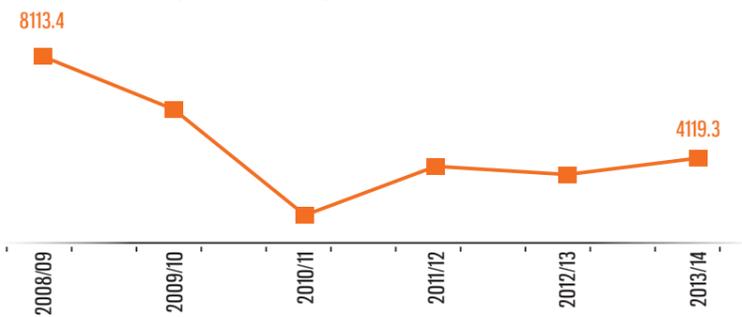


A NEW INVESTMENT LAW: AN INDEPTH ANALYSIS

IN THE WAKE OF EGYPT'S ECONOMIC DEVELOPMENT CONFERENCE (EEDC), HELD IN SHARM EL-SHEIKH LAST MARCH, EGYPTIAN PRESIDENT ABDEL FATTAH AL-SISI APPROVED A NEW INVESTMENT LAW (NO.17 FOR THE YEAR 2015), THAT AIMS AT ENHANCING THE INVESTMENT CLIMATE IN EGYPT, WHICH HAS BEEN HIT HARD BY THE POLITICAL AND ECONOMIC INSTABILITY WITNESSED IN THE LAST 4 YEARS.

FOREIGN DIRECT INVESTMENTS (FDIs) IN EGYPT (\$ MILLION)



Source: Central Bank of Egypt

These factors can be added to long-lasting obstacles, negatively affecting investors' appetite to invest in Egypt for years. Egypt ranked 112th out of 189 countries in the World Bank's Ease of Doing Business Index released in 2015. The United Arab Emirates (UAE) and Saudi Arabia ranked 22nd and 49th respectively, while Tunisia and Morocco came in at 60th and 71st places.

The index has attributed Egypt's late rank to different factors like **Dealing With Construction Permits** whose attaining takes about 179 days and **Resolving Insolvency**¹ with 2.5 years needed to recover bankruptcies.

| Doing Business Index Components | Egypt's Rank |
|-----------------------------------|--------------|
| Starting A Business | 73 |
| Dealing With Construction Permits | 142 |
| Resolving Insolvency | 126 |

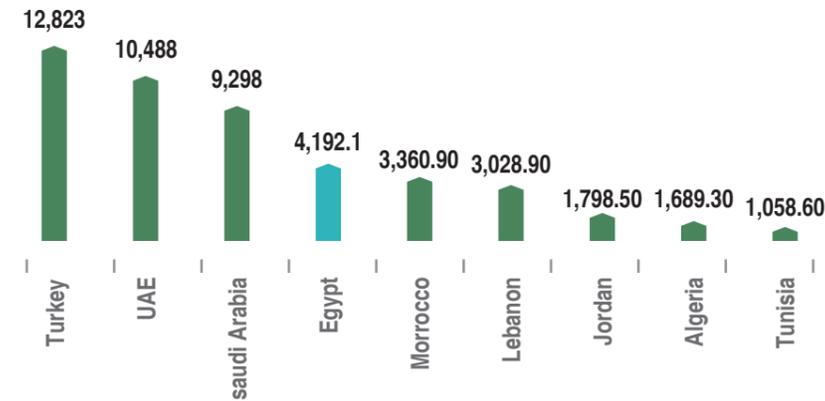
Source: World Bank, Doing Business Index, 2015Egypt

(1) Assessing bankruptcy law and the main procedural and administrative bottlenecks in the insolvency process.

(2) GAFI is responsible for:

- Studying laws and regulation related to the investment in Egypt and offering recommendations to enhance domestic business climate.
- Managing investment and free zones.
- Providing the "one-stop shop" investment window.

FDIs IN MENA-2013 (\$ MILLION)



Other challenges facing investors in Egypt include court verdicts that nullified the sale and privatization contracts of seven companies, owing to faulty contracts with the state. The new investment law is keen on dealing with such obstacles through offering a package of reforms built on the following:

NEW INCENTIVES

- Decreasing sales tax on machinery and equipment from 10% to 5%, along with maintaining the previous tax incentives given to existing companies.
- Decreasing customs duties on equipment used for production to 2% instead of 5%.
- Giving non-tax incentives (like low energy prices and training employees) to projects that meet certain criteria, of which:
 - Being labor-intensive.
 - Belonging to certain sectors like Internal Trade, Energy, Agriculture and Transportation.
 - Being located in outlying regions.
- Ensuring equality between local and foreign investors in the right of owning land.
- Allowing investors to postpone repaying the state-owned land's price till starting operations.
- Permitting the government to participate in investment projects, using state-owned land.
- Giving the government the right to directly allocate state-owned land to developmental projects for free, starting April 2015 and for 5 years.

THE EGYPTIAN CABINET HAS RECENTLY AGREED TO UNIFY AND DECREASE THE MAXIMUM LIMIT OF INCOME TAX TO 22.5% INSTEAD OF 30% FOR BOTH CORPORATES AND INDIVIDUALS

LESS BUREAUCRACY

- Authorizing the General Authority for Investment (GAFI) to act as a one-stop-shop from which investors can deal with unified entity that Issues final investment licenses within 15 days.
- Determining the maximum period of resolving insolvency at a maximum of 120 days instead of 2.5 years.
- Giving investors the right to freely transfer their profits abroad.
- Excluding the General Authority For Investment (GAFI)² from governmental financial and administrative regulations regarding recruitment to hire the best human resources.

MORE GUARANTEES

- Protecting chief executives from criminal prosecution as they were previously prosecuted for legal violations committed by staff members.
- Introducing a mechanism for settling disputes between the government and investors through a ministerial committee called "Dispute Settlement Committee" to be formed and tasked with that mission.

IN APRIL 2014, A PRESIDENTIAL DECREE WAS ISSUED TO PREVENT THIRD PARTIES FROM APPEALING AGAINST CONTRACTS MADE BETWEEN THE GOVERNMENT AND AN INVESTOR.

OTHER REFORMS

- Initiating "The National Centre For Developing and Promoting Investment" to be tasked with:
 - Designing investment policies & plans for the whole country.
 - Monitoring the implementation of these plans.
 - Promoting investment opportunities locally and globally.
- Banning the establishment of intensive energy industries (Fertilizers - Iron & Steel - ...) in free zones.
- Canceling contracts signed between government and investors if the execution of the project didn't start within 6 months.

CRITICISM & CONCERNS

- Although the law confirms the investors' right to transfer money abroad, this can contradict with the current restrictions imposed on transferring money by the Central Bank of Egypt.
- The usual Bureaucratic obstacles that may prevent the government from meeting its deadlines regarding issuing licenses and resolving insolvency.
- Vagueness of expressions like "developmental projects" to which the government can directly allocate.

OUTLOOK

Egypt's Investment Minister Ashraf Salman has expected FDIs in Egypt to increase during 2014/15, to reach about \$ 6-8 billion compared to about \$ 4 billion recorded in 2013/14. This trend is forecasted to continue through the coming 3 years with further political stability, governmental measures to improve investment climate, less bureaucracy and legislative reforms. It will also be supported by Egypt' improving global profile after the successful organization of the EEDC that promoted it as an attractive investment destination to foreign investors.

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