

Doing Green Business in Egypt



1. Introduction

Since 2014, Egypt's macroeconomic indicators have shown resilience in the face of numerous challenges, including the COVID-19 pandemic. With reform evident in various sectors, key economic markers reflect robust growth underlined by the Egyptian government's strategy to support investment and focus on sustainable economic and social development. According to the World Bank Data Indicator, Real GDP growth was recorded at 5.6% in FY 2018/2019 in comparison to 2.9% in FY 2014/2015, and despite the ongoing impact of COVID-19, Egypt's GDP has been estimated to be 5.5% in FY 2021/2022 . Furthermore, great efforts to reduce the unemployment rate (total labour force modelled ILO estimate) have been apparent, as reflected in the reduction of unemployment from 13.1% in FY 2014/2015 to 7.4% in FY 2020/2021 . In addition, Egypt's growth has attracted investors in the past years as Foreign Direct Investment, with net inflow (BoP) in USD increasing from USD 4.612 billion in FY 2014/2015 to a peak of USD 23.5 billion in FY 2021/2022 . The above indicators are reflective of structural changes in the Egyptian legislation, which has been exceedingly active over the past few years, introducing legal reforms across several important sectors in the Egyptian economy; facilitating the removal of red-tape and setting the stage for additional certainty and transparency when it comes to doing business in Egypt. The legal developments also help set the right regulatory environment to further Egypt Vision 2030, the national agenda, launched by the Egyptian government in early 2016. Egypt Vision 2030 sets out a clear roadmap for implementing the Sustainable Development Strategy, with inclusive, sustainable development and balanced regional development as core objectives.

The national agenda sets out a focus on economic, social and environmental sectors to further the sustainable prosperity of the Egyptian people. In 2019, the Ministry of Planning and Economic Development, launched the Guidelines of the "Environment Sustainability Criteria", in partnership with the Ministry of Environment, aiming to green the national budget and national investment plan. As a result,

the Egyptian government increased the percentage of green public investments from 15% in the fiscal year 2020/2021 to 30% in the current fiscal year 2021/2022, and is planning to reach 50% in the 2024/2025 fiscal year.

The focus industries are clean mobility, renewable energy, energy efficiency, water and sanitation projects.

With the 27th session of the Conference of the Parties (COP 27) taking place in Sharm El-Sheikh in November 2022 on behalf of Africa, the discourse around climate change and green investments will be at the top of the economic agenda.

In the first part, this digest will cover the investment environment in Egypt, highlighting the overall legislative and regulatory framework of doing business in Egypt with a brief overview across sectors. In the second part, the primary green sectors will be presented, starting with renewable energy, green hydrogen and water, covering, in brief, the main developments in e-mobility, waste management and a final note on ESG reporting.

*1 - Data.worldbank.org, 2022. GDP growth (annual %) - Egypt, Arab Rep. | Data. [online] Available at: <<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=EG>> [Accessed 30 March 2022].

<<https://www.reuters.com/world/middle-east/egypts-unemployment-rate-dips-74-q4-2021-2022-02-15/>> [Accessed 30 March 2022].

*2 - Data.worldbank.org, 2022. Unemployment, total (% of total labor force) (modeled ILO estimate) - Egypt, Arab Rep. | Data. [online] Available at: <<https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=EG>> [Accessed 30 March 2022].

*3 - Data.worldbank.org, 2022. Foreign direct investment, net inflows (BoP, current US\$) - Egypt, Arab Rep. | Data. [online] Available at: <<https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?view=chart&locations=EG>> [Accessed 30 March 2022].

2

THE INVESTMENT ENVIRONMENT IN EGYPT



2. The Investment Environment in Egypt

Egyptian laws and regulations support inward investment and start-ups. Setting up a business in Egypt is straightforward, and the legislative framework offers diversity and flexibility in the different types of entities that may be incorporated. Over the last eight years, many sectors have been structurally reformed in line with international standards and trends, including economic, financial and monetary policies in addition to taxes, privatization, and trade legislation.

To name a few sectors, the healthcare system is witnessing major reforms with the issuance of the Universal Health Insurance Law no. 2 of 2018, which aims to expand comprehensive healthcare coverage across all sectors of society. The pharmaceutical industry has also been reorganized by establishing the Egyptian Drug Authority and the Egyptian Authority for Unified Procurement, Medical Supply and Technology Management. The legislative framework of the mobility sector has witnessed substantial amendments with amendments to the Traffic Law and the issuance of Law No. 87 of 2018 regulating Road Transport Services Using Information Technology. Megaprojects in the mobility sector are underway, such as constructing the monorail, the first high-speed train and the development and expansion of the metro, all of which will exponentially increase passenger capacity while limiting environmental impact. Similarly, the real estate sector, which continues to offer promising results, is growing, and a draft law relating to organizing and developing the sector is currently being discussed. Although still in its early days, the current discourse about sustainability in construction has led market players to take steps towards producing sustainable building materials, reducing energy and water consumption and using innovative cooling systems, such as district cooling. Digitization efforts accompany the trend towards sustainability. The Egyptian government is focusing on developing 37 smart cities, starting with the New Administrative Capital, 45 km from Cairo and the New Alamein City on the North Coast. In addition to developing smart cities and in line with Egypt Vision 2030, utilizing ICT to increase efficiency has expanded in all sectors. The Egyptian government is taking momentous steps towards modernizing and digitalizing the entire communications and information technology infrastructure. It has invested in improving digital services in all ministries and government agencies. The Data Protection Law no. 151 of 2020 (in line with the GDPR) and the Cybersecurity Law 175 of 2018 offer a robust legislative framework for the sector.

2.1 Legislative Framework

2.1.1 *The Investment Law*

The Egyptian Investment Law no. 72 of 2017 (the “Investment Law”) aims to encourage investment in Egypt by setting a clear and simple legal framework for investment. The Investment Law introduces several key guarantees and incentives. As a general principle, investments established in Egypt shall receive fair and just treatment.



The Investment Law prohibits bias towards foreign investors. In addition, it highlights the investors' right to repatriate profits and receive international finance without any restrictions and prejudice to any third-party rights.

In relation to importing and exporting, the Investment Law provides for the right of the investor to import project materials without the need to be registered in the Register of Importers and the right to export their products without the need to be registered in the Register of Exporters under specific conditions.

Moreover, the Investment Law provides for particular incentives in the form of discounts on taxable net profits for investors who incorporate a new company or establishment in Egypt to conduct the investment project, subject to the specific conditions.

Under the Investment Law, Egypt is divided into different zones, such as internal investment zones, investment zones, free zones, technological zones and economic zones.

2.1.2 The Public-Private Partnership Law

Egypt issued the Public-Private Partnership Law no. 67 of 2010 (the "PPP Law") to fund infrastructure projects, increase investments, develop and promote different sectors. It also represents the umbrella framework of significant education and renewable energy projects. The PPP Law was amended in 2021 to simplify the PPP process and explicitly allows for such partnerships in the transport, energy, communications and healthcare sectors. In addition, the Egyptian government initiated the PPP program by establishing the Public-Private Partnership Central Unit (the "PPP Central Unit"), a special unit under the Ministry of Finance responsible for the initiation and implementation of PPP Projects in Egypt. The Unit aims to promote the retraction of the government's role in the economy and pave the way towards a market economy in which the private sector is an active participant, responsible for establishing the national PPP policy framework for implementation, managing PPP transactions and providing technical and advisory support as well as ensure compliance with the legislative framework.

2.1.3 The Public Procurement Law

In addition to the PPP Law, the Public Procurement Law 182 of 2018 applies to contracts with the Egyptian Government and is commonly used for public infrastructure projects. The Public Procurement Law aims to improve efficiency and institutionalize the principles of transparency, fairness and equal opportunity.

3 GREEN SECTORS



Some of the crucial green sectors are covered below, including :



Renewable
Energy



Green
Hydrogen



Water



E-mobility



Waste
Management

3.1 Renewable Energy

The Egyptian Government embarked on the Integrated Sustainable Energy Strategy 2035 led by the Ministry of Electricity and Renewable Energy to guarantee diversified energy security.

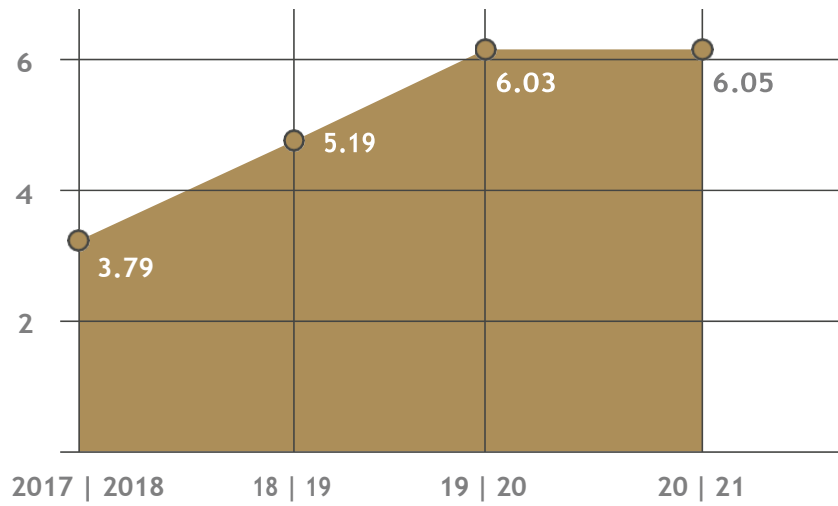
Today, electricity from renewable sources represents 22% of the total power capacity, and the target is to reach 42% by 2035.

In light of the government strategy regarding the diversification of Energy 2035 and the overall direction for a greener environment, the Egyptian Government has been keen on paving the way for the smoother establishment of renewable energy projects. Among the success stories in the sector are the Benban solar park and the Jabal el Zeit Wind Farm.

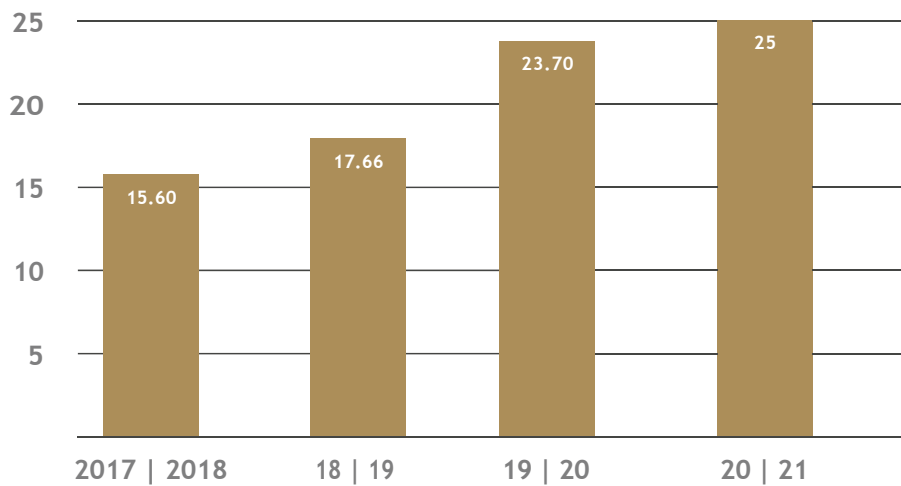


Annual Projections

Installed Capacities (GW)



Yearly Energy Production (TWh)



The legal framework for the renewable energy is as follows:

3.1.1 The Renewable Energy Law No.203 of 2014

The Renewable Energy Law was issued introducing new schemes for the private development of renewable projects, aiming to encourage the private sector to produce electricity. The highlights of such schemes under the law are as follows:

- (i)* Competitive Bids: state-owned projects with competitive bidding for Engineering, Procurement and Construction (EPC) contracts; this process shall be run by the New and Renewable Energy Authority ("NREA");
- (ii)* Competitive bidding for Build-Own-Operate (BOO) contracts; run by the Egyptian Electricity Transmission Company ("EETC")
- (iii)* Feed-in tariffs; and
- (iv)* Merchant scheme according to which independent power producers can enter into bilateral contracts to sell power directly to consumers using the national grid against wheeling and grid-access charges payable to the grid operator.

3.1.2 The Electricity Law No. 87/2015 and ER 230/2016



The Electricity Law has restructured the electricity sector to make it more competitive and encourages energy efficiency and electricity generation from renewable sources.

In addition, it provides for the complete independence of the generation, distribution and transmission of electricity to achieve a liberalized and competitive electricity market. As a result, the Electricity Law created two electricity markets:

- (i)* The competitive market where eligible consumers are allowed to freely choose their electricity suppliers based on direct bilateral agreements and negotiated electricity prices;
- (ii)* The regulated market where ineligible consumers pay a regulated tariff and will purchase electricity from the distribution companies whom a public trader will supply.

3.1.3 The Investment Law No. 72/2017

The Investment Law allows for special incentives for renewable energy projects.

3.1.4 *Circular 2/2020 Net-Metering System for Solar Power Generation*

This circular was issued by the Egyptian Electric Utility and Consumer Protection Regulatory Agency (EgyptERA) and restructured the net-metering scheme in Egypt.

3.1.5 *Prime Ministerial Decree No. 1947/2014 Regarding Solar Offtake Tariffs*

This decree determines the purchase prices of electrical energy produced from renewable energy sources and supplied to EETC or electricity distribution companies.

Key Entities:

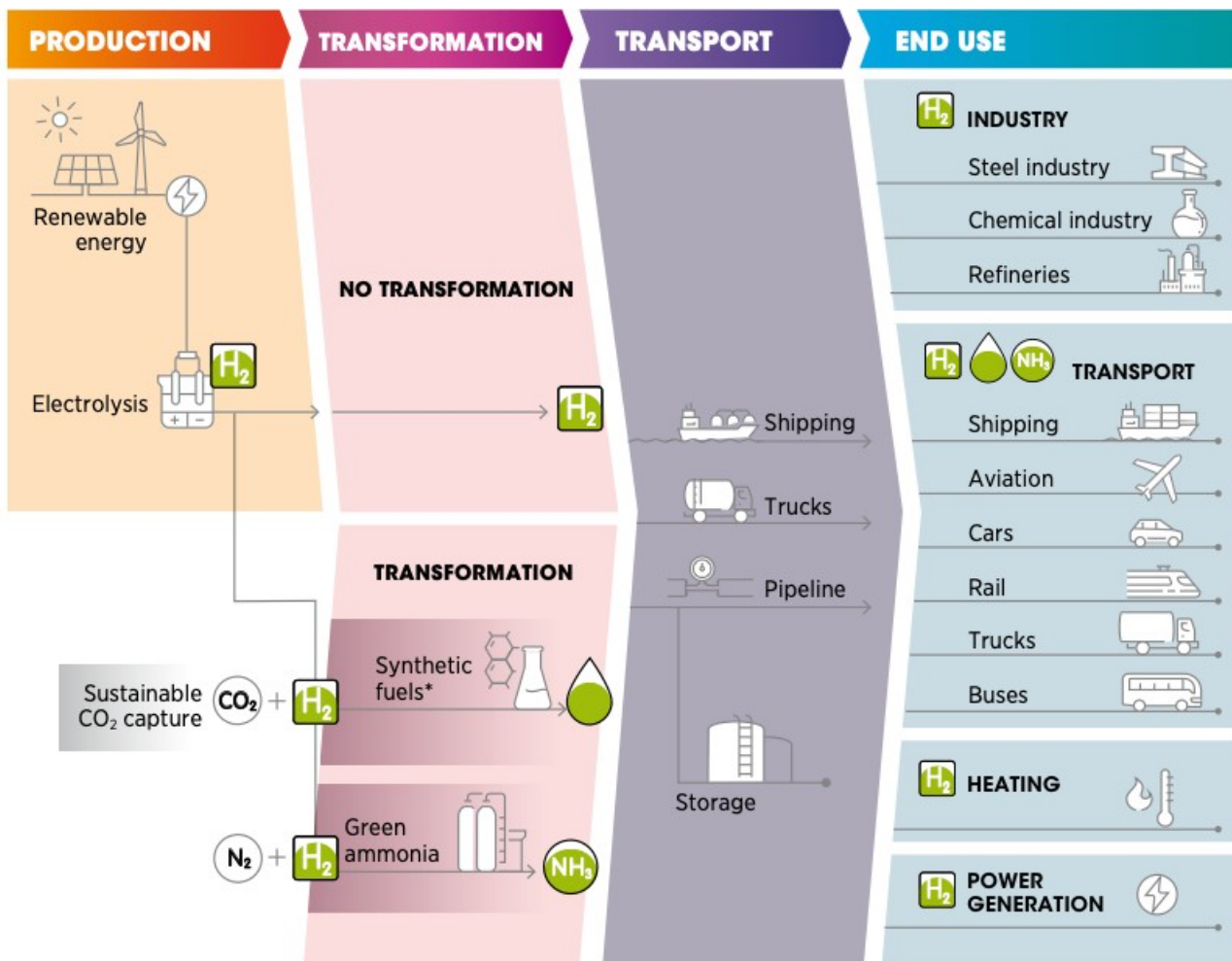
- Ministry of Electricity and Renewable Energy (MoERE)
- Ministry of Investment
- Egyptian Electricity Transmission Company (EETC)
- New and Renewable Energy Authority (NREA)
- Egyptian Electricity Regulatory Authority (EgyptERA)
- Egyptian Environmental Affairs Agency (EEAA)

3.2 Green Hydrogen

3.2.1 *Overview*

Green Hydrogen is an energy carrier produced with renewable energy via electrolysis that can be used in many diverse applications, although its use remains limited. Green hydrogen is said to be the fuel of the future due to its versatility and that it can be used innovatively. Among its many advantages, green hydrogen is in line with net-zero objectives; it has extensive use as it can be used as a fuel or converted to a different carrier such as ammonia, methanol and synthetic liquids, and it is also suitable for long term and seasonal storage.

Fig. 1.1 Green hydrogen production, conversion and end uses across the energy system



Green hydrogen has been at the centre of the Egyptian government’s attention recently with major investors initiating projects in Egypt and specifically in the Suez Canal Economic Zone. Although Egypt does not yet have a unified legal framework that applies specifically to hydrogen, the general provisions applying to natural gas would apply to green hydrogen in addition to recent decrees published have expressly recognized the production, storage and export of green hydrogen and green ammonia among the areas falling within the State’s economic development strategy.

Source: IRENA.

* The terms synthetic fuels refers here to a range of hydrogen-based fuels produced through chemical processes with a carbon source (CO and CO₂ captured from emission streams, biogenic sources or directly from the air). they included methanol, jet fuels, methane and other hydrocarbons. The main advantage of these fuels is that they can be used to replace their fossil fuel-based counterparts and in many cases be used as direct replacements - that is, as drop-in fuels. Synthetic fuels produce carbon emissions when combusted, but if their production process consumes the same amount of CO₂ in principle it allows them to have net-zero carbon emissions.

The legal framework for green hydrogen is as follows:

3.2.1.1 The Gas Market Activities Regulation Law 196 of 2017

The Gas Market Activities Regulation Law 196 of 2017 and its executive regulations no. 239 of 2018 develops the gas market allowing the private sector to sell gas in the domestic market and by encouraging new investments in gas shipping, transmission, distribution, storage, supply, marketing, trading and liquefied natural gas activities. An independent public body ("GASREG") has been established under the Gas Market Activities Law to encourage new investments, monitor the functioning of the gas market, and regulate the downstream gas activities, including gas transmission, gas distribution, regasification, and storage. The said Law further introduces competition in the gas market network by permitting third party access to such networks and relevant facilities on a fair and non-discriminatory basis. In addition to this, GASREG exercises its powers to increase service quality and to protect the consumers' rights.

3.2.1.2 Cabinet Decree No. 20 of 2022

The decree identifies the production, storage and export of green hydrogen and green ammonia among the areas falling within the state's economic development strategy. It thus indicates that Green hydrogen projects shall be eligible to benefit from the incentive system provided for in the investment law no.72 of 2017.

3.2.1.3 Cabinet Decree No. 981 of 2022

This decree was issued recognizing the production, storage and export of green ammonia and green hydrogen among the sub-industry groups that may benefit from the Special Incentive under Geographical Zones (A) and (B).

3.2.1.4 Cabinet Decree No. 983 of 2022

This decree provided that GAFI must coordinate with all relevant ministries and governmental entities to identify the priority projects that shall be eligible for Additional Incentives as set out in Article 13 of the Investment Law and the type of Additional Incentives offered. Furthermore, these priority projects must contribute to the state's economic development strategy, which as per decree no.20/2022 expressly includes green economy projects.

3.2.2 The Suez Economic Zone

President Abdel Fattah El-Sisi issued Decree No. 330 of 2015, declaring the areas adjacent to the Suez Canal as a special economic zone (the "SCZone Decree"). The SCZone is governed by Law no. 83 of 2002 on Special Economic Zones and its Executive Regulations under the Prime Ministerial Decree no. 1625 of 2002.

The SCZone covers a surface area of 461 km and includes industrial zones and ports. The General Authority for the Suez Canal Economic Zone governs the SCZone, empowered to operate the zone and to develop partnerships and facilitate investments.

The SCZone is currently seen as a pillar in achieving the national sustainable development goals and is playing a critical role in establishing and boosting the green hydrogen sector in Egypt.



Bunkering Services



Logistics Activities



Casting Industry



Agribusiness Sector



Data Centers



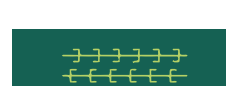
Petrochemicals Industry



Pharmaceutical Industry



Active Pharma Ingredients



Rolling Stock



Tires Manufacturing



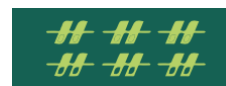
Building Materials



Electric Batteries



Automotive Industry



Solar PV



Textile - Ready Made Garments

3.3 Water

Water scarcity is at the top of the national agenda. The Nile River is the primary source of water and the backbone of Egypt's industrial and agricultural sector (80% of Egypt's Nile water consumption goes towards agriculture, 10% towards drinking, and 10% for commercial purposes and other activities). However, in light of the continuous increase in water needs driven by population growth and the pressures resulting from the developments around the Grand Ethiopian Renaissance Dam, the Egyptian government is taking major steps to prevent water misuse, encourage efficient irrigation, and support mega water projects.

3.3.1 *Desalination*

Establishing desalination plants began in 2014, and the total desalination capacity in 2016 was 80,000 m³ per day.

Today, Egypt has 76 existing seawater desalination plants, with approximately 800,000 m³ per day. An additional 17 solar-powered desalination plants will bring the total capacity to 2.8 million m³ of drinking water per day over the next five years.

The Egyptian government is targets 6.4 million cubic metres by 2050.

Desalination plants in Egypt use the reverse-osmosis method of desalination, which is the most widely used technology as it is more energy-efficient.

The legal and regulatory framework for desalination is governed by the Ministry of Housing, Utilities & Urban Communities (the "MOHUUC") is the administrative authority responsible for desalination projects in Egypt. The MOHUUC is working on a strategic plan to expand seawater desalination plants to provide drinking water needs, which the Holding Company prepares for Water & Waste Water, the New Urban Communities Authority. The General Organization for Physical Planning and the plan is divided into six phases; each phase has a duration of five years, and the total capacity of desalinated seawater in the period from 2020 till 2050 is six million and 409 thousand m³ per day, at a construction cost of EGP 134.216 billion, and an operating cost of EGP 35.092 billion.

Desalination projects may be granted by concessions and follow the PPP model and legislative framework described above.

3.3.2 *Water Resources and Irrigation Law No. 147 of 2021*

The Water Resources and Irrigation Law No. 147 of 2021 (the "Water Resources Law") aims to establish effective water administration, distribution, irrigation, and drainage systems. In addition, the Water Resources Law facilitates water users' interaction with the Ministry's agencies to protect the course of the Nile River and its bridges.

The Law addresses the Minister of Water Resources and Irrigation, the Ministry of Water Resources and Irrigation, the General Administrations relevant to water resources and irrigation and introduces the concept of "association of water users", defined as "all water users and beneficiaries of irrigation and drainage networks and systems whether private or public as well as groundwater, dams, and tanks" (the "Association of Users"). These Associations are not-for-profit with an independent legal personality, licensed

*5- Reuters 2021. Available at: <https://www.reuters.com/world/africa/water-poor-egypt-eyes-quadrupling-desalination-capacity-5-years-2021-10-21/>

by a Ministerial decree. Their objectives shall strengthen and enhance collaboration between users and the Ministry in managing, developing and enhancing irrigation and drainage systems. The Association of Users shall have a general assembly, board of directors, and chairman and be elected for four years.

The Executive Regulations will include additional details related to member subscriptions, contributions, and allocated resources from the Ministry's budget.

3.4 *E-Mobility*

The Egyptian government signals a solid determination to become a hub for the manufacture of EVs and to provide the necessary infrastructure to establish charging stations and maintenance networks, which has contributed to encouraging investors to invest in the sector. In addition, megaprojects are taking place at the moment, such as the construction of the first electric high-speed train, the monorail, and the expansion of the metro lines.

The use and manufacturing of electric vehicles are not explicitly regulated under a unified law. However, the general legal frameworks described above apply to this sector. In addition, different legislations contribute to its regulatory frameworks, such as the Traffic Law, the Importation Law, and the Telecommunication Law, as well as recent decisions by the Minister of Trade and Industry and internal regulations issued by the Ministry of Interior and the Traffic Departments, which cover EV licensing.

With regards to EVs, until 2018, each EV purchased in Egypt was licensed on a case-by-case basis through a written request to the Ministry of Interior, raising many challenges. In 2019, a formal registration procedure dedicated to EVs was initiated. In December 2020, the Ministry of Interior announced that the annual fees for licensing cars that operate with electric propulsion engines are estimated to be between EGP 600 and EGP 1,800 for three years.

With regards to importation, as per the Decision of the Minister of Trade and Industry No. 199 of 2021, for the importation of electric vehicles, such vehicles must have been shipped, or an import approval must have been granted during the vehicle's model year, and they must be new (unused). Furthermore, such vehicles shall also fulfil the conditions stipulated in the Import and Export Law Regulations issued by Ministerial Decree No. 770 of the year 2005.

3.5 *Waste Management*

The Waste Management law no. 202 of 2020 (the "WM Law") was issued in 2020 and addresses waste generation and processing to promote waste recycling and reuse. It focuses on the integrated management of municipal, industrial, agricultural, demolition and construction waste and their safe disposal. In addition, the WM Law highlights the importance of implementing the waste management hierarchy.

The Waste Management law no. 202 of 2020 (the “WM Law”) was issued in 2020 and addresses waste generation and processing to promote waste recycling and reuse. It focuses on the integrated management of municipal, industrial, agricultural, demolition and construction waste and their safe disposal. In addition, the WM Law highlights the importance of implementing the waste management hierarchy.



In addition, the WM Law classifies waste as hazardous or non-hazardous. The requirements for the management of each are as follows:

(i) Hazardous Waste

It is defined under the WM Law as waste that contains organic or non-organic components or compounds that harm human health or the environment as a result of their physical, chemical or biological characteristics or that contain any dangerous qualities such as contagious, flammable, explosive or toxic substances.

The requirements pertaining to the management of this type of waste include, but are not limited to: (a) obtaining a special license for the integrated management of hazardous waste and substances, (b) obtaining approval from the above-mentioned authority for its circulation, (c) maintaining a register of such waste and the methods of disposal, and (d) sterilizing and disinfecting the place where the facility producing such waste was established in case it was moved or its activities suspended.

(ii) Non-Hazardous Waste

It is defined as waste that, by its nature, is not dangerous, whether municipal, industrial, agricultural, demolition, construction waste or their equivalent.

The requirements pertaining to the management of this type of waste include but are not limited to (a) obtaining a license for the integrated management of non-hazardous waste, and (b) taking all precautions required to avoid causing any harm to the environment.

The WM Law also provides for establishing a Waste Management Authority (the "WMRA"). The roles of the Authority include but are not limited to:

- (i)* Regulating, tracking, auditing, evaluating and developing everything related to Integrated Waste Management activities,
- (ii)* Attracting and encouraging investments in the field of Integrated Waste Management activities in a manner that guarantees to achieve sustainable development and tracking the implementation of the plans required to regulate waste management in cooperation with governmental institutions, municipal governments, the private sector, NGOs and international organizations, and
- (iii)* Issuing the licenses needed to undertake waste management activities.

In order to curb the use of single-use plastic bags, the Law provides that the manufacturing, import and export of Single-Use Plastic Bags shall take place per the conditions, parameters and technical specifications stipulated by a decree of the Minister of Trade and Industries as agreed with the Competent Minister. Said decree may prohibit the manufacturing, import, or export of Single-Use Plastic Bags if they include any input or substances that could cause severe harm to the environment. Further, the Law prohibits the sale, circulation, storage, free distribution or disposal of Single-Use Plastic Bags unless they are done in compliance with the conditions, parameters and technical specifications stipulated by the executive regulations of this Law.

The Waste Management Executive Regulations were issued in March 2022 and introduce the implementation mechanism of the WM Law, covering general provisions, the national strategy for integrated waste management, the relevant entities' roles and responsibilities, requirements for undertaking integrated waste management activities, categorization of waste, including non-hazardous, municipal, construction, agricultural, industrial, and hazardous waste. The executive regulations also include interim provisions and template forms for license applications, waste registers and guidelines.

4. A Note on ESG

The Resolutions no. 107/2021 and 108/202,1 issued by the Chairman of the board of directors of the Financial Regulatory Authority (the "FRA") on the 05 July 2021, set out new obligations for listed companies on the Egyptian Stock Exchange ("EGX") and companies operating in non-banking financial activities to undertake annual environmental and social governance ("ESG") and a task force on climate-related financial disclosures ("TCFD") reporting.

The Resolutions address EGX listed companies and companies operating in non-banking financial activities highlighting the following:

- (i)* The addressed companies must prepare and submit an annual ESG report (template provided by the FRA);
- (ii)* The addressed companies with a minimum issued capital or net equity of at least EGP 500 million must satisfy and undertake TCFD reporting in its annual board report annexed to the financial statements (template provided by the FRA); and
- (iii)* As of January 2022, the addressed companies must submit a quarterly report to the FRA with a description of the procedures undertaken and those undertaken regarding said disclosures.

ADSERO

R a g y S o l i m a n
& P a r t n e r s

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