth sectors, including transport and infrastructure, building and construction, tourism, telecommunications, and renewable energy. The main locomotive for the development programme, however, remains the ambitious project to develop the Suez Canal region.

The key development sectors and projects are outlined below, as well as the promising PPP programme. It is worth noting that for all sectors, there is a need for high quality technical services and innovative solutions to save time and reduce cost and energy, as well as high demand for knowledge transfer, capacity building and training.

It is also worth noting that some of the projects outlined in this section will be presented for international investors in the EEDC in March 2015, and that the final list of priority projects to be delivered will likely emerge following the conclusion of the economic conference in March.

## 1 Transportation

The transportation sector is one of the main drivers of economic development and growth in Egypt, linking production and consumption markets. Egypt's unique geographic location combined with an expanding infrastructure base is enhancing the country's position as a key global logistics hub.

Egypt is currently embarking on a host of transportation projects in metros and tunnels, railways, ports, and roads. The OBG's Egypt 2014 report described the scale and scope of transportation projects in Egypt as 'breathtaking'. Despite anticipating problems to face some projects, the report concluded that 'even if only half of the targets are met the total achievements will still be among the largest in Egypt's history.'

### **Metros and Tunnels**

The National Authority for Tunnels (NAT) was established in the early 1980s to deliver the first Cairo metro line. NAT's remit includes conducting technical studies of tunnels and underground projects; construction of tunnels and underground projects; and handing over the projects to the relevant authorities for operation.

NAT has successfully delivered Cairo Metro Line 1 (capacity 2 million passenger/day); Cairo Metro Line 2 (capacity 1.76 million passenger/day); Al-Azhar Road Tunnel (2.65 km twin tunnels; 65,000 cars per day); and phases 1 and 2 of Cairo Metro Line 3. NAT has ambitious plans to push forward with an impressive portfolio of projects.

Unlike the case with all delivered metro lines to date, where different phases of each metro line were delivered sequentially (phase 1 of Cairo Metro Line 2 was delivered in 1996; while phase 5 was delivered nine years later in 2005), NAT plans to go ahead with phases 3 and 4 of Cairo Metro Line 3 (CML3) in parallel.

## Phase 3 of Line 3

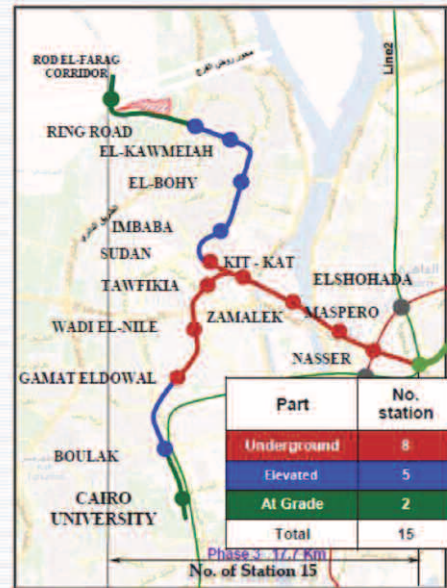
( Attaba / El Kit Kat & El Kit Kat / Imbaba & El Kit Kat / Cairo university)

Phase 3 consists of **(15)** stations with a total length of **17.7 km**.  
Split as follows

**Phase 3A :** with a length of **4 km** and extends from Attaba to Kit Kat station and includes **4 underground stations** "Nasser - Maspero - Zamalek - Kit Kat."

**Phase 3B :** with a total length of **6.6 km**  
**(1)** Underground station (Sudan station), **(1)** At grade stations (Rod El Farag Corridor station), and **(4)** Elevated stations ( Imbaba, El Bohy, El Qawmia El Arabia and Ring Road stations )

**Phase 3C :** with a total length of **7.2 Km**,  
**(3)** Underground stations ( Tawfikia, Wadi El Nile, and Gameat El Dwal Al Arabia stations ), **(1)** At grade station ( Boulak El Dakroul station), and **(1)** Elevated station (Cairo University station)



## GREATER CAIRO METRO LINE No. 3 (AL THAWRA LINE) - PHASE 4



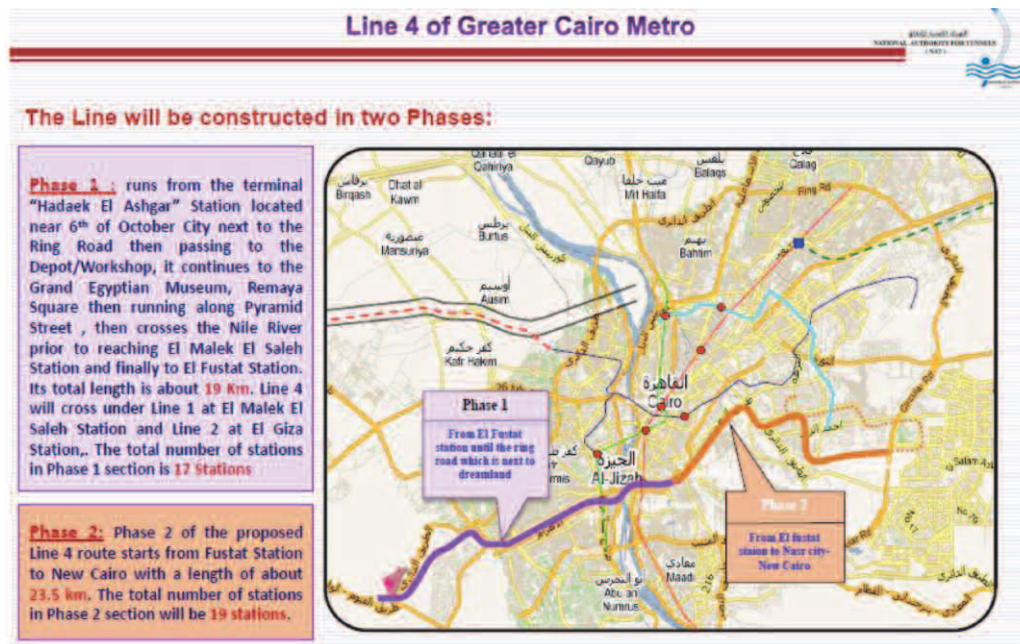
Phase 4 consists of **16** stations "Haroun – Heliopolis Square -Alf Maskan - El Shams club- El Nozhah.1 – Nozhah.2- Qobaa – Omar Ibn ELKhattab - El Salam "10<sup>th</sup> of Ramadan"- Cairo International Airport" with a total length of about **18.17 km**

Phase 3 of CML3 will serve central and western Cairo, while phase 4 will connect Cairo International Airport to the capital's growing metro network. NAT plans to commence work on both phases 3 and 4 in 2015, and to deliver both within three years.

The French company Vinci signed a contract for the underground stations for phase 4 of CML3; while the local and capable Orascom and The Arab Contractors signed contracts for the five surface stations. EIB contributed €600 million and the French Development Agency (AFD) donated €300 million for CML3, and the Egyptian treasury has recently approved circa US\$ 1 billion for rolling stock. In November 2014, NAT shortlisted 3 bidders for technical supervision services for phase 3 of CML3.



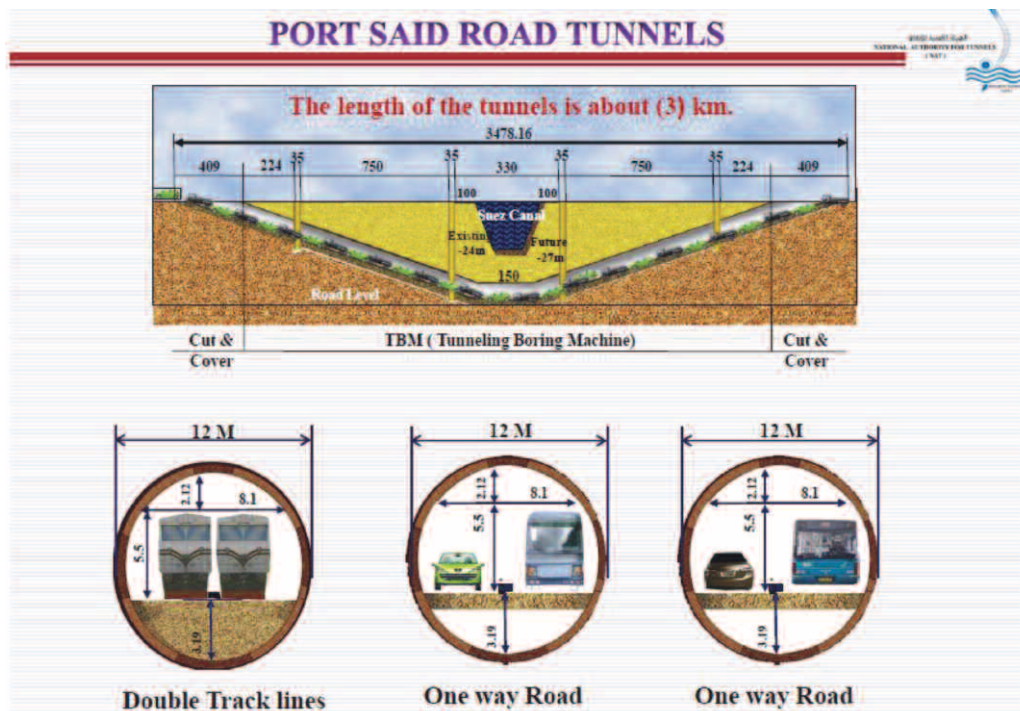
Cairo Metro Line 4 (CML4) is dubbed by some 'the Japanese line' and is expected to commence in mid 2015. Notably, CML4 will connect the new Grand Egyptian Museum and the Giza Pyramids plateau to the metro network. Japan International Cooperation Agency (JICA) is providing US\$1.2 billion loan towards the design and construction of this metro line, representing circa 50% of total cost. The Egyptian government will cover the remaining 50%.



The future projects for NAT include Cairo Metro Lines 5 and 6. CML5 is expected to run for 24 km and include 17 underground stations. Technical and feasibility studies for CML5 are expected to cost EGP 80 billion (£7 million), while the construction cost is expected to reach EGP 14 billion (£1.23 billion).

CML6 is expected to run for 30 km and include 24 stations, 20 of which underground. The studies for CML6 are expected to cost EGP 100 million (£8.8 million), while construction estimates stand at EGP 20 billion (£1.76 billion).

In addition to the metro lines, NAT is engaged in delivering three tunnels underneath the Suez Canal, south of Port Said, as part of a plan to develop the Sinai peninsula and the Suez Canal region.



The Spanish government funded the feasibility study and tender document of the three tunnels, which were carried out by Paymacotas-Getinsa in 2013. The Port Said tunnels are expected to cost EGP 5 billion (£440 million).

NAT plans to deliver another four tunnels under the Suez Canal near Ismailia: two tunnels for cars, one tunnel for rail, and one tunnel for water pipes and utilities. NAT has signed a memorandum for the preparation of the feasibility study with the Chinese CHEC.

## Roads

Roads play a key role in Egypt transport network, with 94% of Egypt's freight using roads. The government estimates that US\$ 8 billion is needed to upgrade roads over the coming five to ten years. The government has started by allocating over US\$ 1 billion to upgrade the road network, and is adding 3,000km to the road network.

The government plans a series of road upgrades, including:

- **Safaga - El Quseir - Marsa Alam:**

Duplication of the road south of Safaga at 35 km until Marsa Alam, with a total length of 180 km, as well as doubling the road, after South Safaga to El Quasar at 35 km.  
Estimated Capex: US\$ 85 million.

- **Ras Sudr - Sharm El-Sheikh:**

Duplication of the road through the Ahmed Hamdy tunnel - Ras Sudr - Sharm El-Sheikh to serve the tourism industry and traffic destined to the seaports in El-Tur and Sharm El-Sheikh, as well as the industrial and mining activities in Abu Zenimah.  
Estimated Capex: US\$ 71 million.

- **Alexandria - Abu Simbel:**

Extending the road from Alexandria in the north west of the country to Abu Simbel in the south.  
Estimated Capex: US\$ 46 million.

## Ports

The government is reported to be planning to triple trade handled by ports in Egypt, and has drafted a long-term plan to raise ports capacity from 120 million tonnes to 370 million tonnes by 2030.

The Red Sea Ports Authority (RSPA) manages nine ports in the Red Sea: Portawfik, Petroleum Basin Port, Adabeya, Sukhna, Hurghada, Safaga, El-Tur, Sharm El-Sheikh and Nweiba. The RSPA is responsible for constructing and periodically maintaining the marine quays of all nine ports, and for servicing the ships using these ports.

The RSPA announced plans to construct dry bulk, container and mixed-use terminals along the nine ports managed by the authority. RSPA has planned 15 projects with an average value of US\$ 60 million; and eight projects with an average value of US\$ 400 million.

The most notable projects will take place in Soukhna Port, which lies south of Suez and forms part of the Suez Canal Area Development Project (SCADP).



The main projects planned for Soukhna Port include:

- **Constructing, operating and managing a Liquid Bulk Terminal**  
 Capacity: 15 million tonnes of oils per year  
 Quay: 2,000 m long; 14 - 17 m deep  
 Land area: 900,000 m<sup>2</sup>  
 Estimated Capex: US\$ 650 million
- **Constructing, operating and managing a Dry Bulk Terminal**  
 Capacity: 12 million tonnes per year  
 Quay: 1700 m long; 17 m deep  
 Land area: 720,000 m<sup>2</sup>  
 Capex: US\$ 500 million
- **Constructing, operating and managing an Agricultural Crops Terminal**  
 Capacity: 8 million tonnes per year  
 Quay: 1,100 m long; 14 - 17 m deep  
 Land area: 580,000 m<sup>2</sup>  
 Capex: US\$ 360 million
- **Constructing, operating and managing a Second Containers Terminal**  
 Capacity: 5 million equivalent containers per year  
 Quay: 2,200 m long; 17 m deep  
 Land area: 2,000,000 m<sup>2</sup>  
 Capex: US\$ 650 million
- **Constructing, operating and managing Dry Bulk Terminal No. 2**  
 Capacity: 8 million tonnes per year  
 Quay: 1,100 m long; 17 m deep  
 Land area: 510,000 m<sup>2</sup>  
 Capex: US\$ 287 million
- **Constructing, operating and managing a Third Container Terminal**  
 Capacity: 6 million equivalent containers per year  
 Quay: 2,500 m long; 17 m deep  
 Land area: 1,700,000 m<sup>2</sup>  
 Capex: US\$ 715 million

- **Constructing, Operating and Managing Multi-purpose Terminal ( 1 )**

- Capacity: 2 million tonnes per year
  - Quay: 580 m long; 17 m deep
  - Land area: 400,000 m<sup>2</sup>
  - Capex: US\$ 143 million

- **Constructing, Operating and Managing Multi-purpose Terminal ( 2 )**

- Capacity: 2 million tonnes per year
  - Quay: 750 m long; 17 m deep
  - Land area: 370,000 m<sup>2</sup>
  - Capex: US\$ 173 million

## Railways

Egyptian railways date back to the mid 19th century. The railway network is crucial for economic growth but suffers from severe lack of investment. During the Euromoney Egypt Conference in September 2014, the co-chairman of the Egyptian National Railways (ENR) announced a US\$ 10 billion investment over 10 years to upgrade and maintain the antiquated railways network; with US\$ 2.2 billion coming from the World Bank. The investment will upgrade the rolling stock, rail infrastructure, as well as training and knowledge transfer.

Egypt has ambitious plans to expand and upgrade its rail network. There are plans to connect Luxor and Hurghada by a railway line, and to build light rail to connect Cairo with its two main satellite cities: 6th October in the west and New Cairo in the east. However, the most notable railway project is the High Speed Rail (HSR) from Alexandria to Aswan.

HSR is a new railway alignment dedicated for the high speed train between Alexandria and Aswan through Cairo, Assiut and Luxor. The line is planned to be built in 3 phases:

- **Phase I: Cairo - Alexandria**

- A pre-feasibility study has been conducted by an Italian company, and indicated the following key parameters:

- Line length: 202 km
    - The running speed: 300-350km/h
    - Execution duration: 5 years
    - Trip time: 60 minutes non-stop
    - Expected passengers: from 10 to 18 million/year
    - Capex estimate: US\$ 3.5 billion

- **Phase II: Cairo - Luxor**

- The development of the tender document and TOR for the feasibility study is ongoing.

- The basic data of the line are:

- Line length: 680 km
    - The running speed: 300-350 km/h
    - Execution duration: 8 years
    - Expected passengers: from 25 to 30 million/year

- **Phase III: Luxor - Aswan**

- The development of the tender document and TOR for the feasibility study is ongoing.

- The basic data of the line are:

- Line length: 210 km
    - The running speed: 300 -350km/h
    - Expected passengers: from 25 to 30 million/year

Egypt's large and growing population (just under 90 million) and market size, ensure a growing demand for all real estate classes. Despite the political upheaval, the underlying fundamentals of the real estate market in Egypt remained essentially intact. The Egyptian construction sector is expected to grow at 5.63% in 2014, with the building and construction sector expected to attract investments of circa £5 billion in 2015.

Large-scale developments are being added to the market to cater for an increasingly sophisticated local population. This capacity to absorb new supply is largely dependent on the country's infrastructure facilities and regulations. The recent structuring of the mortgage market and ease of access to finance has allowed for a diversification of asset classes. A large number of shopping centres and office parks are under construction in an effort to meet the demand from a more structured market driven by the growing middle class.

## 2 Buildings & Construction

The growing middle class also meant growing demand for retail and commercial real estate. The retail sector is responding to the market demand and saw significant investment; while the commercial real estate sector remains undersupplied. The government's ambitious PPP programme will further stimulate the building and construction sector.

The new constitution, which was ratified with overwhelming majority in January 2014, stipulates combined expenditure of 10% on health and education (3% health; 7% education). This will undoubtedly lead to a significant increase in construction activities in the health and education sectors.

### Housing

Housing represents the biggest demand for buildings. There is shortage of housing across all categories, particularly in the low and middle-income housing market.

The government has recently announced a deal with the UAE developers Arabtec to build one million housing units, to address the chronic shortage in the low- and middle-income housing markets. Following internal restructuring in mid-2014, Arabtec chairman confirmed the company's commitment to the project, in October 2014. Arabtec will be responsible for arranging finance, and it is expected that its major shareholder and supporter, Aabar, will also be involved in arranging finance.

The one million housing units will be built on 13 plots currently owned by the Egyptian Armed Forces. It has been reported that Arabtec will either pay for the land plots in cash or in kind, by offering the government and the army a number of housing units.

There is also activity in the medium-income housing market, with the Saudi Egyptian Construction Company (SECON) reported to have increased its capital to commence on a large project in Egypt on 100 acres.

Among the main players in the high-income housing market is the UAE Emaar, who entered the Egyptian market in 2006, and are developing a EGP 60 billion (£5.3 billion) projects portfolio.

Emaar has three main projects in Egypt: Mivida in east Cairo, Uptown Cairo in central Cairo and Marassi on the Mediterranean coast - all targeted at the high-income housing market.

Emaar are averaging EGP 3 billion (£265 million) worth of works per annum, and envisage a horizon of 9-10 years for their projects. In addition to the low rise housing units comprising the bulk of their developments, Emaar are looking to develop seven hotels in the Marassi project and seven high rise buildings (22 storey) in the Uptown Cairo project.



## Retail

The expansion of the middle class in Egypt led to an expansion in retail and consumption. Retail projects in Egypt are reported to be among the most profitable in the region, with some estimating that it actually offers the best returns.

OBG Egypt 2014 report expected the Dubai developer Majid Al-Futtaim (MAF) to invest EGP 16.5 billion (£1.45 billion) in Egypt over the coming five years. The reported portfolio of projects includes four shopping malls in Cairo and Alexandria, as well as a series of hypermarkets.

Mixed use real estate developments have been sprouting in Egypt for the past decade and demand remains high. One of the notable mixed use development projects is Mostakbal City.

### Mostakbal City

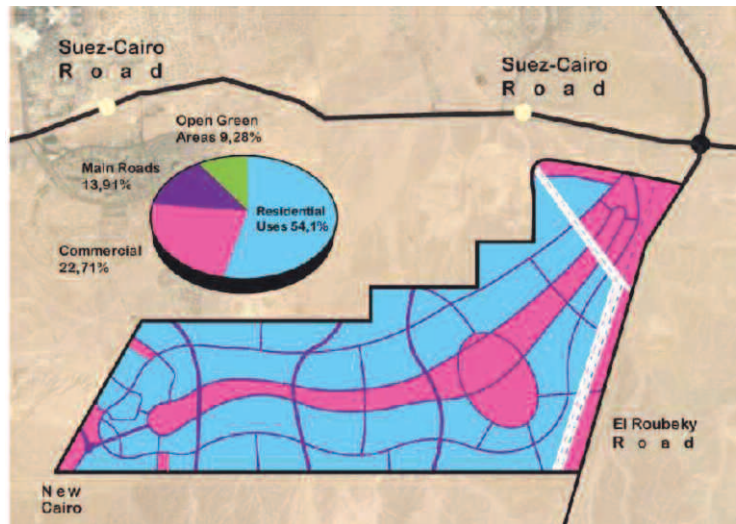
Mostakbal City is the flagship and largest planned mixed use development in Egypt's new Cairo City. An urban community will be developed on an area of 11,000 acres, integrating residential, commercial, education, recreation, retail, and business facilities and communities. Project shareholder is a partnership between Banque Misr (45.5%), National Investment Bank (34.5%), The Arab Contractors (15%), and National Bank of Egypt (5%).

The project benefits from an advantageous location with easy access to the Cairo-Suez motorway as well as to several key development projects and urban communities in east and north-east of Greater Cairo, including El Rehab, New Heliopolis, El Shorouk, Madinaty, Mivida and Barwa. The project is also close to the new campus of the American University in Cairo, as well as the German, French and British universities in east Cairo.



The project is divided into:

- 6,000 acres comprising integrated urban projects with low, medium and high density, and mixed-use residential, business and commercial buildings.
- 2,500 acres for different services, including district service centre, residential service centre, citywide services and regional services.



The project is estimated to cost EGP 100 billion (£8.8 billion) and will be developed in five phases over 20 years, as follows:

- **Phase 1:**  
Covering an area of 1,490 acres, it's expected that Phase 1 will attract interest as an integrated urban community with average population density, surrounded by Madinaty mixed use development and its service centres, and 12 km from the American University in Cairo.
- **Phase 2:**  
Covering an area of 1,715 acres, it has been identified as the centre for regional services on Cairo-Suez motorway, and includes business centres, as well as medical, education, entertainment, hospitality and commercial services. It is expected that this stage will attract investment from Egyptian and international developers and investors.
- **Phase 3:**  
Covering an area of 1,655 acres: this phase will build on the success of phases 1 and 2, and the high visibility and desirability of Mostakbal City, to promote phase 3 of the project and attract further investment.
- **Phase 4:**  
Covering an area of 2,034 acres, it will include the city centre and is expected to command premium prices.
- **Phase 5:**  
Covering an area of 3,057 acres, it will offer residential and services plots.

### 3 Tourism

Beyond the pristine beaches and year-round sunshine, Egypt's long and varied history, rich cultural heritage and unique geographic features make it a popular destination for beach, adventure, eco, sailing, diving, health and religious and cultural tourism.

Egypt's tourism industry is among the most diverse and vibrant in the region. It is the largest tourism industry in North Africa. Tourism is seen as a key pillar for economic recovery, and at its height contributed 11.3% to 2010 GDP. Tourism is also a main source of foreign currency for Egypt (circa 14%). As a labour intensive service it employs over 12% of the employed workforce.

For the past four years, tourism has been the sector hardest hit as a result of the recent political upheaval and unrest, and has seen its share of GDP tumble to 3.1% in 2013/14. In response, the government has set an ambitious £9 billion investment strategy to quadruple tourism revenues from over £6 billion in 2013 to over £25 billion by 2020.

The strategy of the Ministry of Tourism (MOT) is based on four key initiatives:

- Product Diversification
- Sustainable and Green Tourism
- Improvement of Service
- Investment Projects

### **Product Diversification**

The MOT is developing a product diversification programme, including new products to the Egyptian market such as golf, sailing, shopping, wellness and residential tourism. The Minister of Tourism advised that he will be open to any ideas from international investors and developers in relation to introducing new tourism products.

### **Sustainable and Green Tourism**

The MOT set targets for sustainable tourism in its strategy, including achieving high and sustainable growth, alleviation of poverty, attenuation of income disparities, creation of productive jobs and gender equality.

The strategy focuses on establishing Egypt as a world leader in sustainable tourism, effectively managing the balance between the demands of cultural conservation and tourism development. The strategy is implemented through three phases. The first phase is a baseline review of existing capacities, the second phase is drawing up the policies and plans to achieve the targets, and the third phase constitutes the development of a five year action plan.

The strategy also focuses on Green tourism as a tool to reduce the negative impact of tourism growth, focusing on preserving biodiversity, establishing sustainable disposal and waste and reducing CO<sup>2</sup> emissions.

### **Improvement of Service**

The MOT started applying new norms for Egyptian hotels to enhance the competitiveness of tourism. The MOT has also started coordination with other agencies, including the National Statistical Agency and the Central Bank of Egypt in order to manage all information and tourism statistics and use it for proper measurements and planning.

Training is the bedrock for sustainable improvement of service; the MOT is developing school and university education programmes and curriculum in collaboration with the Ministry of Education. It is also implementing a graduate training programme for new graduates at international hotels.

### **Investment Projects**

The Tourism Development Agency (TDA) is offering several land plots in attractive locations, for investment. Some of these plots are expected to be presented in the EEDC in March, complete with their feasibility studies.

One notable plot is the South Magawish Sport Tourism Compound; a recreational sports tourist compound based on comprehensive development approach over an area of 4.5 million m<sup>2</sup>, including a public beach offered on BOT basis. The site is located south of Magawish, between Hurghada and Safaga on the Red Sea coast, 15 km away from Hurghada International Airport. Estimated Capex is US\$ 278 million.



The development is expected to include: a car racing track to international standards, an automobile service centre, hotel accommodation, staff accommodation and services, a training centre, a specialised medical centre and spa, a sports training centre, an open-air theatre and parks and an aquarium. In addition to a beach area that can be obtained via BOT, investors will be welcome to suggest other elements if they enhance the project.

Other plots of land that will be offered for investment and development include:

- 6th October Touristic City, Cairo. Estimated Capex: US\$1.1 billion
- Gamsha Tourist Centre, Red Sea. Estimated Capex: US\$ 1.2 billion
- Ras El Hekma Toursit Centre, Mediterranean Sea. Estimated Capex: US\$ 170 million
- Sharm el-Foukary Tourist Centre, Red Sea. Estimated Capex: US\$ 170 million
- South Magawish Tourist Centre, Red Sea. Estimated Capex: US\$ 278 million
- New Aswan Regional Touristic Centre, Aswan. Estimated Capex: US\$ 315 million

The MOT realise that the main tourism revenues are generated in the Red Sea resorts. It is planning to develop the north western Mediterranean coast to rival the Red Sea corridor. The north western Mediterranean coast is served by four airports, and is close to the largest population centres in Cairo and Alexandria. The area was originally developed in the 1990s for the expanding middle class in Cairo and Alexandria, but is now being opened up to tourists. The Minister of Tourism expected five plots of land to be offered for investment and development in 2015.

Another area that has been developed for internal tourism and is now being opened up is the Ain Sokhna area, where four large plots are expected to be offered for mixed use development. On more familiar territories, in Sharm EL-Sheikh, the Middle East Company for Touristic Investment announced plans in early 2014, to add 500 hotel rooms.

## 4 ICT

The Information and Communication Technology (ICT) sector contributes circa 4% of GDP in Egypt. The ICT sector has benefited from close partnership between the government and the private sector, and grew 13% in 2014.

As one of the highest growth potential ICT markets in the Middle East, Egypt is already receiving increasing attention from global ICT players, most of which are already working in the Egyptian market, including Oracle, Intel, Orange, Vodafone, Microsoft, Huawei, Siemens, HP, Ericsson, Alcatel-Lucent, Nokia Siemens Networks and IBM.

In a clear nod to the Egyptian market's potential and improving investment climate, Vodafone has announced in July 2014 a US\$1.3 billion investment to improve its network in Egypt, over three years.

A.T. Kearney's 2011 Global Services Location Index put Egypt as a leading global outsourcing destination (4th worldwide), and the leader in the MENA region, ahead of regional competitors like the UAE, which came 15th. Although A.T. Kearney's 2014 Global Services Location Index downgraded Egypt to 10th worldwide, Egypt retained its lead in the MENA region, ahead of the UAE in 19th place.

Kearney's 2014 Index acknowledged Egypt as 'the region's industry leader', and attributed its success to 'solid fundamentals including favourable costs, good universities, and proximity to Europe'. A.T. Kearney's 2014 Index expected Egypt 'to return as one of the leading locations for both IT and BPO services'.

The ICT sector strategy's vision is to achieve the Digital Economy to provide prosperity, freedom and social equity for all. This vision has three strategic objectives:

- **Digital Society:**

Developing a national integrated, secure, digital platform to access knowledge and services using simple and affordable means anywhere and anytime for all citizens.

- **Egypt Digital Hub:**

Building on Egypt's unique geographic location and optimum utilisation of Internet submarine cables to become a global Internet hub.

- **Industry Development:**

Supporting the ICT industry development, through innovation and entrepreneurship, attracting FDI, and creating job opportunities.

To deliver these objectives, the Ministry of Communications and Information Technology (MCIT) identified 20 Strategic Business Plans (SBP), with a total budget/investment of EGP 124.8 billion (£11 billion), as detailed below:

#	Initiatives SBP	Budget (EGP Million)				
		MCTT/ Egyptian Government	MCIT Affiliates	Donors	Investors	Total
1	Digital Society	4,100	0	0	14,400	18,500
2	Industry Development	0	1,295	0	2,930	4,225
3	Egypt Digital Hub	660	0	190	11,680	12,530
4	Broadband	0	350	0	44,770	45,120
5	Cloud Computing	1,205	0	5	3,200	4,410
6	Digital Content	376	10	30	2,174	2,590
7	Digital Dividend	1,250	0	0	0	1,250
8	Electronics Design & Manufacturing	200	245	0	2,840	3,285
9	Software Development Industry	0	222	30	700	952
10	Innovation and Entrepreneurship	125	425	1,550	6,000	8,100
11	Social Responsibility and Services Initiative	139	0	251	80	470
12	Technology Parks	1,400	0	0	19,100	20,500
13	Human Capacity Building and Development	500	200	100	200	1,000
14	Cyber Security	139	181	0	568	888
15	eSignature	63	117	0	0	180
16	eCommerce	13	25	27	320	385
17	Open Source	49	49	11	11	120
18	Legislative and Policies Framework	15	0	7	0	22
19	Green ICT	24	0	28	51	103
20	International Relations	66	85	16	0	167
	<b>Total</b>	<b>10,324</b>	<b>3,204</b>	<b>2,245</b>	<b>109,024</b>	<b>124,797</b>

### Digital Society - Broadband

The most significant initiative serving the Digital Society strategic objective is the Broadband SBP, at an estimated budget of EGP 45.1 billion (£4 billion). Despite its enviable geographic location, and the submarine internet cables actually passing through it, Egypt suffers substantially from latency problems. There is an urgent need for a comprehensive development of the infrastructure networks, in order permit an increase in internet traffic.

The Broadband SBP will be delivered via eMisr, a national Broadband plan that aims at the diffusion of Broadband services in Egypt by fostering the supply (networks) and demand (services) sides through a mixture of regulatory and investment packages.

The Broadband SBP aims to:

- Develop ubiquitous and robust telecom infrastructure through creating proper investment opportunities.
- Contribute to improving the national GDP through supporting the creation of direct and indirect job opportunities.
- Lay a solid foundation for speeding up the country's transition to a digital society and the growth of its digital economy.
- Enable governmental entities to enhance their working environment and productivity by availing of up-to-date ICT platforms and technologies.

In 2020, the Broadband SBP aims to have increased households' broadband coverage to 90% and penetration targets of 9 million households (circa 40%). According to the World Bank, a 10% increase in broadband penetration leads to 1.38% increase in GDP. Egypt's objective of 40% penetration in 2020 is a 25.6% increase on current penetration levels (14.3%) and could contribute to a 3.5% increase in GDP.

### Digital Hub

The second strategic objective is turning Egypt into a digital hub. The SBP aims to capitalise on Egypt's advantages to establish the country as a global digital hub, with particular focus on maximising the benefit from the submarine cables, serving the Suez Canal area development project.



The Digital Hub SBP has a budget of EGP 12.5 billion (£1.1 billion), and aims to:

- Leverage the advantage of Egypt's geographic location and the presence of the Internet submarine cables to develop the ICT industry and increase its contribution to employment and GDP.
- Build logistics infrastructure, applications, and services to support the development of the Suez Canal region (part of the Suez Canal Area Development Project).
- Promote the electronics design and manufacturing initiative in Ismailia technology valley (part of the Suez Canal Area Development Project).
- Develop the Suez Canal area and encourage people to live and work there.




## Industry Development – Technology Parks

The most significant initiative serving the Industry Development strategic objective is the Technology Parks SBP, with an estimated budget of EGP 20.5 billion (£1.8 billion). Technology Parks aim to establish the ecosystem required to create an environmentally friendly knowledge society and create a positive environment to encourage investment and strengthen the global standing of Egypt, as well as raise its competitiveness and exports.


The objectives of the Technology Parks are to:

- Establish series of environment friendly Technology Parks across several governorates in Egypt.
- Develop a self-sustaining ecosystem for each park considering relevant socio-economic requirements and aspects.
- Attract FDI and support the local economy to be able to offer new direct and indirect job opportunities.
- Provide a better life for the local/regional populations.
- Encourage entrepreneurship and innovation across Egypt's regions.

New Parks			
Governorate	Area	Direct / Indirect Job Opportunities	Added Value in EGP Mn
Burg el Arab City	30 Acres	52 K	915
Sadat City	50 Acres	51 K	195
New Beni Suef City	50 Acres	56 K	105
West Assiut	41 Acres	73 K	405
New Assiut City	57 Acres + 18 Acres	93 K	817.5
New Aswan	40 Acres	51 K	645
10 <sup>th</sup> of Ramadan City	85 Acres	115 K	420
Technology Valley	100 Acres	110 K	915
Damietta City	100 Acres	29 K	150



Governorate	City/ Area	Contractual Area
Cairo	Maadi Technology Park	15,000 m <sup>2</sup>



Constructed Areas	20% (2014)
Management Offices	53,000 m <sup>2</sup> (2014) 300,000 m <sup>2</sup> (2017)
Local & Multinational Companies	18 Companies (2014)
Employees	11 K (Direct) 25 K (Indirect) (2014)
Business Income	EGP 3 Bn/ year (2014) EGP 10 Bn/ year (2017)

## PPP Projects

The MCIT plans to roll out a series of PPP projects. Apart from the Notarisation Project, all other projects are yet to secure the approval of the PPP Supreme Committee (refer to PPP section in this report).

- Rollout & Automation of the Notarisation Offices, Ministry of Justice. Capex EGP 650 million (£58 million)
- Smart Grid, Ministry of Electricity & Energy. Capex EGP 5 - 7 billion (£440 - £600 million)
- Commercial Registration, Ministry of Internal Trade & Supplies. Capex EGP 500 million (£44 million)
- National Health Insurance Hospitals Management, Ministry of Health and the National Health Insurance Agency. Capex EGP 1 billion (£88 million)
- Real Estate Registration, Ministry of Justice. Capex EGP 1.5 billion (£132 million)

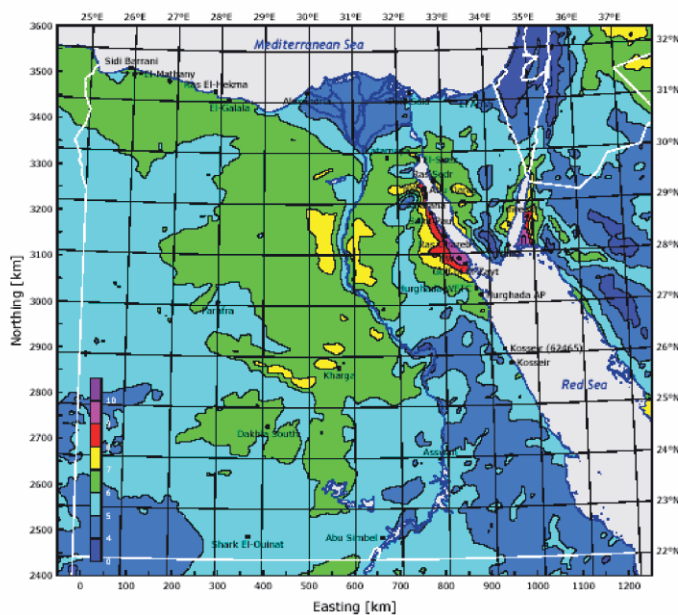
## 5 Renewable Energy

The rapid growth of the population (at circa 2.5% annually) and the proliferation of urban centres in Egypt, coupled with a lack of investment in green and renewable energy to keep pace with the rising demand, has put Egypt among the counties with the fastest growing CO<sub>2</sub> emissions.

The lack of investment in energy generation, both conventional and renewable) also meant that Egypt was left with a widening gap on the power supply side, which caused recurring power cuts in 2012, 2013 and 2014. The government is putting plans in place to address this energy deficit, and renewable energy is poised to play a leading role.

Egypt has great natural potential to generate energy from renewable sources, especially wind, solar and biomass. The country enjoys a total annual global solar irradiance of up to 2.6TWh/m and a total annual sunshine duration of up to 4,000 hours. The Gulf of Suez is also comparable to the best sites on the UK's Atlantic coast in terms of wind power potential.

The World Bank expected the 'shimmering' Egyptian deserts to 'host more and more large-scale solar projects that harness its natural advantage.' The World Bank also acknowledged Egypt's wind power advantage, describing the Gulf of Suez as 'one of the most promising zones for wind power use on Earth'.





Despite the recent political turmoil, support for renewable energy enjoys widespread support across the political divide. Egypt is poised to witness rapid growth in the renewable energy sector, especially if the EEDC conference convinced more international investors to consider this promising and burgeoning sector.

Renewable energy currently contributes just over 5% of the current energy mix in Egypt. The government is committed to producing 20% of its projected 60 GW energy demand in 2020 from renewable sources, of which wind alone is forecast to provide 7.2 GW.

There are currently four wind power stations under construction in Egypt. Finance for these plants came from Germany, Spain, Japan, France, UAE and the European Investment Bank. The World Bank reported that Egypt was among the first countries to access its US\$ 5.2 billion Clean Tech Fund, to accelerate its renewable energy growth plans and acknowledged that Egypt was 'taking the role of a regional leader in renewable energy'.

In September 2014, the government passed the key Feed-In Tariff Law, triggering wide interest from international developers and investors. The government has prequalified a number of technical companies and developers in renewable energy. As of October 2014, the companies established in the renewable energy field totalled 154 companies.

The main parameters of the Feed-In Tariffs are:

- **Solar power stations:**

The value of the tariff is divided into five scales according to the production capacity of the station and the value of the tariff will be fixed during the contract period which reaches 25 years.

- **Wind power stations:**

The value of the tariff is calculated based on two contractual periods the first is 5 years and the second is 15 years, to reach a total period of 20 years.

- **Land allocation:**

Through the use of craft scheme for a period of time equal to the contract period.

- **Electricity:**

Produced through renewable energy stations has priority access to the electricity grid.

- **Government support and guarantee:**

For power stations that exceed 500 KW include low-interest credit facilities.

The government will be offering renewable energy projects for investment and development, including:

- 200 MW Solar Power Plant in Kom Ombo, Aswan, at an estimated Capex of US\$ 400 million. The project is currently in tender.
- 500 MW Wind Farm in the Gulf of Suez, at an estimated Capex of US\$ 400 million. The project is expected to be tendered shortly.
- 250 MW Wind Farm in the Gulf of Suez at an estimated Capex of US\$ 364 million. The project is currently in tender.

The New and Renewable Energy Authority (NREA) expects circa US\$ 7 billion investment in renewable energy in 2015, to generate a total of 2.0 GW of wind power and 2.0 GW solar power. NREA is currently updating its strategy, and in collaboration with the EU has appointed an international consultant to draft the 2015 master plan.

In addition to wind and solar energy, Egypt has high potential for energy from biomass and major opportunities in managing and utilising solid waste to produce energy. The head of ECARU, Egypt's largest solid waste recycling company and the country's lead provider of refuse-derived fuel (RDF) from solid waste to cement factories, sees a significant opportunity to provide nearly 50% of the needs of cement factories in Egypt through a combination of solid waste and biomass.

He cited fossil fuel subsidy and lack of regulation as the main impediments for realising the potential of solid waste and biomass, and estimated that investments totalling EGP 10 billion (£880 million) would be required to unlock the potential and deliver a host of benefits, including employment opportunities, reduced government deficit, reduced carbon emissions and better public health.

## 6 PPP

In 2010, parliament approved a robust and progressive regulatory framework for PPP projects. The PPP Law established an independent PPP Central Unit (PPPCU) and mandated it with managing the delivery of all PPP projects in Egypt. PPPCU works closely with international development institutions, including EBRD, IFC and the World Bank to secure funds for PPP projects.

The PPPCU's remit includes:

- Providing technical, financial and legal expertise to the Supreme Committee for PPP and to the PPP satellite within relevant ministries;
- Laying out and monitoring the procedures to tender and conclude PPP contracts and their execution;
- Preparing and publishing studies, information and statistics related to PPP projects both locally and internationally;
- Selecting of advisors for the tender of PPP projects and contracting with them in accordance with the rules and procedures set forth in the Executive Regulations of the PPP Law;
- Ensuring that the proposed PPP projects are based on a sound analysis of actual needs and the value of these projects. The PPPCU will make sure that those projects got their necessary approvals on the budget and that the choice of partners is based on fair competition.

The head of the PPPCU advised that three PPP projects have already been signed off:

- New Cairo Wastewater Treatment Plant: Providing a total capacity of 250,000 m<sup>3</sup>/day to treat wastewater in New Cairo. The contract was signed off in June 2009 and commenced in March 2010. The project is currently operational. The financial and lead advisor for the project was the World Bank's International Finance Corporation (IFC), the technical advisor was Parsons Brinckerhoff, and the legal advisor was Guide Loyrette Nouel.
- Mowassat Specialised University Hospital: Building a 224 bed medical Centre of Excellence (COE) for the provision of highly specialised services in Neurosurgery and Urology /Nephrology (including kidney transplants). The hospital will be located in the same site adjacent to the old Mowassat Hospital. The contract for with the winning consortium, Bareeq, was signed in 2012 and is currently in the Condition Precedent phase. The financial and lead advisor for the project is the IFC, technical advisor is Mott Macdonald, and the legal advisor is Trowers & Hamilins.
- Smouha Maternity University Hospital and Blood Bank: Building 200 bed hospital and a blood bank in the same hospital building with a separate entrance which will be located at the Smouha Hospital Complex. The contract for with the winning consortium, Bareeq, was signed in 2012 and is currently in the Condition Precedent phase. The financial and lead advisor for the project is the IFC, technical advisor is Mott Macdonald, and the legal advisor is Trowers & Hamilins.

The head of the PPPCU also advised that the following projects are in the pipeline:

- **Abu Rawash Wastewater plant:**

Design, financing, raising capacity of plant from 1.2 million m<sup>3</sup>/day to 1.6 million m<sup>3</sup>/day and construction of an advance secondary treatment stage for the Abu Rawash Wastewater Treatment Plant, and the operation & maintenance of the whole plant with a capacity of 1.6 million m<sup>3</sup>/day. Project Capex is US\$ 650 million. Invitation to Bid was issued in February 2014; Requests for Clarifications & Responses were complete in May 2014, and meetings with bidders were held in June 2014.

- **Cairo Contact Centres Park in Maadi, Cairo:**

Construction of phases 2 and 3 (27 buildings combined) of the project, which aims to satisfy the increasing local and international demand for offshore outsourcing call centres, and Business Process Outsourcing (BPO). Project Capex is US\$ 420 million. Pre-feasibility studies for phases 2 and 3 were finalised in April 2014, and the project was approved by the Supreme Committee in May 2014. Three of the phase 1 buildings (total 11 buildings) are already constructed and 8 will start operation shortly.

- **River Bus in Greater Cairo:**

The project covers the development, upgrade and operation of the existing 15 river stations, and constructing 16 new commercial stations from Helwan to Al Kanater. The project includes the purchasing, financing and operation of the River Transport Fleets (41 boats). Pre-feasibility studies were finalised in March 2014 and the project was approved by the Supreme Committee in May 2014.

- **EBRD** is financing the feasibility studies, and considering an investment of EGP 500 million (£44 million) to finance the project. EBRD is currently appointing transaction consultants for the project, on behalf of the PPPCU. In October 2014, six bidders were shortlisted (Grant Thornton, EY, Deloitte, PwC, Royal Haskoning and Maritime Transport)

- **Rollout & Automation of the Notarisation Offices in Egypt:**

The project includes the rollout and automation of the 270 notarisation offices in Egypt through upgrading the current offices and performing the necessary civil works. It also includes the takeover of the current Data Centre, and performing the necessary maintenance and upgrade works. The project will develop online portals and mobile set of applications that citizens can use remotely. Project Capex is US\$ 100 million. Pre-feasibility studies were finalised in February 2014, and the project was approved by the Supreme Committee in May 2014.

- **Safaga Industrial Port:**

Development and upgrading of Safaga mining port (currently one platform to export crude phosphate) into an Industrial Port with eight platforms to receive larger vessels, and be able to export phosphoric acid, import and export grains, and import live stock. Project Capex is US\$ 360 million. The pre-feasibility studies were finalised in May 2014, and the project is currently pending approval by the Supreme committee.

- **Desalination Plants in Sharm El-Sheikh and Hurghada:**

Financing, design, construction, operation and maintenance for two desalination plants in Sharm El-Sheikh and Hurghada, both with a capacity of 20,000 m<sup>3</sup>/day. Pre-feasibility studies are yet to be done.

- **River Transport:**

Construction of river ports to develop river transport and relieve pressure on the road network. The proposed three pilot locations are in Qena, Sohag, and Assuit, all in upper Egypt. Pre-feasibility studies are yet to be done.

Other projects that are considered by the PPPCU include:

- **Helwan Wastewater Plant:**

Construction, financing, operation & management of a new wastewater treatment plant with a total capacity of 500,000 m<sup>3</sup>/d to treat wastewater two phases 250,000 m<sup>3</sup>/d each.

- **Heliopolis - New Cairo Light Rail:**

Redevelopment of Heliopolis - New Cairo line from Heliopolis to the 10th District in Nasr City, and establish of a new line to connect Nasr City and the American university in New Cairo.

- **Building 1,000 Public Schools:**

Construction of 1,000 public schools in various governorates in three phases.

- **Street Lighting Power Consumption Reduction:**

Substituting inefficient lamps with more efficient ones in all the light spots of Alexandria governorate and reduce the installed power in case of oversized lamps, changing conventional ballasts with electronic ones, operating a reduction of luminance at late night and install remote monitoring of boxes.

The PPP portfolio and pipeline looks healthy, and the government's drive to reform the economy and attract FDI will facilitate the delivery of current projects and the uptake of new ones.

## 7 Suez Canal

The Suez Canal plays a strategic role in international trade, providing a gateway between Asia and Europe. Nearly 10% of world trade and 20% of world containers pass through the Canal. So far, Egypt has only benefitted from the Suez Canal through collecting fees from ships and vessels crossing it. There are several opportunities for Egypt to maximise the returns on this unique asset.

The growth in world trade coupled with the need for market proximity and responsive supply chains present an opportunity for Egypt, especially in relation to Far Eastern manufacturers and commodity producers who are looking for locations that are close to their customers and able to provide them with less expensive options to store and further process their products for the European, Middle Eastern and African markets. Further opportunities come from the expansion of maritime and port services offered to the shipping industry, midway between East Asia and Western Europe.



The Egyptian government aims to build on these opportunities and the economic potential of the unique position of the Suez Canal, to transform the Suez Canal region into a global hub and to ensure the long term growth of the Egyptian economy. The development of the Suez Canal region lies at the heart of Egypt's ambitious development programme, and is expected to serve as the main stimulus and engine for growth and employment.

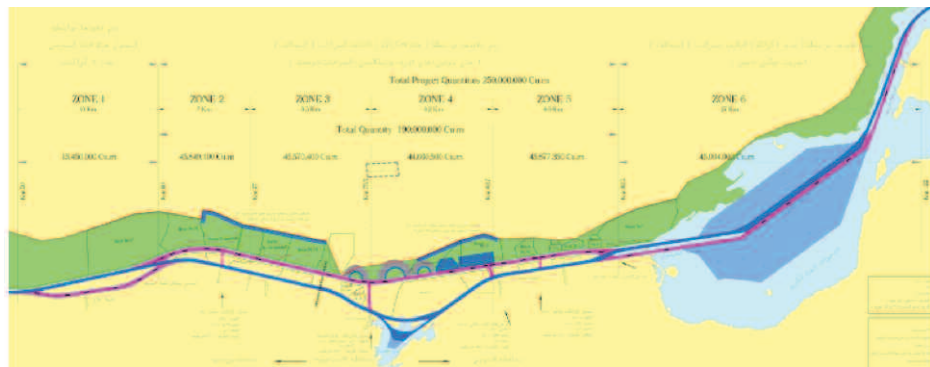
Within this context, there are two distinctive, if inter-related, major projects that are taking place in the Suez Canal region:

- Digging up of a new waterway; the 'New Suez Canal'.
- Multi-faceted regional development programme; the Suez Canal Area Development Project (SCADP).

### New Suez Canal

In August 2014, President Sisi launched a US\$ 4 billion project to add an extra lane to the Suez Canal. The project aims to:

- Increase attractiveness and competitiveness of the Suez Canal;
- Provide two-way navigation for half of the length of the Canal;
- Minimise transit time through the Canal from 20 hours to 11 hours;
- Minimise waiting time at the northern entrance from 11 hours to 3 hours;
- Accommodate ships that draw 66ft draft throughout the Canal in both directions;
- Increase nominal capacity of the Canal from 49 ships/day to 97 ships/day in 2023;
- Boost the Canal revenues from US\$ 5 billion to US\$ 10 billion;
- Support the Suez Canal Area Development Project.



The New Suez Canal project is 72 km long and includes 35 km of the dry excavation works, with an estimated volume of 258,000,000 m<sup>3</sup>, and 37 km of dredging and deepening works, with an estimated volume of 242,000,000 m<sup>3</sup>.

Although the project was originally forecast to complete in three years, the government is pushing hard to deliver it in 12 months, in August 2015, to demonstrate commitment and ability. There is an estimated 3,000 workers on site, as well as 36 dredgers. The SCA are providing six dredgers; while two consortiums, including the National Marine Dredging Company (UAE); Royal Boskalis Westminster and Van Oord (Netherlands); Jan de Nul Group and Deme Group (Belgium); and Great Lakes Dredge and Dock Company (US), are providing 22 dredgers. A recent visit to the site in January 2015 revealed impressive progress and indicated that the project could be on course to complete within this very narrow timeframe.

## Suez Canal Area Development Project (SCADP)

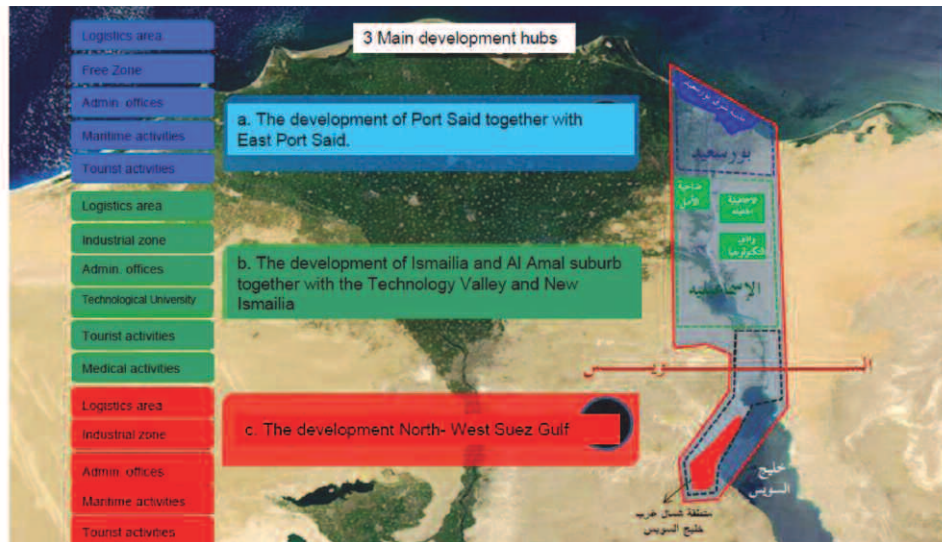
The SCADP represents the first integrated and structured approach to develop the Suez Canal region and unlock its huge potential. The government aims to transform the Suez Canal region into an international logistics, maritime and industrial hub, and has identified the objectives of the project as:

- Export and international trade development, based on the unique geographic position of the Suez Canal;
- Creating new centres of growth in the region through diversification and expansion of existing activities, such as supply chain management and logistics, processing, port and maritime services, and tourism;
- Ensuring long term economic growth by integrating the above activities and attracting foreign investment;
- Leveraging this development opportunity to adopt best practices in sustainable development, including environmental, financial and socio-economic sustainability, as well as technological excellence;
- Job creation and investment, with the project expected to create millions of new jobs, shifting the demographic burden from the over-populated capital, Cairo, and other highly populated areas, to the Suez Canal governorates and Sinai;
- Providing additional revenues to the government of Egypt;
- Increasing the volumes of cargo transport due to increase in export and import of goods after implementation of the proposed projects in the Suez Canal region;
- Increasing the share of logistics value-added services in GDP after implementation of the proposed projects in the Suez Canal region;
- Increasing the share of multimodal operations in national and international supply chains;
- Developing Sinai peninsula.

In January 2014 the government invited 14 prequalified consortiums to bid for the delivery of the master plan for the SCADP. The Suez Canal Authority (SCA) chose the French consultant Egis to assess the submitted bids, and in August 2014, it was announced that Dar Al Handasah has won the tender (beating Royal Haskoning (DHV)-Pacer; and Inros Lackner AG-Hamza consortia into second and third place, respectively). The master plan is expected to be delivered in early March 2015, ahead of the EEDC.

The master plan is expected to include a development strategy and an integrated master plan for the Suez Canal region, providing a detailed roadmap to achieve this ambition by focusing on priority development areas, taking into consideration the existing development plans in the region. The master plan is also expected to include three key plans for logistics, industrial and maritime transport services, as well as an inward investment strategy and business plan, an investment promotion strategy, and a strategic impact assessment.

Although the master plan is not yet available, the government has indicated the need to build on existing plans and projects in the region. The three main centres along the Suez Canal are Port Said in the north, Suez in the south and Ismailia in the middle. It is envisaged that Port Said will be the main logistics hub and the centre for maritime activities and services. Ismailia is likely to be the technological and industrial hub; while Suez is envisaged to be an industrial and maritime services centre.



The government expects industries and services in the Suez Canal region to include:

- Distribution and logistics centres
- Ship building and repair
- Bunkering
- Manufacture and repair of containers
- Light metal and iron industries
- Automotive industry
- Electronics
- Petrochemicals and refining
- Textiles
- Furniture and woodwork
- Fish farms

## 8 Other Projects

In addition to the sectors surveyed and the Suez Canal development projects, the Egyptian government is embarking on a mega agricultural project to reclaim 1 million acres, and a large grain storage facility in Damietta. The government is also considering a few other large scale projects including the 'Golden Triangle' for mining and infrastructure development in south east Egypt, and a nuclear power plant in the north west of the country.

### Golden Triangle

The 'Golden Triangle' project builds on the mineral wealth of the area to develop mining/extractive industries and infrastructure in Upper Egypt and the southern Red Sea coast. The project is in the studies phase and is expected to include:

- Mining/extraction of crude phosphate.
- Mining/extraction of gold ore.
- Fossil fuel production from shale.
- Using local shale and limestone as raw material for cement production.



- Establishing tourist resorts on the Red Sea.
- Establishing urban communities and new cities.
- Industrial development projects.

### **Nuclear Power Plant**

Having been hampered by security and political concerns, the government is taking new steps to implement its ambitious plans to use nuclear energy for the generation of electricity.

In October 2013, the outgoing interim president announced plans to move forward with building a nuclear plant in the city of El-Dabaa (north west of the country), to be used for peaceful purposes. He considered it a national priority that would satisfy Egypt's development needs during the coming decades in light of the energy crisis that has plagued the country. The project is expected to complete in 2020.

Given the sensitive nature of the project and the concentration of technical expertise, it is likely that the actual competition for building the nuclear power plant will be limited to a small number of companies from Russia, China, Japan, South Korea, the USA and France.

Egypt also intends to search and mine for uranium in the country's desert regions. The Nuclear Materials Authority confirmed that Egypt possesses uranium deposits, and an international auction is expected to be held for drilling and exploration rights.



Egypt enjoys a favourable business environment. E&Y 2013 report placed Egypt as the second most attractive African country for investment, and GAFI reported that over 900 British companies are already working in Egypt, including the likes of BP, BG, Shell, GSK, Vodafone, HSBC, Barclays and M&S.

### 1 Risk & Mitigation

The Egyptian market offer good-to-excellent returns, and successful companies in Egypt acknowledge very healthy margins; however, several risks and challenges have hindered the full development of the Egyptian market, and have deterred many market players from accessing it. The most notable complaints for the business community include economic uncertainty due to political upheaval, delay in payments, corruption, bureaucracy and red tape, difficulty in exiting the market or liquidating companies, as well as disputes. These can be categorised in three interlinked categories:

- Country risk, especially political stability and social unrest.
- Client risk, especially the risk of non-payment by the government.
- Business risk, including corruption, legal and regulatory framework, tax regime, and other business risks.

#### Country Risk

Political stability is improving in Egypt with the ratification of the new constitution and the election of a new president. Parliamentary elections, scheduled for the first half of 2015, should conclude the transitional road map and pave the way for a new government backed by an elected parliament.

The new administration in Egypt is embarking on an ambitious investment and development programme. The government has taken serious steps to reform the draining subsidy system, and the ambitious investment programme is backed up by GCC countries, especially Saudi Arabia, the UAE and Kuwait, as well as international development agencies including the EBRD and the World Bank.

As a result, the risk of political instability and social unrest, although not eliminated entirely, has reduced markedly and is expected to further reduce after the parliamentary elections and the early demonstrable signs of economic growth.

#### Client Risk

The Egyptian government is implementing an ambitious economic development strategy, aimed at restoring fiscal sustainability and stimulating investment and growth. The government has already taken serious steps towards reducing the deficit, including the gradual elimination of fuel and energy subsidies, and broadening the tax base.

These measures, which have been recognised and praised by international financial institutions and rating agencies alike, will have a positive impact on the budget deficit and will create fiscal space to pay for investment projects. The risk of delayed payment will reduce significantly, as a result.

It is also worth noting that, as shown in previous sections, the Egyptian government will rely on finance from international development agencies (including IFC, EBRD, World Bank) and friendly regional and international partners (likely to be Saudi Arabia, UAE, Kuwait, France, Russia, Japan and the USA) for funding a considerable share of its ambitious investment and development programme. The EEDC in March 2015 is expected to identify funding partners for a host of key development and infrastructure projects.

As a result, the Egyptian government remains the 'ultimate client' of development projects, but payment for projects' services on many projects will come directly from international development agencies and investment partners (especially from the GCC). Consequently, payment risk for a wide range of large investment and development projects in Egypt will reduce substantially.

## Business Risk

The government's economic development strategy includes key legal, regulatory and institutional reforms, aimed at improving the business environment in Egypt. The government has already issued the Microfinance Law, the Renewable Energy Law, and the Mining Law, and is currently reforming the Special Economic Zones Law, the Capital Market Law, the Electricity Law, and the Investment Law, which should facilitate and streamline requirements to invest and do business in Egypt, and close down many loopholes for delays and corruption.

This legislative reform is already having a positive impact within business circles in Egypt, is improving business environment and practice, and is reducing business risks.

Notwithstanding the legislative reform and improved business environment, there are two useful tips to enter and negotiate this serious market:

- Learn the facts about opportunities and risk in Egypt, including the political, economic and legal environment, in order to be able to make an educated risk assessment and an informed decision.
- Follow UKTI's advice, and work with a competent, trustworthy and reliable local partner. This will mitigate a lot of the business risk, including corruption, and will help companies wishing to do business in Egypt navigate the legal and regulatory landscape.

## 2 Entering the Market<sup>1</sup>

Foreign companies and investors can enter the market directly - through direct business and investment - or indirectly through agency and marketing arrangements. This section overviews the main entry routes to the Egyptian market.

### A Direct Business Routes

All newly established corporate vehicles in Egypt are subject to the provisions of the Companies Law. The main types of entities that can be established or acquired by foreign investors in Egypt are:

- Joint Stock Companies;
- Limited Liability Companies;
- Branch Offices; and
- Representative Offices.

### Joint Stock Company (JSC)

JSCs are among the most commonly used legal vehicles in Egypt and are usually used in those cases where there is a manufacturing project to be established within the country that requires major investments. JSCs can engage in all legal activities.

Capital: JSCs may have authorised capital and must have issued capital (actual and paid in). The issued capital may not be less than EGP 250,000 (£22,000) for closed companies and EGP 500,000 (£44,000) if the company intends to offer its shares to the public. At least 10% of the share capital must be paid in at incorporation and subsequently increased to 25% within three months following the incorporation. Full payment of the issued share capital must be effected within five years after the incorporation date.

Public Subscription: A joint stock company is permitted to offer its shares to the public. For those companies formed by public subscription, at least 49% of the shares must be offered to the Egyptian public for a period of at least one month, unless the Egyptian founding shareholders already pay up such percentage of shares prior to the public offering.

<sup>1</sup> Information provided in this section come from the following guides:

- Baker & McKenzie, 2011, 'Doing Business in Egypt'.
- LexMundi, 2012, 'Guide to Doing Business - Egypt'.
- American Chamber of Commerce in Egypt, 'Doing Business in Egypt', [http://www.amcham.org.eg/resources\\_publications/trade\\_resources/dbe/](http://www.amcham.org.eg/resources_publications/trade_resources/dbe/) [accessed on 02/09/2014].
- Oxford Business Group, 2014, 'The Report Egypt 2014', pp 275-280.
- General Authority for Investment (GAFI), <http://www.gafi.gov.eg/EN/doingbusiness/BusinessLaws.aspx> [accessed on 13/11/2014].

**Number of Shareholders:** A joint stock company must have a minimum of three shareholders at all times, whether natural persons or legal entities. There is no maximum limit for the number of shareholders. However, if the number of shareholders reaches 100, the company would be considered as having been offered to the public and the rules applicable to public companies would then apply.

**Management:** JSC are managed by a board of directors, headed by a chairman and must have a minimum of three members at all times. There are no nationality requirements for board members. There must be a means of employee participation in management, either through board membership, share ownership or the establishment of an administrative committee from among the employees. In practice, this can raise some issues in labour-intensive companies.

**Stock Exchange Registration:** Registration on the Stock Exchange is obligatory within one year of the formation of a company offering its shares to the public, otherwise the company may register its shares after the third year's published profitable accounts.

**Taxation & Social Insurance:** JSC are subject to corporate income tax and all employees are subject to personal income tax. JSCs must implement the monthly tax withholdings, and social insurance contributions for Egyptian employees.

### **Limited Liability Company (LLC)**

This type of company is usually formed for services companies, and small-scale projects that do not require major financing. LLCs may engage in all activities, except for insurance, banking, savings, deposit taking, investment funds, securities brokerage or portfolio management activities

**Capital:** No minimum or authorised capital is required for establishing an LLC. However, the capital must be fully paid at the time of incorporation.

**Number of Shareholders:** LLCs must have a minimum of two shareholders at all times and up to a maximum of 50 shareholders. Shareholders may be natural persons or legal entities. Shares in LLCs may not be offered to the public.

**Management:** LLCs may be managed by one or more managers, one of whom must be an Egyptian national. An LLC that has more than 10 shareholders must establish a supervisory committee from amongst its shareholders. Employee participation in management is not required.

**Taxation & Social Insurance:** LLCs are subject to corporate income tax and all employees are subject to personal income tax. LLCs must implement the monthly tax withholdings, and social insurance contributions for Egyptian employees.

### **Branch Offices**

A foreign company may register a branch office in Egypt if the company has a contract with an Egyptian private or public sector party to perform work in Egypt. A branch office may engage in commercial, financial, industrial and contractual activities within the scope of the contract entered into.

Management: The branch office may be managed by a branch manager(s), who does not need to be an Egyptian national(s).

Taxes & Social Insurance: A branch office is subject to corporate income tax and all employees are subject to personal income tax. A branch office must implement the monthly tax withholdings, and social insurance contributions for Egyptian employees.

Profits: The branch office must also distribute at least 10% of its net profits to its employees, up to a maximum of its total annual payroll.

### **Representative Offices**

Foreign companies are permitted to establish representative or liaison offices, scientific or technical offices and other offices for the purpose of carrying out market surveys or studying the feasibility of production without having to enter into any commercial operations or commercial agency activities.

Management: The representative office shall be managed by a manager(s), who need not be an Egyptian national(s).

Capital: There is no minimum capital for a representation, liaison, or scientific office, but the funds required to establish any such office and to run it should be transferred from abroad in foreign convertible currency and deposited at one of the accredited banks in Egypt.

Since representation, liaison, and scientific offices cannot exercise any commercial activity that could generate income, they are not subject to the corporate tax and their employees do not enjoy any profit-sharing rights.

## **B Direct Investment Routes**

Foreign investors and companies can invest directly in Egypt, without restrictions. Investment in Egypt is governed primarily by the Investment Law, which will be revised before the EEDC in March 2015, to facilitate procedure and cut red tape. Under the current law, investors benefit from a raft of guarantees and incentives, including:

- Guarantees against expropriation and nationalisation, and no administrative body may interfere in setting prices or profit margins, or revoke or suspend a licence for the use of property, except when the terms of the licence are violated;
- Articles of association, mortgages and loan agreements are exempt from stamp duties and notarisation fees for five years;
- A flat rate of 5% of the value of all imported machinery and equipment, which are deemed necessary for the company's project, shall be assessed as Customs duties;
- Companies shall have the right to own buildings, lands, and to develop real estate as required for implementing and expanding their activities, irrespective of the nationality or the place of residence of partners and shareholders, or the percentage of their participation in the property (except for the Sinai Peninsula and other borderlands); and
- Companies can nominate their capital and run their accounts in foreign currency, if most of the company activities relate to export.

### **Free Zones**

Foreign investors may undertake projects in the Egyptian free zones regulated by the Investment Law. Most goods and materials imported into a free zone are not subject to import duties or regulations. There are two types of free zones: public and private. Public free zones are established in specific locations by General Authority For Investment and Free Zones (GAFI) including, Alexandria, Suez, Port Said, Damietta, Ismailia and Cairo. Private free zones are established exclusively for a specific project or company, subject to the approval of GAFI.

Free zone companies can either undertake industrial or service activities. Free zone companies are not subject to income tax and are incorporated for the purpose of exporting the products or services manufactured or provided in the free zone abroad. Under the free zone system, qualifying companies are granted Customs duties and tax exemptions. Both types of free zone companies are exempt from local taxes and Customs.

### **Special Economic Zones (SEZs)**

SEZs are economic zones providing considerable economic independence, reduced bureaucracy, lower taxation rates (10% on average), and flexible administration and labour regulations. SEZs are self-governed through independent authorities for each zone, giving greater power to each zone's board of directors. Production in SEZs is mainly focused on areas such as fertilisers, iron and steel, pharmaceuticals, building materials and petrochemicals.

### **C Indirect Entry Routes**

In addition to the direct entry routes through establishing a company or direct investment, foreign companies and investors can enter the Egyptian market through indirect routes, including:

#### **Commercial Agency**

Commercial agency agreements are governed by Agency Law the Egyptian Commercial Law. Commercial agents must be registered at the Commercial Agents' Registry, and the agent must be Egyptian, or 100% Egyptian owned, company. The agency agreement must be registered with the Egyptian Chamber of Commerce.

A commercial agent can obtain compensation if the agency agreement is terminated (or not renewed) without good cause and without notice; or if the agent has not committed an error or omission in the course of its duties.

#### **Importation**

Under Egyptian law, the importation of goods or products from abroad requires an importation license. As with commercial agents, importation licenses are only granted to Egyptian individuals or partnerships where all the partners are Egyptian, or companies where all the shareholders are Egyptian. It is common practice that the commercial agent itself holds the importation license.

Thus, the commercial agent carries out the marketing, as well as the importation activities.

#### **Distribution**

A distributor would buy the products directly from the foreign supplier or from the foreign supplier's agent and re-sell at a profit. There are no specific laws governing distribution and franchising agreements. These are governed by the general provisions of the Egyptian Civil Code and the Commercial Code. There is no need to register as a distributor, as long as the distributor does not carry out marketing activities on behalf of the foreign supplier.

It is common that the foreign producer appoint both an agent and a distributor. The agent would carry out the marketing on behalf of the foreign producer as well as the importation process, and the distributor(s) would buy from the agent and re-sell for their own account. There are no nationality restrictions for distributors. The foreign producer may itself form part of the distributor entity. The distributor is subject to taxation on its net profits.

#### **Franchising**

Franchising agreements are treated the same way as distributor agreements. If a franchise agreement involves a transfer of technology, it must be governed by Egyptian Law and any disputes in connection with that agreement must be resolved by the Egyptian courts or by arbitration in Egypt under the Egyptian Arbitration Law.

## Technology Transfer and Licensing Agreements

The foreign producer or supplier may also enter into a technology transfer or licensing agreement with an Egyptian enterprise. In such cases, an agent is not required as there is no marketing of foreign products within the country; rather, the Egyptian enterprise that is producing under license from the foreign enterprise would be marketing its own products.

Royalties payable to the foreign enterprise are subject to Egyptian taxation and are at source. Double-taxation treaties to which Egypt is a party (including with the UK) reduce the tax rate.

## 3 Working in Egypt<sup>2</sup>

Working in Egypt requires knowledge of the governing laws and regulations. This section gives an overview of the two key areas of taxes and labour laws. It must be noted, however, that this report does not give tax or legal advice, and should not be relied upon for specific tax or legal advice.

### A Taxes

There are two main relevant taxes in Egypt:

- Personal Income Tax (PIT) applicable to individuals; and
- Corporate Income Tax (CIT) on company profits applicable to all types of juristic persons (companies and partnerships).

#### Personal Income Tax

Personal Income Tax (PIT) is applicable to the income of natural persons resident in Egypt for the majority of a year in a residence whether owned or rented or if he/she has a commercial office, a place of business, a factory or other places where a natural person undertakes work in Egypt or resides in Egypt for more than 183 continuous or interrupted days within 12 months.

The tax covers four sources of income:

- Income from commercial and industrial activity;
- Salaries and wages;
- Income from non-commercial professions; and
- Income realised from real estate property.

After applying any allowable deductions, the tax rates on the net annual income of natural persons are as follows:

- 0% for net annual income up to EGP 5,000 (£440)
- 10% for net annual income from EGP 5,000 (£440) to EGP 30,000 (£2,640)
- 15% for net annual income from EGP 30,000 (£2,640) to EGP 45,000 (£3,960)

<sup>2</sup> Information provided in this section come from the following guides:

- Baker & McKenzie, 2011, 'Doing Business in Egypt'.
- LexMundi, 2012, 'Guide to Doing Business - Egypt'.
- American Chamber of Commerce in Egypt, 'Doing Business in Egypt' [http://www.amcham.org.eg/resources\\_publications/trade\\_resources/dbe/](http://www.amcham.org.eg/resources_publications/trade_resources/dbe/) [accessed on 02/09/2014].
- Oxford Business Group, 2014, 'The Report Egypt 2014', pp 267-272.
- General Authority for Investment (GAFI) <http://www.gafi.gov.eg/EN/doingbusiness/BusinessLaws.aspx> [accessed on 13/11/2014].

- 20% for net annual income from EGP 45,000 (£3,960) to EGP 250,000 (£22,000)
- 25% for net annual income over EGP 250,000 (£22,000)
- Temporary wealth tax of 30% for net annual income higher than EGP 1,000,000 (£88,000)

### **Corporate Income Tax**

Corporate Income Tax (CIT) is applicable to the profit realised by all companies, partnerships and branches, and for all taxable profits realised in Egypt and abroad. For non-resident companies operating in Egypt through a permanent establishment in the country, CIT is applicable for taxable profits realised by this permanent establishment.

Corporate taxable profits are calculated according to the Egyptian Accounting Standards, which are very similar to International Financial Reporting Standards (IFRS).

CIT in Egypt is:

- 25% on annual taxable profits
- Temporary (applicable from 2014 to 2016) tax of 30% on annual taxable profits over EGP 1,000,000 (£88,000)

Oil exploration and production taxable profits are subject to a higher tax rate of 44.55%.

### **A Labour Law**

Labour relationships are governed by the Labour Law, last revised in 2003. The Labour Law is considered by business circles as employee-biased, designed to protect the employee. This section looks at the main areas covered by the Labour Law.

#### **Employment Contracts**

**Probation & Term:** An employment contract may be drawn up for a definite or indefinite term. If an employee is hired on a probationary basis, the employment contract should expressly indicate the length of the probationary period and it shall not exceed three months.

**Working Hours & Overtime:** Normal working hours may not exceed eight hours a day or 48 hours per week (excluding a one-hour break per day). Most private sector employees work five days a week, usually Sunday to Thursday. The number of working hours may be increased under certain circumstances. In any event, working hours shall not exceed 10 hours per day, including the break.

#### **Dismissal, Termination and Settlement**

The Labour Law stipulates that an employee may only be terminated if he/she commits a grave fault or due to non-performance of his/her obligations.

Salary in this respect would extend to include all related acquired rights (such as allowances, bonuses and the like). Furthermore, the employer is required to serve a two or three month termination notice (depending on length of service) to the employee in question.

Unjustified termination would entitle the terminated employee to claim damages against the employer, and if the court rules in favour of the employee, the awarded damages for unjustified termination would not be less than two months full salary for each year of service, in addition to any other legal entitlements.

Furthermore, the employee is entitled to request that the court issue an urgent order to the employer for payment of a 12-month salary, pending a judgment on the merits of the employee's case for unjustified termination.

Amicable termination settlements seek to put a termination package in place with the employee, which would ordinarily include a final resignation and release form. It should be noted, however, that the employee has the right to withdraw his resignation within one week of its acceptance by the employer, in which case the resignation would be considered null and void.

### **Closure of Business or Downsizing**

The Labour Law confirms the right of the employer to completely or partially close or to downsize his business for economic reasons, necessitating the termination of some of the employees. However, the employer must first obtain the approval of a special committee with respect to such closure or downsizing.

Alternatively, the employer is granted the option, upon obtaining the approval of the committee and, instead of using the right of termination, to temporarily adjust the terms of the employment and/or assign employees different positions in order not to decrease their remuneration below the minimum wage. It is worth noting that this provision runs counter to two well-established rules in Egypt: 'the contract makes the law of the parties' and the 'acquired right theory'.

If the employee refuses to adjust the terms of his employment, he/she shall have the right to terminate the contract, with such termination being deemed as a justified termination exercised by the employer, despite being elected by the employee. If the employer terminates any of the employees for economic reasons in compliance with the above rules, the employer must pay remuneration equivalent to one month's salary per year for the first five years of employment and one and a half month's salary for each year of employment thereafter.

### **Health Care and Pension Payments**

All private sector companies in Egypt are required to provide free health care coverage for their Egyptian employees either through the Ministry of Social Insurance, or privately. They must also contribute to the Pension Insurance Fund of the Ministry of Social Insurance.

### **Work and Disciplinary Rules and Regulations**

Employers are obliged to put in place work and disciplinary regulations, which must be endorsed by the relevant Labour Office. In this regard, an employer may follow the standard work regulations provided for by the Ministry of Work Force and Immigration or instigate its own work/disciplinary regulations for approval by the relevant authority.

### **Labour Unions**

The Labour Unions Law has established a General Association of Labour Unions, general Labour unions and Labour committees. The general Labour unions are established based on the nature of the activity of its members and ordinarily Labour committees are established for each industry. In principal, a Labour committee looks after the interests of the employees, including salaries and wages and terms of employment.

### **Foreign Employees**

Foreign Labour may not exceed 10% of the total labour force of an Egyptian company. All foreign employees must obtain validly issued work permits, which require the submission of specific documents by both the employer and the expatriate employee and the fulfilment of certain requirements. Primarily, the authorities would look at the qualifications, expertise and need before deciding whether or not to issue a work permit. Residency status is granted upon the issuance of a work permit.

The Egyptian courts have taken the stance that members of the board of directors of joint stock companies are not deemed as employees of the company, and accordingly are not subject to the Labour Law. Accordingly, it has been the practice of the authorities to exclude directors of joint stock companies from the 10% foreign Labour ceiling set by the Labour Law when granting work permits.



## Appendix A: List of Interviewees and Contributors

Name	Position	Interviewee <sup>1</sup>	Contributor <sup>2</sup>
<b>Egyptian Government</b>			
Abdel Fattah El-Sisi	President of Egypt		✓
Ibrahim Mahleb	Prime Minister of Egypt		✓
Hany Kadry Damian	Minister of Finance		✓
Ashraf Salman	Minister of Investment		✓
Naglaa Al-Ahwany	Minister of International Cooperation		✓
Mohamed Shaker	Minister of Electricity and Renewable Energy		✓
Mostafa Madbouly	Minister of Housing and Urban Development		✓
Mamdouh El-Damaty	Minister of Antiquities	✓	
Hesham Zaazou	Minister of Tourism	✓	
Ahmed Aboul Seoud	Acting CEO, Egyptian Environmental Affairs Agency (EEAA)	✓	
Atter Hannoura	Head of Public Private Partnership Central Unit (PPPCU)	✓	
Nino Cingolani	Co-Chairman, Egyptian National Railways (ENR)		✓
Ehab Mostafa	VP Market Development and Attracting FDI, Information Technology Industry Development Agency (ITIDA)	✓	
Ehab Amin	GM Planning, New and Renewable Energy Authority (NREA)	✓	
Adla Ragab	Economic Advisor to the Minister of Tourism	✓	
Hanaaa Dakroury	Head of Research, General Authority for Investment and Free Zones (GAFI)	✓	
Ahmed Maghawry	Chancellor, Ministry of Trade and Industry	✓	
Takek Kashwaa	Commercial Secretary, Egyptian Commercial Services (ECS)	✓	
Doaa Allam	Country Officer, General Authority for Investment and Free Zones (GAFI)	✓	
Ehab Abdel Aziz	Planning Manager, New and Renewable Energy Authority (NREA)	✓	

Name	Position	Interviewee <sup>1</sup>	Contributor <sup>2</sup>
<b>Quasi Government Organisations</b>			
Mohab Mameesh	Head of the Suez Canal Authority (SCA)		√
Ismail Nagdy	Chairman, National Authority for Tunnels (NAT)	√	
Hassan Fallah	Chairman, Red Sea Ports Authority (RSPA)	√	
Mohamed Omran	Chairman, Egyptian Stock Exchange		√
Magdy Ghazi	VP, Industrial Development Authority (IDA)	√	
Sameh Refaat	VP, National Authority for Tunnels (NAT)	√	
Mahmoud Rezk	Head of Planning, Suez Canal Authority (SCA)	√	
Tarek Aboul Wafa	Head of Planning, National Authority for Tunnels (NAT)	√	
El-Saeed Ghozal	Head of Investment Policies and International Agreements, Industrial Development Authority (IDA)	√	
Nadia El-Nahas	Marketing Research Director, Industrial Development Authority (IDA)	√	
<b>International Development Agencies</b>			
Keiko Honda	Executive VP and CEO, Multilateral Investment Guarantee Agency (MIGA), World Bank Group		√
Stephanie Lanfranchi	Country Director, Egypt, French Development Agency (AFD)		√
Leila Mokaddem	Resident Representative, African Development Bank (AfDB)		√

Name	Position	Interviewee <sup>1</sup>	Contributor <sup>2</sup>
<b>Egyptian Private Sector</b>			
Sayed El-Baroudy	Senior VP, The Arab Contractors	√	
Hesham Mekawi	Regional President, BP Egypt		√
Basil El-Baz	CEO, Carbon Holdings		√
Hisham Sherif	Managing Director, Egyptian Company for Solid Waste Recycling (ECARU)	√	
Hussein Mansy	CEO, Lafarge Egypt		√
Wael El-Menoufy	Commercial Director, Emaar Egypt	√	
Fathy El-Sebai	Chairman, Housing Development Bank		√
Yehia Zaki	Director of Operations, Dar Al-Handasah		√
Khaled El-Shazly	Chairman, HD Real Estate Investment Company	√	
Amr El-Shafei	Head of Corporate Banking, Barclays Egypt		√
Hassan Hussein	Managing Director, El-Taamir Mortgage Finance Co		√
<b>Lawyers and Accountants</b>			
Aziz Barsoum	Senior Partner - Audit, KPMG Hazem Hassan	√	
Sara Hinton	Partner, Ibrachy & Partners		√
Hani Sarie El-Din	Managing Partner, Sarie El-Din & Partners		√
<b>UK Officials</b>			
Tobias Ellwood	MP, and FCO Minister for the Middle East and North Africa		√
John Casson	British Ambassador to Egypt		√
Jason Ivory	Head of UKTI Egypt	√	

Name	Position	Interviewee <sup>1</sup>	Contributor <sup>2</sup>
<b>International Business Consultants</b>			
Bozidar Djelic	Managing Director, Lazard		√
Richard Shediak	Senior Partner and Managing Director, Middle East, Strategy& (formerly, Booz & Co.)		√
Angus Blair	Chairman, Signet Institute		√
Richard Banks	Director, Emerging Markets, Euromoney Conferences		√

Notes:

Interviewee: Personal interview for research purposes.

Contributor: Conferences and large group meetings attended in Egypt for research purposes.

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