

Chandrawat
& Partners

DOING BUSINESS IN EGYPT

A comprehensive guide

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Overview

Egypt presents a unique and promising destination with a range of opportunities and challenges. Its strategic location, diverse economy, and large consumer base make it an attractive market for companies seeking expansion in the Middle East and North Africa region. The country's historical heritage and cultural appeal can also be leveraged to enhance brand positioning and customer engagement.

Egypt's strategic location at the crossroads of Africa, the Middle East, and Asia offers businesses a gateway to multiple markets and trade routes. Companies looking to establish a presence in the Middle East and North Africa ("MENA") region can benefit from Egypt's well-connected infrastructure, making it easier to access neighboring markets and tap into the potential of regional trade agreements.

The country's diverse economy, encompassing sectors such as agriculture, manufacturing, tourism, energy, and services, provides various investment opportunities. Entrepreneurs and investors can explore different industries and capitalize on Egypt's growing consumer base, especially its young and urban population, which creates a demand for a wide range of goods and services.



Economic overview

Officially known as the Arab Republic of Egypt, Egypt has a history that goes back to 3200 BC. Egypt has a population of 111.8 million in January 2023, making it the Middle East country with the most population. Home to one of the oldest civilizations, Egypt remains one of the most influential countries in the Arab world.

Egypt attracts significant foreign direct investment "FDI" due to its large domestic market, strong GDP growth, strategic location, and skilled workforce. The government has invested in public infrastructure, such as electricity supply and transit networks, with funding from the World Bank and IMF. Egypt currently exports electricity to Sudan, Syria, Cyprus, and Greece. The BenBan Solar Park, with a capacity of 1650 MW, is now the fourth-largest solar power plant globally and will facilitate Egypt's transition to renewable energy.



- Egypt offers significant opportunities for businesses looking to expand outside of developed, mature markets in the northern hemisphere.
- Construction in Egypt is booming, driven by the government's decision to build 20 new fourth-generation cities.
- Some of these cities include the New Administrative Capital, New Obour City, New Alamein City, New Mansoura City, and New Cairo.
- The New Administrative Capital will be constructed on a 170,000-foot plot of land located 50 kilometres east of Cairo.



In terms of nominal Gross domestic product "GDP" , Egypt's economy is the second-largest in Africa, behind Nigeria. Egypt's GDP places it in the 41st spot globally as of 2022. Egypt's economy has shown strong and resilient development despite the COVID-19 epidemic. Egypt achieved an economic growth rate of 3.9% during the second quarter "Q2" of the current fiscal year "FY" 2022/2023. In the rankings of the 2022 Global Knowledge Index, Egypt has moved up to 95th place out of 132 nations.

The following five channels make up the current focus of Egyptian government policy on economic rehabilitation and growth:

- Massive infrastructural initiatives
- tourism
- Economic policy reforms and rising private sector investments
- luring investments from the Gulf Cooperation Council "GCC"
- The government believes that the following industries should get special attention from foreign investment in the short to medium term: energy, building and real estate, transportation, and telecommunications.

By regional standards, Egypt's economy is balanced and diverse throughout manufacturing and extraction activities, such as the mining, oil, and gas sectors "24%", agriculture "11.83%", constructing "14%", tourism "12%", and other divisions of a quickly developing services sector. With 11.7% of the GDP coming from manufacturing, it is the single greatest contribution to GDP. The wider national expansion plan includes the manufacturing sector as a key component. Six industries have been highlighted as having room for growth: engineering, machinery and equipment, consumer electronics, life sciences, biotechnology, automotive components, and handicrafts.

Foreign direct investment policy

“Foreign direct investments in Egypt during the last fiscal year, 2021-2022, reached the highest in 10 years amounting to \$8.9 billion.”

Investment guarantees:

The legislation has established several assurances like the following:


- All investments will be treated fairly and justly
- Every decision about the investment project needs to be supported and communicated to the investors.
- The Investment money cannot be confiscated unless a definitive judgment is issued.
- Foreign investors must have the authority to launch, create, grow, and raise money.
- The right to start, develop, and fund a foreign venture with foreign currency belongs to the foreign investor.

Importing the required raw materials, machinery, replacement parts, and manufacturing supplies that are suitable for their use might be advantageous for investors under the investments law.

Additionally, it can export its goods without having to be registered at the Exporters Register for any of its operations or those required for the project's functioning. With a maximum of 10% of the overall workforce, the investors are allowed to hire foreign employees.


However, if it is impossible to hire domestic employees with the required qualifications for the project, this number might rise to 20% of the overall workforce.




 General Incentives for Investment in Egypt

Investors' residency is provided for a minimum of one year "to be renewed" and a maximum of the project length to company founders, shareholders, and establishment owners.

- A uniform customs tariff of 2% "two percent" of the value of all imported machinery and other items required for starting the project.

 Non-Tax Incentives for Investment in Egypt

Upon approval from the Council of Ministers, non-tax incentives may be given in a major development for specific business endeavors like labor-intensive projects, as well as for specific industries like logistics, internal trade development, energy, agriculture, transportation projects, and investment in remote areas.

 One-stop-shop System

The "Single Window System" is regarded as the New Investment Law's important component since it harmonizes and streamlines the process while also shielding investors from red tape and corruption. GAFI will function as the sole regulatory body in charge of the entire process and eventually issue licenses.



Guarantees & Incentives available under the Original Investment Law

The Investment Law provides several exemptions from some labor laws, including the Labour Law and the Companies Law. Companies created per the Investment Law, for instance, are exempt from the rule requiring that drivers and messengers be engaged under the order in which they registered with the employment office. Independent of the nationality or domicile of partners and shareholders or the proportion of their ownership, companies must have the right to possess buildings, and lands, and to develop real estate as necessary for carrying out and extending their activities.



Free Zones

Most goods and materials imported into a free zone are not subject to import duties or regulations. The New Investment Law only permits the establishment of public free zones, thereby excluding the establishment of private free zones which was previously permitted under the Original Investment Law.

To make import/export operations easier, public-free zones are situated close to seaports and airports. Businesses in free zones are permitted to conduct both industrial and commercial activity. Businesses operating in a free zone are excluded from paying income tax on exports of products or services made there.

- The production, liquidation, and transportation of natural gas, as well as energy-intensive enterprises, are all barred from being developed in the free zone. This excludes petroleum "apart from refining", fertilizers, iron and steel, alcoholic beverages, firearms, ammunition, and explosives.
- Goods imported "to carry out its activity" and exported by free zone projects are exempt from customs duties, value-added taxes, and other taxes and fees.

Key sectors

Egypt has a varied economy. Agriculture, industry, energy, and service industries produce the lion's share of the nation's production. The 27th United Nations Climate Change Conference "COP 27" was held in Sharm el Sheikh, Egypt, from November 7–18, 2022. As part of its ambition for more green and renewable energy sources, the Government of Egypt "GOE" is seeking more environmentally friendly and energy-efficient initiatives.

CONSTRUCTION

Since the 1980s, the building industry has seen double-digit expansion, which has caused a large boom in both residential and commercial real estate. The fast population increase and housing crisis are driving up demand for infrastructural projects. Since 2015, the construction industry has increased by around 70%, reaching \$12 billion. The construction industry in Egypt is expected to grow by 8.9% to reach EGP 535 billion in 2023.

PHARMACEUTICAL

The "GoE" is now striving to put the National Health Insurance Programme into effect. The "GoE" began a statewide pilot project to digitize medical records in 2018, and when it is completely implemented, it is anticipated to improve the efficiency of the healthcare system and benefit both patients and medical professionals.

OIL AND GAS

Both the greatest consumer of oil and natural gas in Africa as well as the largest oil and natural gas producer in Africa outside of The Organization of the Petroleum Exporting Countries "OPEC" is Egypt. According to estimates, the initial fresh investment from these contracts will be close to \$800 million. The Western Desert, the Gulf of Suez, the Nile Delta, and the Mediterranean Sea are all new regions of investigation. The Egyptian government is now taking bids to search for oil and gas in the Red Sea.

HYDROELECTRICITY

Egypt uses the strength of the Nile to harness hydropower, which is the nation's main source of electricity. The Aswan High Dam, Naga Hamady, and Esna Dam are the three largest hydroelectric plants that can be found along the Nile. The Aswan High Dam, which can produce 2,100 MW of energy, is the most significant of the three. After years of consideration, the nation is also poised to embrace nuclear energy, and plans are underway to build a \$1.5 billion nuclear power station at El Dabasa.



Advantages

The Egyptian government provides a variety of investment incentives, including tax breaks, exemptions from tariffs, and assurances for new investors. According to Law No. 230, as revised by Investment Incentives and Guarantees Law No. 8/1997, the Egyptian government grants investors the following benefits:

- Free repatriation of money and earnings
- Foreign ownership at 100%
- Guarantees against nationalization or expropriation of the project
- Output of any projects is not subject to price control
- If an investor stays in Egypt for less than a year, foreign specialists' wages are excluded from income tax.
- Productive assets and building materials imported for the project's establishment are subject to a five percent unified import tax.
- Business-friendly region: Egypt is quite open to commerce and is a popular location for international investors. The nation has attempted to increase the presence of European investors after implementing various changes in recent years.
- Several investment possibilities: Also advantageous to foreign investors is Egypt's diverse economy, which is based on booming industries and offers a wide range of investment opportunities in high-potential fields like agriculture and agri-food, tourism, transportation, gas, telecommunications, education, health, renewable energy, finance, manufacturing, real estate and construction, the oil sector, wholesale and retail trade, etc.

Types of business in Egypt

Egypt has a broad variety of possibilities when it comes to different company structure types. The proper structure may be chosen by the business entities depending on their requirements. By forming LLCs or joint stock companies, one may create a permanent presence. For a temporary presence, one can choose foreign branch offices or representative offices. To register a company, several important criteria must be considered, including eligibility requirements, business structure, capital needs, post-registration compliances, documentation, and others.

The most widespread types of companies in Egypt under Law No. 159 of 1981 are as follows:

- a. Joint Stock Company "JSC"
- b. Limited Liability Company "LLC"
- c. Branch of a Foreign Company
- d. One Person Company

The main required documents to be eligible to establish a company in Egypt are the following:

- A trade name clearance certificate from GAFI.
- A bank certificate by the capital depositing.
- Power of attorneys and original for establishment.
- Copies of the IDs for partners and Egyptian managers and passports for foreign managers.
- An original copy of the auditor account



Minimum eligibility criteria for company registration

Joint Stock Company "JSC"

The needed minimum capital is EGP250,000. The minimum capital of a JSC, on the other hand, may vary based on the company's activity and the decrees issued to govern that activity. The legal minimum capital for JSCs whose shares are available for public subscription is EGP500,000.

Limited Liability Company "LLC"

No minimum capital requirement. It is determined by the quotaholders in the company's Aol.

Branch of a Foreign Company

The foreign-based company shall only deposit an amount equivalent to EGP5,000.

One Person Company

Minimum capital required is EGP50,000.



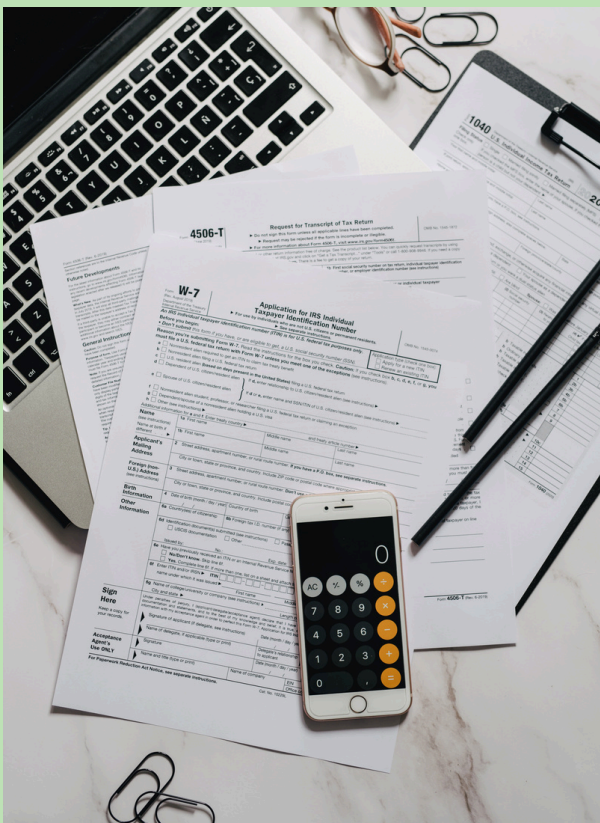
How to set up a business?

Joint Stock Company "JSC"

Following the submission of the aforementioned papers and notice to the Companies Department, a certificate confirming receipt of the completed documentation will be delivered to the founders. This certificate must be registered with the Commercial Registration Department, and the firm will be granted legal status within 15 days from the date of registration. The Companies Department may object within 10 days of the company's registration with the Commercial Registration Department if any of the following conditions are met:

- the articles of association or statutes deviate from the models in terms of mandatory requirements or violate any law;
- the company's objectives violate any law or public order; or
- one of the founders is not qualified to be a founder under the law.

The grounds for such objection must be mentioned, as well as the steps that must be followed to correct the issue. Within 15 days of receiving the notification of objection, the firm must either correct the grounds for the Companies Department's objection or file an appeal with the Minister of Economy. Otherwise, the newly formed firm will be removed from the Commercial Register.



- If the firm does not receive the Minister of Economy's judgement within 15 days of submitting the appeal, the objection is automatically waived.
- The firm receives no objections from the Companies Department within 15 days after receiving communication from the founders of the efforts they have taken to correct the grounds for complaint.

Limited Liability Company "LLC"

A minimum of two (2) partners and a maximum of fifty (50) partners are required to form an LLC. Furthermore, there are no limits on the couples' nationality. One manager of any nationality may manage an LLC. Finally, LLC must follow the same Corporate Governance standards that apply to JSC.



Branch of a foreign company

Establishing a branch office needs GAFI permission, and the branch office must be registered with the Commercial Registration Department as well as the centralised Register of Foreign Companies maintained by GAFI's Companies Department, with such registration valid for five years.

One-Person Company

The following are the processes to forming a new legal entity in Egypt:

- Prepare, analyse, and validate the company's GAFI Articles of Association.
- Open a bank account for the newly formed company;
- Prepare and submit the security check application for foreign shareholders/partners and board members/managers.
- Have the Articles of Association notarized.
- The Commercial Register and tax card are issued.

Taxation

Today, Egypt offers investors competitive tax rates, with many projects even qualifying for tax breaks for their equipment and land. Furthermore, Egypt has signed double taxation treaties with a large number of countries, making the country all the more appealing as a destination for commercial activity.

Corporate Income tax

The corporate income tax (CIT) rate in Egypt is 22.5% on the net taxable profits of a company.

- Egyptian companies on all earnings earned in Egypt and abroad are subject to corporate income tax.
- Companies that are not Egyptian residents in terms of earnings earned through a permanent base in Egypt.

A company's income may include any or all of the following:

- Profits derived from a business or industrial operation.
- Revenue derived from the use and/or disposal of buildings or assets.
- Amounts received on shares of capital yield associations paid by the government, local government entities, and public juridical persons.
- Rent, licence fees, and royalties received.
- Earnings from any other activity carried out in Egypt.

Foreign taxes reliefs

If there is accompanying paperwork, a resident entity outside of Egypt may deduct foreign tax paid. The taxable amount in Egypt cannot be reduced by any losses incurred outside of Egypt. The credit for taxes paid abroad on income subject to Egyptian corporate income tax is governed by agreements made between Egypt and other nations.



Accounting standards

Each financial year, which is typically 12 months, should have its financial statements and tax return filed annually. A corporation may have an extended financial year "23 months" if it is established after 7 days have passed since the beginning of its fiscal year.

The following authorities should receive filing accounts that have been produced in conformity with Egyptian Accounting Standards; there are no filing fees.

- I. Egyptian Stock Exchange "required for banks".
- II. General Authority for Investment and Free Zones "GAFI"
- III. Tax authorities

Additionally, it is required that some company types, including banks, publish their yearly financial accounts in two major newspapers. The financial statements must be prepared in line with Egyptian accounting principles; they may, however, be prepared for management reasons exclusively using international financial accounting & reporting standards.

Arabic handwriting is required by law for all municipal documents and books. The books and records may also be recorded electronically.

Where: The aforementioned accounting, auditing, and filing standards apply.

- The company's capital is greater than Egyptian Pound equals "EGP" 50,000.
- The turnover exceeds EGP 250,000 annually.
- The most recent tax assessment indicates that the annual net profit exceeds EGP 20,000.

Additionally, receipts must be kept and entries in the books must be substantiated by proof.



Employment and labor laws

Egyptian labor relations are governed by the Egyptian Labour Law No. 12 of 2003 and its related regulations.

Employment contract

In Egypt, employment contracts can either take the form of an indeterminate or definite contract. There should be three copies of the contract: one for the employer, one for the employee, and one to be lodged with the relevant Social Insurance Office.

The agreement ought to state:

- The name and address of the employer;
- The name and address of the employee;
- The nature of the job covered by the contract;
- The agreed-upon salary, method of payment, and benefits in cash and kind

Minimum Wage

According to Egyptian labor law, every employee is entitled to periodic yearly raises that are at least 7% of their base pay.

hours of work and vacation

Maternity Leave

A woman can take up to 90 days of maternity leave if she has worked for more than 10 months. If they provide a medical certificate stating the date of delivery, they will be paid an amount equal to their original gross wage for that time "which includes the time before and after delivery".

Dismissal

If an employee's fixed-term work contract is terminated without justifiable reason and employee misconduct, the employer must pay the full salary the employee would have been entitled to for the entire contract duration.

The notice period specified in the employment contract will apply in such cases.

Employment policies

Employment of resident and non-resident employees is as follows:

- Before beginning employment, Egyptian nationals must get an insurance number; part-time or temporary employees are exempt from this need.
- Before beginning employment in Egypt, foreigners must acquire work permits from the Ministry of Manpower and Migration "provided they are entitled to enter the country and stay to work".
- Foreigners must first obtain work permits or authorizations from the Ministry of Manpower and Migration
- They can start working in Egypt "provided they have permission to enter and remain in the country to work".
- The foreign national's visa is transformed into a work visa after obtaining a work permit, which has the same term. Usually, work licenses are issued for no more than a year.
- The responsible minister has the authority to specify the kind of activities that foreign nationals are not permitted to engage in while they are working in Egypt as well as the maximum number of foreign nationals that may be employed there.
- The overall percentage of foreign employees should not be higher than 10% of all employees.



HOW WE CAN HELP?



Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.



Legal Structure and Registration: Assist in the development of the legal framework for the chosen business organization, including the design and filing of partnership agreements, operating agreements, bylaws, articles of incorporation, and other relevant contracts and agreements.

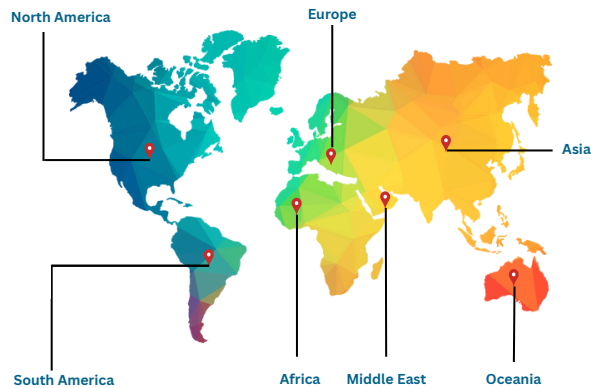


Licenses, Permissions, and Registrations: Investigate and identify any licenses, permissions, or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



Regulations and Compliance: Provide guidance on satisfying legal and regulatory duties, such as industry-specific compliance standards and regulations controlling employment, data protection, privacy, and consumer protection.

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