وزارة التعـاون الدولي
Ministry of International Cooperation

EGYPT: COUNTRY STRATEGIC THEMES

Report **2021**

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EGYPT HAS UNDERTAKEN BOLD MACROECONOMIC AND STRUCTURAL REFORMS STARTING 2016,

including legislative changes aimed at enhancing the role of private sector in the economy. This was coupled with socioeconomic programs to improve human capital and enhance people's livelihood. The continuous reform efforts have helped Egypt mitigate the substantive risks on the back of COVID-19 shocks, with the highest growth rate in the MENA region and the second highest globally.

Moving forward, Egypt's economic agility centers around private sector engagement highlighted in four key themes:

1. Egypt as a regional hub for energy with renewable energy targeted to reach more than 60 percent by 2040, and a nearly 150 percent year-over-year increase of LNG exports

2. Digital transformation and new cities with 35 percent annual increase in ICT investments and 24 new cities

3. Industrialization and Suez Canal economic zone; a route for around 10 percent of world trade annually

4. Green recovery and circular economy through innovative tools of green financing, waste management and environmentally friendly transportation systems.

These themes echo Egypt's alignment with the principles of Stakeholder Capitalism, where the government, private sector, civil society and the international community have vital and complementary roles to ensure that we are able rebuild a more resilient and sustainable recovery.

EGYPT'S ECONOMY: RESILIENCE & STABILITY IN FACE OF A CRISIS

Chapter 01

01

EGYPT'S ECONOMY WAS ONE OF THE FEW IN THE REGION AND THE WORLD TO ESCAPE FROM A RECESSION, DESPITE THE MYRIAD OF CHALLENGES CAUSED BY COVID-19.

According to the International Monetary Fund (IMF), the GDP growth amid the coronavirus pandemic in FY2019/20 reached 3.6 percent and is projected to reach 2.8 percent and 5.5 percent in FY2020/21 and FY2021/2022, respectively*. In EBRD's latest "Regional Economic Prospects" report launched in September 2020, Egypt is the only economy across all of the EBRD regions likely to escape recession in the 2020 calendar year*. Unemployment fell in Q4 of 2020 to 7.2 percent, a record level over a decade according to the National Statistics Office, the budget deficit-to-GDP ratio has fallen to 2% and average inflation rate reached 5%*.

Positive Growth Rate amid COVID-19 Pandemic

3.6% in FY2019/20

Record - Low Unemployment Rates

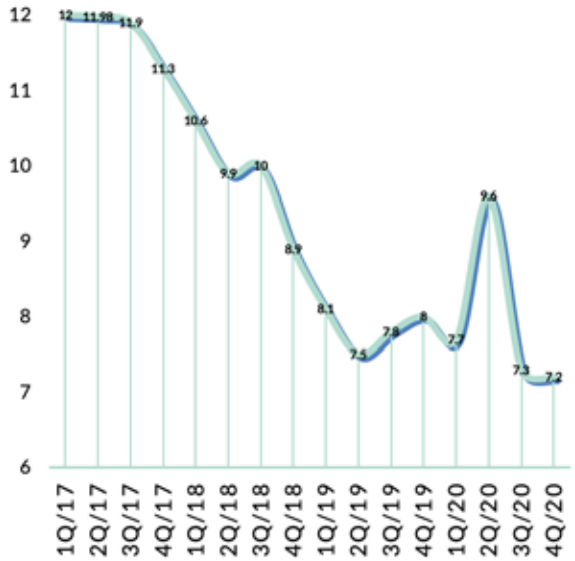
7.2% in Q4 of 2020

*According to the IMF, World Economic Outlook Update, January 2021. Link: https://www.imf.org/-/media/Files/ Publications /WEO/2021/Update/January/English/data/WEOJan2021update.ashx

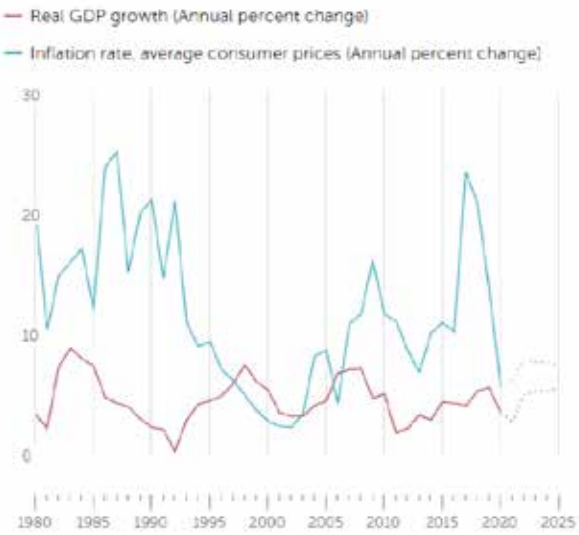
*According to the report, Egypt's economy is estimated to grow at 2% in 2020 and rebound by 5% in 2021.

*Source: https://www.capmas.gov.eg/

Quarterly Unemployment Rate (in %) reached a record low in Q4 of 2020. Data Source: CAPMAS 2020.



GDP Growth and Inflation Rates. Source: IMF WEO 2020.



EGYPT'S PERFORMANCE: AN INTERNATIONAL PERSPECTIVE

These robust macroeconomic outcomes are seen by many international financial institutions and rating agencies as result of the reform efforts launched by the Government of Egypt in 2016 and supported by large infrastructure projects and a boom in the telecommunication sector.

FitchRatings

Fitch Credit Rating Agency affirmed Egypt's Long-Term Foreign-Currency Issuer Default Rating at 'B+' with a Stable Outlook. The agency reported that the recent track record of fiscal and economic reforms, policy commitment to furthering the reform program and ready availability of fiscal and external financing have provided Egypt with a degree of flexibility to weather the Covid-19 pandemic.

Moody's

Moody's classified Egypt at B2 with a stable outlook. This is reflective to Egypt's sizable and diversified economy, large domestic funding base, and projected foreign exchange reserves that are enough to cover maturing external liabilities over the next three years. The report highlighted also the resilience of Egypt's credit profile against financing shocks.

S&P Global

Similarly, S&P's report speculates that GDP will rise by 2.5% in FY2020/2021, despite the worldwide ongoing challenges imposed by the Covid-19 pandemic. The report forecasts a 5.4% growth rate in FY2021/2022 along with the recovery of the sectors of tourism, energy, and manufacturing as well as structural reforms.

STRUCTURAL REFORMS: ENHANCING BUSINESS ENVIRONMENT

Chapter 02

02

Egypt has adopted a homegrown policy framework that was implemented with an IMF extended arrangement between 2016 and 2019 which pushed monetary, fiscal, and structural reforms forward. This was further reinforced with an IMF stand-by arrangement in June 2020. The reforms included (1) moving to a flexible exchange rate to ensure equilibrium in the foreign exchange market; (2) reducing budget deficit by eliminating the energy subsidy; and (3) encouraging private sector-led growth.

Simultaneously, Egypt launched a set of vital business-friendly legislative reforms by issuing a set of new laws including: new investment law, banking sector law, customs law, industrial licensing law, consumer protection law, NGOs law, MSMEs law and innovation and research incentives law*.

In order to enhance the investment environment, the government has decided to boost public investment to upgrade infrastructure and the overall competitiveness of the economy.

THE INVESTMENTS ALLOCATED FOR INFRASTRUCTURE (TRANSPORT, ELECTRICITY & WATER) REACHED AROUND **$32 BILLION** BETWEEN 2019 AND 2021.

Such reforms have steadily enhanced Egypt's position in several global indices: Egypt moved up by 17 ranks in the Doing Business Index between 2016 and 2020; by 79 ranks in the quality of road infrastructure between 2016 and 2019 reaching 28th worldwide*; from the 111th in 2019 to the 56th in 2020 in the Government AI Readiness Index*and from 92nd in 2019 to 84th in 2020 in the Network Readiness Index*.

According to the World Bank, the disruptions caused by the Covid-19 pandemic has interrupted a period of macroeconomic stability, characterized by relatively high growth, improved fiscal accounts, and a comfortable level of foreign reserves which contributed to Egypt's ability in facing the economic turmoil caused by the pandemic.

The Oxford Business Group cited that Egypt is well placed to attract international investment and emerge from this difficult period in a strong position. Although the Covid-19 pandemic has caused considerable disruption, the government's ongoing reform efforts have helped to mitigate the worst effects of the crisis. According to UNCTAD World Investment Report 2020, Egypt remained the top recipient of FDI in Africa.

*New Investment Law No. 72/2017, New Egyptian Banking Law No. 194 of 2020, Customs Law No. 207/2020, Law on the Facilitation of Procedures for Granting of Licenses to Industrial Establishments No. 15/2017, New Consumer Protection Law No. 181/2018

*According to the Global Competitiveness Report by the World Economic Forum.

*According to the Government AI Readiness Index report, issued by Oxford Insights and the International Research Development Centre (IDRC).

*The NRI measures the propensity for countries to exploit the opportunities offered by information and communications technology

INVESTING IN HUMAN CAPITAL

Egypt focuses on investing in human capital in tandem with its economic development efforts and green transformation. Total government investment in health and education increased by 170% between FY2018/19 and FY2020/21 compared to the three preceding fiscal years.

The government has launched an integrated program for sustainable rural communities aiming to provide a decent life for the most vulnerable groups nationwide by reducing poverty and promoting social cohesion. The program contributes to the achievement of 9 United Nations Sustainable Development Goals.

Meanwhile, the government expanded its social protection and universal health insurance programs to include more than 14 million beneficiaries. These efforts contribute to raising the efficiency of the workforce and localizing industries across the country.

LOOKING AHEAD

The Egyptian government is determined to continue the economic reform program by focusing on structural change that strengthens government administration and policies and entrenches the role of the private sector going forward. The Covid-19 crisis represented an opportunity to rearrange priorities, especially with regard to promoting digital transformation and sustainable development policies to contribute to achieving overall recovery.

Egypt is positioned as a regional hub for conventional and renewable energy and green economy is one of the top priorities of the Egyptian government with its ongoing efforts to maximize investments in renewable energy. Environment sustainability standards are to be applied to 30% of the public investment projects starting FY2020/21 with the aim to cover all public investment projects in 3 years. A special attention is paid to the industry sector amid the reshuffle of the global supply chain and given the promising opportunities Egypt is offering in different industries.

EGYPT IS PROMOTING DIGITAL TRANSFORMATION THROUGH THE ENHANCEMENT OF INVESTMENTS IN THE ICT SECTOR WHICH GREW BY **67% IN THE LAST 3 YEARS** AND ARE EVEN EXPECTED TO REACH HIGHER GROWTH RATES IN THE COMING YEARS.

EGYPT: REGIONAL ENERGY HUB

Chapter 03

03

Egypt has recently witnessed significant developments in the energy sector (whether based on conventional or renewable sources) and has successfully transformed itself in few years into an electricity and natural gas export hub.

EGYPT HAS AN INTEGRATED SUSTAINABLE ENERGY STRATEGY TO BROADEN ITS ENERGY MIX.

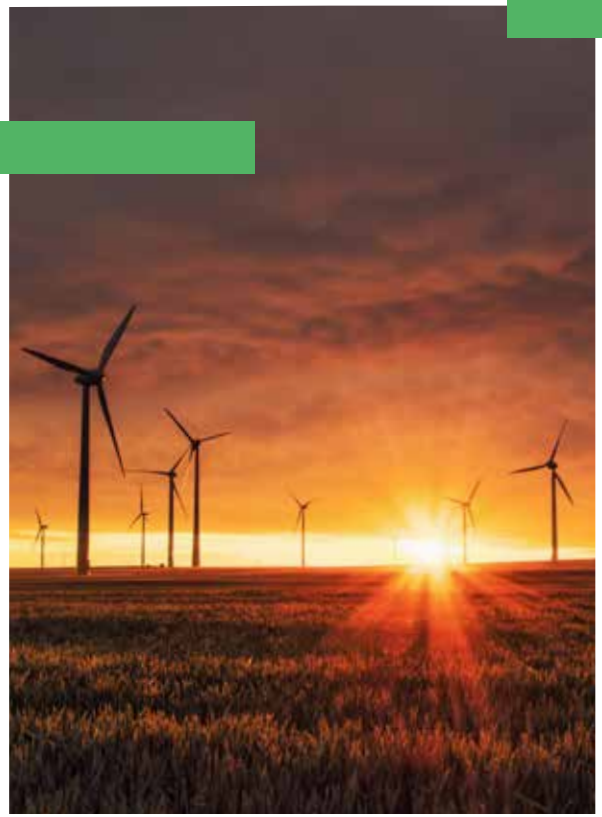
ELECTRICITY AND RENEWABLE ENERGY

Starting from 2014, Egypt has put the sector on top of its priorities to keep pace with the growing demand for energy.

THE ENERGY SECTOR ACCOUNTS FOR **13%** OF THE COUNTRY'S GDP.

Egypt has a distinct geographical location that enables it to produce wind and solar power in large quantities. For example, the Gulf of Suez is one of the best locations in the world in terms of wind speed. Similarly, Egypt is rich in solar energy resources. The intensity of direct solar radiation ranges between 2,000 to 3,200 kWh per m2 annually.

Egypt adopted a new law in 2015* allowing the active contribution of private businesses in the sector. The law created two parallel markets: (1) a regulated one for retail customers and (2) a competitive market where private investors can use local distribution networks to sell at negotiated prices. The new amendments have given further regulatory roles for government agencies on tariffs, licensing, and dispute resolution. Adding to that, an amendment to law regulating the New and Renewable Energy Authority was issued in 2014.



The Gulf of Suez is one of the **best locations** in the world in terms of wind speed.

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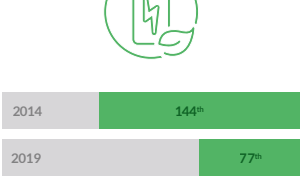


*The Electricity Law No. 87/2015

These regulatory reforms have partly contributed to the increase of direct investments from major multinational players in the industry, including Siemens, Total Eren, Schneider Electric, Engie and others. Meanwhile, Egypt jumped to the 77th position in 2020 from the 144th in 2016 in the Getting Electricity sub-index of the World Bank's Doing Business, reflecting the progress achieved in the electricity sector.

The Integrated Sustainable Energy Strategy illustrates Egypt's long-term plan to broaden its energy mix. The strategy targets the production of 20 percent of electricity from renewable sources by 202210, 55 percent by 2035 and 61 percent by 2040. Green hydrogen generation has been included in the National Energy Strategy to expand its uses as a source of new energy. Additionally, Egypt is currently exploring with Siemens and a number of other companies the feasibility and prospects of green hydrogen production project.

SIEMENS Schneider Electric ENGIE TOTAL eren

Targetted Contribution of Renewable Energy

61% by 2040

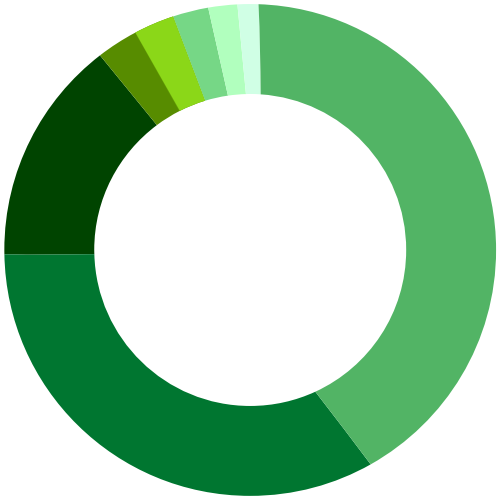
Allocated Space for Wind Farms

7600 KM²

Natural Gas Production

~X5 Compared to 2012

Egypt Targets Producing 61% of Electricity from Renewable Energy by 2040



- PV, **42%**
- N. Gas & Dual Feul Oil Plants, **32%**
- Wind, **13%**
- Hydro, **3%**
- Nuclear Power Stations, **3%**
- CPS, **3%**
- Pump Storage Hydro, **2%**
- Oil Products, **1%**

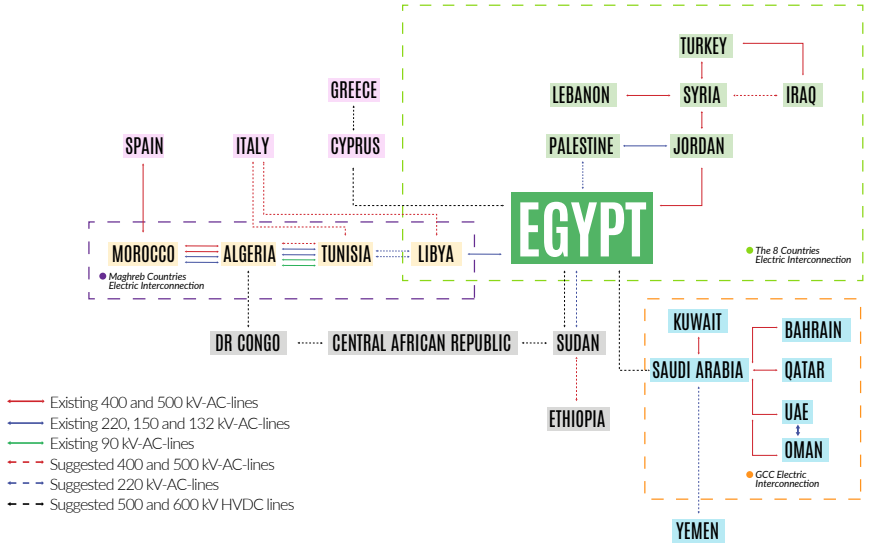
In this context, a letter of intent was signed in January 2021 between the Egyptian Electricity Holding Company and Siemens to implement a pilot project for the production of green hydrogen in Egypt with a capacity of 100 megawatts or more, as a first step towards expansion in this field and opening the door for exports. On March 4, 2021, a cooperation agreement was signed to establish the first industrial center for generating green hydrogen in Egypt with a consortium of Belgian companies, which will be a major shift in Egypt's entry into the hydrogen field in addition to the industry localization in the field as part of the country's efforts to transform the energy sector and ensure its sustainability.

The potential of solar and wind farms in Egypt is therefore very promising and investment opportunities are multiplying. This follows several policies encouraging renewable energy: (1) the promulgating of a law in 2014 to stimulate investments in renewable energy including different mechanisms such as the Feed-In-Tariff (FIT), Build Operate Own (BOO), Independent Power Plant (IPP), and Engineering, Procurement and Construction (EPC) + Finance, (2) the allocation of more than 7600 km2 for wind farms, (3) the amendment of the law establishing the New and Renewable Energy Authority to allow it to establish companies by its own or in partnership with the private sector to build and operate renewable energy projects.

Such reforms are attracting investments from the private sector as illustrated by Egypt's $2bn landmark 1465-M.W. Benban Solar Park which was recognized as the top World Bank project and the best infrastructure project by the Arab League. The project spans 36 km2 of desert and is developed by 32 companies from 12 countries including EDF, CHNT, Total Eren, Acciona, and Enerray. The project has created 10,000 job opportunities with an estimated investment of $2 billion and limits 2 million tons of harmful gas emissions.

The new law also supported the emergence of independent power producers such as TAQA Power in distributing power generated from renewable sources to large-scale users. Similarly, KarmSolar was the first private solar integrator in Egypt to obtain a license from the Egyptian Electricity Regulatory Agency. These reforms drove Egypt to become one of the top countries in renewable energy in MENA region according to the 2020 Solar Outlook Report.

Given the competitive conditions of the renewable energy market, the current offers are at 2 and 3 cents/kWh for solar and wind energy, respectively. Such developments allowed Egypt to be considered an export hub for electricity with production surplus, offering various investment opportunities to the private sector notably in terms of regional electrical interconnection across the three continents, notably with Cyprus, Jordan, Libya, Palestine and Sudan.



As part of the Ministry of Electricity and Renewable Energy's strategy to develop power plants with larger capacity and electrical interconnection with neighboring countries, the national electricity transmission network had to be developed and upgraded in parallel, especially with regard to the high voltages. Accordingly, the following measures took place: (a) the lengths of the 500 kV electric grids were increased by about 3,640 km, reaching 6006 km in total by the end of 2021 which is equivalent to twice and half the lengths of the network that have been implemented through 60 years, (b) 18 transformer stations of 500 kV and with a total capacity of 23,250 megavolt-ampere have been added, (c) a construction of 13 other transformer stations with total capacity of 21,000 megavolt-ampere is being underway and to be completed by the end of 2021, (d) 2 regional control centers have been established and 4 others are being upgraded. These centers will be added to 7 centers currently existing as part of the electricity transmission network. Meanwhile, a new national control center is being set up in the New Administrative Capital.

NATURAL GAS AND OIL

In 2012, Egypt's production of natural gas was about 80 percent less than today's level and power stations consumed around 80 percent of Egypt daily needs. Due to the energy shortage, Egypt began importing liquified natural gas (LNG) in 2015. Starting 2019 and thanks to the encouraging policies that stimulated the exploitation of local natural resources, Egypt turned into a net exporter of LNG and exported USD 1.24 billion-worth of LNG, marking a nearly 150 percent year-over-year increase.

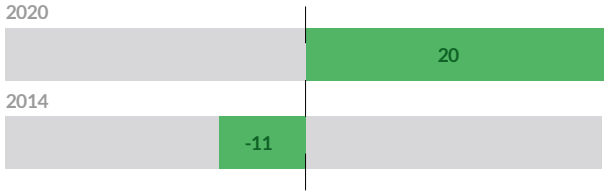
27%

Oil and gas sector contribution to GDP in 2019/18

$144M

Oil Trade surplus in the first quarter of FY2021/20

Growth of Natural Gas sector from negative to positive %



Currently, Egypt has a well-developed gas and oil infrastructure including a pipeline network of 6100 km for transporting crude oil and petroleum products; a main national gas network of 7900 km; two gas liquefaction stations in Edko and Damietta in the Mediterranean Sea with an annual capacity of 12 million tons; 12 refineries and petroleum complexes with a capacity of about 33 million tons annually; five petrochemical complexes with a production capacity of 4,5 million tons per year; in addition to crude oil and petroleum products warehouses; and oil seaports and docks.

This shift was partly due to the Oil Sector Modernization Project launched in 2016 where a number of structural reforms were implemented to keep pace with global and local volatilities in the oil industry, stimulating private-sector exploration, reinforcing the long-term gradual liberalization of the sector and other procedures to encourage robust public-private partnerships (PPP).

Consequently, 84 new oil agreements were signed with international companies to search for oil and gas, with a minimum investment of about $14.8 billion in addition to the signature of about $1.1 billion worth of projects to drill 351 wells. This led to more than 295 oil and natural-gas discoveries (97 and 98, respectively) adding about 371,619 million barrels of oil reserves and about 38 trillion cubic feet of natural gas. Such advancements were made possible in close partnership with the private sector such as: BP, Schlumberger and Total.

bp TOTAL eni Schlumberger

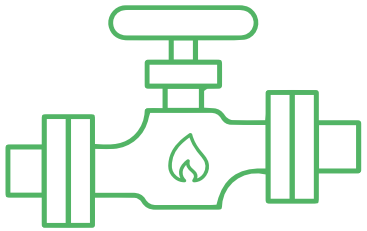
The recent series of natural gas discoveries in Egypt were crowned by the Zohr gas field, discovered in 2015, as the largest offshore natural gas field in the country and the Mediterranean according to Eni. The Zohr field's reserves are estimated at 30 billion standard cubic feet. The total investment is of about $ 15.6 billion over the project's lifetime. Production from the field began 28 months after the discovery which is considered as a record time since this period usually ranges from 6 to 8 years. The production rates reached 2.7 billion cubic feet per day in August 2019 and are targeted to reach 3 billion cubic feet of gas per day.

Additionally and as part of the Oil Development and Modernization Project, a number of regional seismic survey projects were implemented in addition to the establishment of an integrated digital information center 'Egypt Upstream Gateway' as part of the first program to attract investments in exploration and production. The gateway provides relevant exploration and production data for the Oil and Gas sector using the latest technologies. It includes data from new exploration and discovery regions in the Red Sea and the Eastern region of the Mediterranean.

Simultaneously, Egypt has worked on enhancing the petrochemical industries to maximize its value added through the implementation of several projects that helped in increasing the production capacity by 40% to reach 4.5 million tons per year.

Thanks to developing operations related to storage, transport, trading and distribution of petroleum products, full stability of the local market was secured in terms of petroleum products and natural gas. Developing the legislative framework was also in the forefront to attract more investment by issuing a law to regulate the gas market as well as the promulgation of a new mineral resources law, amending the contractual financial system and the licensing system for mining agreements to attract more investment in the mining sector. These reforms opened windows of opportunities to partner with companies in various marine and land concession areas in the field of exploration and production of oil and gas. Regarding LNG, there are opportunities to establish partnerships for ship fueling and bunkering as part of the oil sector's strategy to turn Egypt into a regional oil and gas trading center.

Egypt has also taken solid steps to turn into a regional energy hub through the signature of the Eastern Mediterranean Gas Forum Charter as an intergovernmental organization based in Cairo and the signing of 14 memorandums of understanding with governments for cooperation in the fields of oil and mining aiming to strengthen the cooperation and initiate a systematic dialogue on the region's policies related to natural gas, in order to lead the development of a regional gas market. The meeting paved the way to the subsequent establishment of "EastMed Gas Forum" with the aim to develop the region's gas market, lower infrastructure costs and secure competitive prices for gas from the region. Egypt is also linking the gas fields of its neighboring countries with its existing liquification plants to create added value and promote bilateral trade with the countries of the region. In the same line of thought, the government plans to achieve self-sufficiency in gasoline and diesel by the year 2023. Therefore, numerous private-led potential projects in developing Egypt's petrochemical and oil refining and processing are underway to increase the added value of the oil sector. These $7.9 billion worth of projects aim to add 4.2 million tons/year of production capacity. The "Refinery and Petrochemical Complex in the SCZone" and the "Egyptian Refinery Project at Mostorod" are two of these projects.



+ 38 TRILLION

CUBIC FEET OF NATURAL GAS RESERVES

The $4.3bn Mostorod refinery was inaugurated in September 2020 as one of the biggest public-private partnership infrastructure projects in Egypt and Africa. The refinery produces around 4.7 million tons of petroleum products of various kinds annually. The refinery led to an increase in the production of diesel and gasoline by 30 and 15 percent, respectively and hence enhances local production capacities and contributes to Egypt's vision of becoming a regional energy hub.

Other projects include the Egyptian Company for Production of Ethylene and its derivatives (with a total investment of $2 billion and a production capacity of 400,000 tons of polyethylene per year) and the development of West Nile Delta Gas Fields (total investments of $10.5 billion and 1.5 billion cubic feet per day of production capacity).

DIGITAL TRANSFORMATION AND NEW CITIES

Chapter 04

04

Egypt is undergoing unprecedented developments in the ICT sector, that are particularly accelerated due to the COVID-19 pandemic.

As part of the country's digital transformation strategy, the Egyptian government has launched the 'Digital Egypt' initiative which aims to turn towards a knowledge–based economy strengthened by a young tech-savvy population, growing investment in the ICT sector and close engagement with the private sector.

The strategy includes (1) the automation and digitalization of government services provided to citizens and businesses coupled with the move to the New Administrative Capital (NAC) and shift towards a "paperless government" to reduce bureaucratic burden; (2) capacity building and upskilling the technical capabilities in modern technologies; and finally, (3) adopting a culture of supporting digital creativity and technological innovation to stimulate entrepreneurship in Egypt and promoting R&D in the field of ICT.

Median age

24.6 Years

Labor force growth

+700K Entrants yearly

Source : Data Elaborated from: UNDESA (2019). World Population Prospects: The 2019 Revision

Internet Penetration

57.3%

+11 Percentage points from previous years

Highest number of startup equity deals in Africa

$269m

Total funding in 2020 (+28% Y-0-Y)

ICT Sector growth

+15.2

Fastest growing

ICT Investment

48.1 Bn Egp

Growth in investments by 35% from fy19

Scientific output

997

Resident patent applications (35th worldwide)

13.3k

Science & Tech. articles published in 2018 (28th worldwide)

Coupled with the macroeconomic reforms, the government has put in place a range of sector-focused policies consistent with the fast-paced technological leaps, including cybercrime, intellectual property, personal data protection and e-signature laws.

In 2020, Egypt launched its National Strategy for Artificial Intelligence and has established the Applied Innovation Center which aims to develop solutions based on artificial intelligence. In the same line of thought, 'Egypt University of Informatics' (EUI), the Middle East's leading university specialized in information technology, was established to provide world-class education and scientific research and to be a center for developing distinguished human capabilities in modern ICT related fields. The university offers a variety of programs in partnership with prestigious international universities.

Given the vital role of innovation, entrepreneurship and start-ups in contributing to the development of the economy, Egypt offers multiple programs to foster digital creativity and innovation from idea- to growth-stage. Egypt ranks first in the Middle East and North Africa in terms of the number of investment deals in start-ups.

Such growth is driven by the close implementation of the "Digital Egypt" strategy with many of world's large technology companies (e.g. Amazon Web Services, CISCO, Google, Huawei, Honeywell, IBM, Microsoft, Orange, etc.) as well as regional and national corporates (Telecom Egypt, Etisalat, etc.). The private sector plays a vital role in reinforcing Egypt's digital infrastructure (development of a wide Fiber- Optic Cable network, Data Centers, etc.), government's digital transformation and youth upskilling in areas of artificial intelligence, e-commerce and other essential skills for the digital era.

As a result, the ICT sector grew by 15.2 percent in 2020 and is expected to grow by 17 percent in FY20/21, ICT investments grew by 35 percent compared to FY2019, becoming one of the main drivers of growth with more than 1,300 new ICT companies and startups established. Egypt has the 4th fastest internet in Africa, moving up from the 40th position in 2018. Such growth narrows the digital divide and helped Egypt to be ranked 3rd top performer in Digital Inclusion Index 2020 by Roland Berger.

Honeywell HUAWEI CISCO IBM aws

More than 1,300 new ICT companies and startups estabished

The ICT sector grew by 15.2% in 2020 becoming one of the main drivers of growth

Egypt to be ranked 3rd top performer in Digital Inclusion Index 2020 by Ronald Berger

ICT investments grew by 35% from FY2019

Egypt has the 4th fastest internet in Africa, moving up from the 40th position in 2018

NEW CITIES

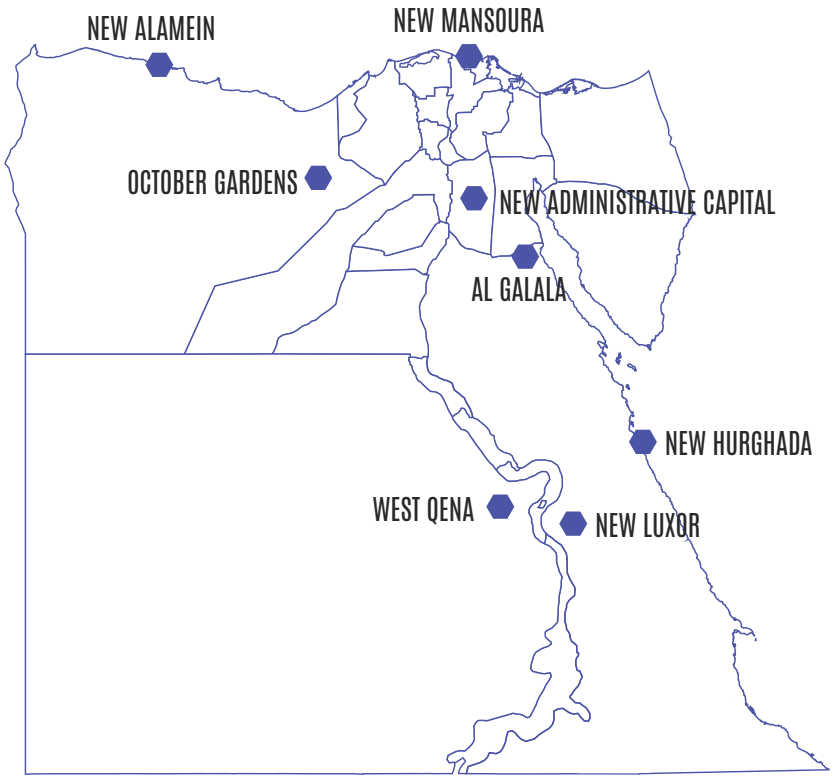
Egypt is building new cities in different regions of the country as part of an integrated urban development plan. The plan aims to double the current urban area from about 7 percent to almost 14 percent.

These new cities (such as the New Administrative Capital, New Mansoura, New Alamein, and Al- Galala) are to host investments and state-of- the-art technologies in mobility, utilities, and infrastructure, preparing tens of millions of residents to a transformative leap in their quality of life.

The participation of the private sector is fundamental to meet Egypt's infrastructure plans. In this context, the government has been encouraging private developers through different public-private partnership (PPP) mechanisms, including offering land for co-development based on revenue-sharing agreements to reduce financial pressures on developers' budget. For example, the New Administrative Capital was able to attract in its initial phase more than 300 private developers.

These new cities are planned to be highly interconnected and accessible by an effective public transportation network supported by the government. Bombardier Transportation, for example, are leading the design and the construction of the country's $4.6 billion first monorail system stretching from East Cairo to the New Administrative Capital. Another example is a

$9 billion electric high-speed rail line project led by Siemens and other private companies linking between Ain Sokhna on the Red Sea and New Alamein City on the Mediterranean Sea passing by the New Administrative Capital.



SUEZ CANAL ECONOMIC ZONE AND INDUSTRY LOCALIZATION

Chapter 05

05

THE COVID-19 HAS DISRUPTED THE GLOBAL SUPPLY CHAIN AND MULTINATIONALS ARE BUILDING RESILIENCE BY DIVERSIFYING PRODUCTION AROUND THE WORLD, WITNESSING THE EMERGENCE OF MORE EFFICIENT AND AGILE REGIONAL SUPPLY CHAINS.

Egypt has been always an important player to the global value chains on the back of its distinctive geographical location, its diverse and large market, its solid skills base of engineers and technicians or through the Suez Canal which provides a route to around 10 percent of the volume of world trade annually.

To leverage the strategic location of the Suez Canal and optimize its value added, Egypt has established the Suez Zone Special Economic Zone (SCZone) over a space of 461 Km2 with access to 6 maritime ports and $18 billion infrastructure investments. It is composed of 4 different industrial zones.

THE SCZONE OFFERS FINANCIAL INCENTIVES TO INTERNATIONAL INVESTORS.

SC°ZONE
المنطقة الاقتصادية لقناة السويس
SUEZ CANAL ECONOMIC ZONE

4
Industrial zones in the economic zone

142.75Km
Land area available

~10%
of the volume of world trade annually

461
million m^2 Area of the economic zone

The SCZone Strategy and Objectives 2020-2025 aims to create an integrated society based on industry, shipping and logistics to drive economic development in Egypt, and to become an export platform for global markets especially Africa. The SCZone is complementing Egypt's plan to localize the industry by integrating SMEs into local and global supply chains, while giving priority to the following industries: automotive assembly and components, chemicals and petrochemicals, construction and building materials, textile and readymade garments, agribusiness and food processing, home appliances and electronics, logistics and warehousing, and pharmaceuticals.

SCZone offers financial incentives to international investors including exemption from VAT, customs, import duties and potential subsidies on utilities and other incentives. The SCZone has recently witnessed major development including the infrastructure and facilities development for ports, digitalization of operations and equipping the zone with the latest navigational devices, which strengthened the zone's competitiveness with its counterparts in both the Mediterranean and Red Seas.

Furthermore, the Suez Canal Authority adopted flexible marketing policies so as to encourage vessels to use the Suez Canal and to attract new customers, such as: Long Haul Rebate System, Tolls Permanent Reductions, Cargo Incentive Rebate Policy, Co-operation with SUMED pipeline, and Time Saving Service.

Additionally, investors in Egypt are given access to global markets by exporting freely to the Arab, African and European markets, thanks the several trade agreements Egypt is member of (notably the AfCTA, the world's largest free trade agreement across 54 African nations). Moreover, investors in Egypt can easily access the rest of the African continent through a network of pan-African highways (notably the Cairo-Cape Town highway).

On a broader scope, the Government of Egypt has set several initiatives to encourage vertical integration of SMEs into the region and global value chains, and enhance the competitiveness of manufacturers in the local feeding industries notably in selected industries in which Egypt has a comparative advantage. The localization of the manufacturing of cars, electric vehicles, ships, railroad cars, solar panels, water pumps and smart tablets are few of the many examples of initiatives the Egyptian government is conducting in partnership with the leading multinational companies.

POLICIES TOWARDS A GREEN RECOVERY

Chapter 06

06

THE GOVERNMENT OF EGYPT IS PUTTING SUSTAINABILITY AND CIRCULAR ECONOMY AT THE FOREFRONT OF ITS GROWTH AGENDA.

As part of its green recovery and to mitigate the impact of climate change, Egypt has developed a long-term, multi-sectoral mitigation and adaptation plan counter the main environmental risks it may face. The plan includes actions to ensure water management, transition from carbon-based energy source to green and clean energy, enhance waste management, and improve food security. The government also targets to reduce by 50% the suspended fine particles by 2030.

Additionally, the government is aiming at achieving circular economy to turn the environmental burdens of waste into profitable investments and energy. Furthermore in 2020, the Ministry of Environment has put in place a tariff for energy from waste (EfW) to open a market for the private sector to invest in. Currently, 8 local companies are already operating and other companies are invited to contribute to achieving the national target of 300 M.W. in the next 5 years.

Egypt averages 0.5 kilograms of urban solid waste per person daily resulting in almost 100 million tons of waste yearly that cannot be accommodated in eco-friendly waste landfills. Therefore, there is a significant –yet untapped– potential in the Egyptian market to harness the possible innovative opportunities in waste management.

-50%

Reduced suspended fine particles by 2030

National target for energy from waste

EGYPT IS INVESTING IN MITIGATION AND ADAPTATION.

For example, the Wastewater Plant in New Cairo is one of the pioneering successful Public- Private Partnerships (PPP) projects in Egypt*. The project, implemented by the consortium of Orascom Construction Industries and Aqualia in partnership with IFC, reused wastewater in irrigation, while directing the use of freshwater by the city instead in agriculture. In addition, and thanks to Egypt's diversified economic base, compost resulting from the wastewater sludge is used as fertilizer or sold to the cement factories as source of energy and replacing coal. Greenhouse gas emissions were eventually reduced partly thanks to this project.

Egypt also seeks to promote a sustainable transport system by developing road networks and public transportation to reduce pollution rates and environmental costs. The government has therefore launched a number of initiatives including older-vehicle replacement with vehicles running on dual fuel (gasoline and natural gas) as well as incentivizing the use of electrical vehicles and bikes. The total cars targeted for replacement during the next three years will reach 250,000 cars. The use of natural gas as fuel will contribute to the reduction of pollutant emissions between 46% and 99%.

Moreover, investments are underway to establish a high-speed electric train which connects different regions including Upper Egypt, New Administrative Capital, other new cities, industrial zones, and the most important maritime ports. The high-speed train project is about 1800 km long, at a total cost of $23 billion and is implemented in partnership with Siemens and other private companies. In parallel, work is underway to carry out the monorail project of the New Administrative Capital and the city of 6th of October at a total cost of $3 billion.

All these "green recovery" initiatives are very promising and are firmly transitioning Egypt towards circular economy. According to the 2021 Circularity Gap Report, Egypt is listed among six "Grow Countries" along China, Indonesia, Brazil, Mexico, Vietnam and Egypt ranked 19th out of 61 countries in the Climate Change Performance Guide 2020.

1800 km
high speed electric railway network underway

3$ Billion *of investment for the monorail project*

* World Bank. 2018. Wastewater : From Waste to Resource - The Case of New Cairo, Egypt. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/29490 License: CC BY 3.0 IGO

14% TOTAL PUBLIC INVESTMENT THIS YEAR FOR GREEN INVESTMENT PROJECTS

The government aims to foster a green recovery by the allocation of 14 percent of its total public investment this year for green investment projects. Moreover, and to ensure sustainability, the government will gradually integrate the environmental sustainability standards into its operations. These standards are to be applied to 30 percent of the projects starting FY2020/21 with the aim to cover all public investment projects in 3 years.

To further support the financing of environmentally friendly projects, a syndicated loan facility with international banks for $2 billion and a 5-year sovereign green bond for $750 million were issued in September and October, respectively. The green bond–the first in the MENA region–achieved a rate of 5.25 percent, was 5 times oversubscribed, and was able to attract both new and existing foreign investors. The proceeds are expected to fund some of the US$1.9 billion green projects deemed eligible. This strategy of debt diversification reaffirms Egypt's commitment to engage with the private sector and investors in green financing and sustainable development projects.