



# **DOING BUSINESS IN EGYPT**

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## OVERVIEW

This guide has been prepared by Matouk Bassiouny for foreign clients considering investing in Egypt and is intended to provide a brief overview of some of the key legal issues in relation to establishing a business in Egypt.

## EGYPT

Egypt is located in North Africa and is the second most populous country on the African continent, with an estimated population of 80 million. The majority of the population is Muslim with a Christian minority and the official language of Egypt is Arabic, though English is widely used.

Certain temporary restrictions may be imposed on offshore transfers and funds by foreign investors in the Egyptian market for investment purposes e.g. for financing their businesses and transferring revenues.

## LEGAL BACKGROUND

The Egyptian legal system is based on the civil law system. It mirrors principles of the Napoleonic code while adopting Islamic law in specific areas. Egypt accepts the compulsory jurisdiction of the International Court of Justice with reservations. Judicial review is by Supreme Court and Council of State, which oversees the validity of administrative decisions. Egypt is a signatory to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

## STRUCTURE FOR DOING BUSINESS IN EGYPT

Foreign companies or individuals wishing to establish a business presence in Egypt have various options available to them, the most common of which are outlined below.

### Joint Stock Company (“JSC”)

An Egyptian JSC is a regulated company of which its capital is divided into shares and the liability of each shareholder is limited to the paid up value of their shares. The minimum number of shareholders of a JSC is three (3) and a JSC may be wholly owned by non-Egyptians, with a few exceptions, for example importation companies, commercial agencies and companies operating out of the Sinai.

The minimum share capital for a JSC whose shares are not offered to public subscription is EGP 250,000. If shares are offered to the public, the minimum capital is EGP 1,000,000 and each share must have the same nominal value. While preferential shares may be issued, these are less commonly used.

The shares of a publicly listed JSC can be traded on the Egyptian Stock Exchange. The annual net profit of a JSC must be appropriated in accordance with the provisions of Companies Law No. 159 of 1981 (“Companies Law”).

A JSC is managed by a board of directors and there are no nationality requirements for directors. However, non-Egyptians directors are required to undertake a security clearance. Provided it does not conflict with public order or morality in Egypt, there are no restrictions on the purposes of a JSC.

According to the Companies Law, shares of the JSC are freely transferable. The articles of incorporation of the JSC may regulate the process of transfer of shares without depriving any of the shareholders of the right to transfer shares within the provisions of the applicable laws.

### Limited Liability Company (“LLC”)

An LLC is a company with limited liability, where the numbers of shareholders may not exceed fifty and should not be less than two. An LLC may be wholly owned by foreigners.

The articles of incorporation of an LLC determine the minimum capital to be paid in full upon incorporation and the value of quotas. All quotas must have the same face value of no less than EGP 100. The shareholders’ liability is limited to the extent of capital contributions.

An LLC cannot raise funds through public offerings. An LLC may conduct a variety of business activities, with the exception of insurance, banking, savings, receiving deposits or investing funds on behalf of others, each of which must be conducted by a JSC.

The day to day management of an LLC is vested in one or more managers and the shareholders have the right to appoint managers, at least one of whom must be Egyptian.

### Branch Office

Foreign companies are allowed to open branches in Egypt to carry out construction works, hotel management, commercial, financial and industrial activities or generally to execute works of a contractual nature. A branch does not have a separate legal existence from its parent company. Accordingly, the establishing foreign company is fully liable for all the obligations and liabilities of the branch.

The equivalent of a minimum of EGP 5,000 must be transferred in foreign currency to a bank account in Egypt in the name of the branch.

A manager must be appointed to manage the branch and to legally represent it in all matters related to its activity and existence. The manager may be a foreign national.

### Representative Office

Foreign companies can establish representation, liaison or scientific offices. The object of such offices is limited to studying and exploring the Egyptian market without performing any kind of commercial or income generating activity.

The equivalent of a minimum of EGP 5,000 must be transferred in foreign currency to a bank account in Egypt in the name of the representative office.

The manager of the representation, liaison or scientific office can be a foreigner. There is no minimum capital applicable but the funds required to establish such an office and operate it should be transferred from abroad in foreign convertible currency and deposited in one of the accredited banks in Egypt.

### INVESTMENT GUARANTEES AND INCENTIVES LAW NO. 8 OF 1997 ("IGIL")

Companies can incorporate an entity in Egypt under IGIL. The rules and regulations are virtually identical to the Companies Law. However companies incorporated under the IGIL are licensed by the General Authority for Investment and Free Zones.

The benefits given under the IGIL depend on the activity to be conducted. The activities covered by the IGIL include infrastructure, manufacturing and mining, transport, software and computer systems development and production, medical services, certain financial services, oil fields services, agriculture, reclamation of desert land, hotels and tourism.

The IGIL provides for the establishment of Free Trade Zones including privately run free zones. Products exported outside of Egypt and products imported for the purpose of the PFZs (private free zones) activity are not subject to the applicable general laws governing exportation or importation. PFZs generally are not subject to Egyptian tax laws, including in respect of distribution of dividends.

Machinery and equipment imported by PFZ for the purposes of practice of the company's activities are exempt from applicable Egyptian Customs Law and procedure as well as from the Egyptian Sales Tax law.

The previous tax exemptions applicable under the IGIL have now largely been repealed and we would welcome your further inquiries regarding this important matter.

### COMMERCIAL AGENCIES

Agencies are principally regulated by Law 120 of 1982 (as amended), and the subsequent Commercial Code of 1999. In addition, a number of provisions of the Civil Code apply more generally to the relationship between a principal and his agent, unless specifically regulated by the provisions of the Commercial Code.

Egyptian laws recognize several types of agents. The main distinction lies between commission agents, who undertake dealings in their own name but for the account of third parties and commercial or contracts agents who conclude contracts in the name, and for the account of, the principal.

Commercial agents must be either a person of Egyptian nationality or an Egyptian legal entity. Agents must be registered at the Registry of Commercial Agents.

While agencies are widely used by foreigners as a vehicle for undertaking business in Egypt, the termination of unlimited period agencies has proved to be challenging if the termination is made without prior notice or at an inconvenient time. If no choice of law is expressly agreed in the contract, the principal and the agent will be deemed to have chosen Egyptian Law. Moreover, a number of Egyptian law provisions are mandatory and may not be derogated from.

### EMPLOYMENT IN EGYPT

Egyptian Law 12 of 2003 (the "Labour Law") governs the relationship between employer and any employee working in Egypt regardless of their nationality.

The provisions of the Labour Law cannot be contracted out to the detriment of the employee. In general, the provisions of the Labour Law benefit and protect employees more than their employers. For example, the events of termination of an employment relationship under the Labour Law are very limited. Furthermore, an employee's accrued right under an employment relationship may not be diminished in a manner that is unfavorable to the employee.

Employee benefits extend to the compulsory national social insurance coverage as well as annual salary increase of a minimum of seven percent. In addition, the Labour Law addresses and regulates employee rights to strike peacefully in relation to their economic, social and professional interests through their labour unions.

## REAL PROPERTY IN EGYPT

Real Estate in Egypt is mainly regulated under the Egyptian Civil law, the Real Estate Registration Law and Law No. 230 of 1996 on the foreigners' acquisition of real estate and related legislations.

Companies and other entities doing business in Egypt are entitled to acquire ownership of Egyptian real estate without any restriction or limitation as to the nationality of the shareholders of such companies or entities as long as the acquired real estate is necessary for doing business. However, a recent decree provides that certain limited areas may not be acquired by foreigners.

## TAX IN EGYPT

With the exception of companies incorporated in a free zone, all locally registered companies are subject to a corporate tax of 25% on their net profits subject to certain exceptions depending on profitability. A higher rate of 40.55% applies to companies engaging in specific oil and gas activities.

Personal income tax is also payable in Egypt, on a sliding scale.

Foreign companies resident in Egypt (branches) are subject to tax only on their profits derived from Egypt, according to the same corporate tax rate for Egyptian companies.

## GENERAL

This guide only highlights legal issues which Matouk Bassiouny believes are relevant to a potential foreign investor in Egypt. It does not constitute legal advice nor does it purport to address every legal issue or summarize the current rules, structures or regulatory frameworks.

The regulatory system in Egypt is dynamic and subject to frequent changes in application and interpretation. We recommend that you obtain legal advice and liaise with the relevant government authorities on how the law applies to foreign investors in respect of a particular investment or business activity at the relevant time.

We hope that you find this guide to be a useful overview of the high level legal issues in relation to doing business in Egypt. Please do not hesitate to contact us if you have any queries regarding the material set out in this guide or if you require specific legal advice in respect of an establishment in Egypt.

## FOR FURTHER INFORMATION, PLEASE CONTACT



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