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Client Alert: Egypt's New Investment Law

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This week, the Egypt House of Representatives' General Assembly passed the final draft of a new Investment Law. The draft is yet to be signed by the President, enacted as law, and published as such in the official gazette.

The draft of the new Investment Law (the "**Law**") is a cornerstone of Egypt's economic reform agenda and is intended to promote foreign direct investment. It will compliment other important economic reforms which have been recently implemented, such as the introduction of a VAT system, the liberalization of the FOREX regime and the gradual elimination of energy subsidies.

The Law will also affect foreign companies doing business in Egypt. Some of the key proposals are set out below.

Additional Activities

The Law extends the objects for which a company may be incorporated under the Law to include the following additional activities:

- the production and manufacture of agricultural production input
- river and coastline transport, storage and logistic services
- waste recycling
- education, and
- youth and sports projects.

The Law also abolishes the requirement for hospitals and medical centers to provide 10% of their service at no cost as a condition to their enjoying the incentives and guarantees provided pursuant to the Law. In addition, the Law seeks to implement various changes to the administrative structure of the investment sector in Egypt.

GAI to succeed GAFI

The General Authority for Investment and Free Zones, often referred to as GAFI, will be converted to the General Authority for Investment ("**GAI**"). A Supreme Council for Investment will be established as a policymaker for strategic investment planning. In order to streamline procedures among various investment related authorities, each company will in future need to have a unique identification number. Also, the GAI has been tasked with developing a system for issuing certificates containing the main information about individual investment projects and the incentives which each project enjoys. This should mitigate bureaucratic burdens by reducing the amount of documentation an investor needs to produce in order to be able to commence and continue to do business in Egypt.

Changes to the Incorporation of Companies

A new electronic incorporation system will be introduced by GAI. Other related public authorities will be required to streamline their procedures and connect their databases to that of GAI. Under this system, a company will be able to be incorporated and registered electronically.

The shares of companies incorporated under the Law shall be centrally deposited. GAI is to develop procedures to facilitate capital increases and decreases.

Streamlining and Other Procedures

The Law sets out deadlines for the completion of tasks by the GAI. For example, ratification of board and general assembly resolutions must be completed within fifteen days. Decisions on requests for incorporation of new companies must be made within one business day. The Law provides two methods to assist investors in starting and continuing to do business in a timely and efficient manner. These methods are the ‘authorization offices’ and the ‘investment windows’.

An investor who wishes to assess if the investor qualifies for certain projects may approach the ‘authorization offices’ which shall review all permits and authorizations obtained by the investor to determine whether the investor has all necessary documents to proceed with the proposed project.

Investors may submit requests (e.g. requesting the issuance of approvals) which they would otherwise have had to address to other authorities to ‘investment windows.’ These investment windows replace the ‘one-stop-shops’ introduced by the current Investment Law, which were cumbersome to implement, due to the lack of sufficient qualified personnel and the bureaucratic complications.

Incentives Specific to Investment Projects in Particular Geographic Locations

The Law provides income tax discounts for two groups of investment projects established in certain geographic areas, and/or in specific sectors.

The first group enjoys a 50% discount and includes geographic locations which most urgently need development, education projects with medium investment cost, the economic zone adjacent to the Suez Canal, electricity generation and distribution projects, and vehicle manufacturing projects and related industries. The second group benefits from a 30% discount, and includes investment projects for the objects promoted by the Law anywhere in Egypt, excluding projects which fall within the first group.

The foregoing tax incentives shall in any case not exceed an amount equivalent to 80% of the paid in capital of the project company.

The foregoing deductions apply to several industrial projects listed in the Law, and include manufacturing furniture and woodwork, chemicals, antibiotics, tumor medications, leatherwork, food and agricultural products, metal works, and tapestries, as well as printing and packaging, and engineering works. These projects may receive additional incentives, subject to the decision of the Cabinet.

In order for a company to enjoy these incentives, it must satisfy certain conditions, primarily being newly established under the Law, specifically within three years from the date that the executive regulations of the Law come into force. The executive regulations of the Law are currently being drafted by the government and should be finalized within one month. The executive regulations are highly anticipated by the business community to understand how the government intends to implement the Law.

Further Incentives

Investment projects may employ up to 20% foreign employees (calculated on the basis of the total number of employees) if there are insufficient local employees with the necessary qualifications. Foreign employees will be permitted to repatriate their income outside of Egypt.

Moreover, all administrative decisions relating to investment projects must be justified, and notified to the relevant parties.

Free Zone Status

The Law takes a new approach to balancing investor benefit with the public interest. This new approach affects free zones, which are now less favored because they lead to a decreased tax revenue, and would only be acceptable if the projects established therein export products outside of Egypt, thereby increasing the foreign currency inflow. Therefore, the Law lists several activities which may not be pursued in a free zone, e.g. petroleum manufacturing, steel, natural gas liquification and transport, industries which require high energy consumption, and alcoholic beverages industries. Additionally, the Law permits the establishment of private free zones, which are private projects enjoying the benefits of a free zone. These projects should be monitored closely to ensure that they do in fact export their production. Also, these projects will be liable to pay a levy of 2% of their revenues.

Technological Zones

To advance activity in the fields of technology and IT, the Law includes a framework for the establishment of 'technological zones'. The Minister of Communications and Information Technology may authorize the establishment of 'technological zones' where technological objectives can be pursued, including manufacturing and developing electronics, programming, and technological education.

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The Law, if enacted as proposed, will introduce numerous changes to the existing legal framework for doing business in Egypt. By and large, the Law has been welcomed by the business community, in particular as it testifies to the Government's commitment to further improving the climate for investment in Egypt. The effect the Law will have on foreign investment, however, will – as always – depend on its implementation.

If you would like more information about this topic then please contact us.

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