

# EGYPT'S NEW INVESTMENT LAW

July 2017

■ Egypt finally approved the long-awaited Investment Law No. 72 of 2017 on the 1<sup>st</sup> of June. The new law replaces the former one No. 8 of 1997, previously amended in March 2015, a day before Egypt's Economic Development Conference (EEDC). The 2015 Law was criticized by the business community for coming up short and failing to achieve its objectives. Since 2016, the government has been trying to reform the investment environment in Egypt through many pillars, including the legislative level, where the government has embarked on an ambitious economic reform program to secure a three-year USD12 billion IMF loan. The program includes lifting subsidies, raising taxes, loosening capital controls, and for the first time liberalizing foreign exchange market as a key concern for foreign investors.



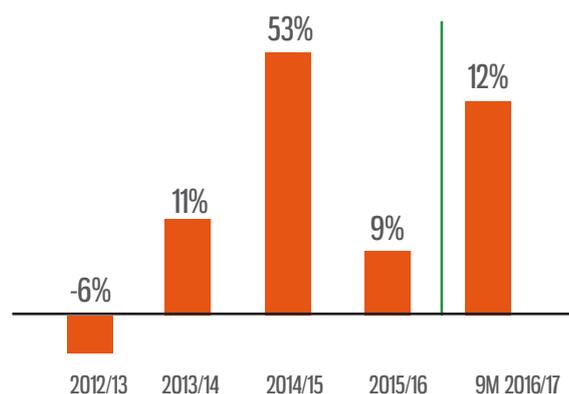
■ Other adjustments accompanied the reform program, where the Supreme Investment Council was launched last year, headed by the President, and released different decisions that aim at enhancing the investment environment in Egypt (Appendix No.1). In the same context, the General Authority for Free Zones and Investment (GAFI) is implementing a new online system to ease and facilitate all required procedures within a shorter time. Additionally, procedures for inspecting company premises by the National Authority for Social Insurance (NASI) have been totally abolished, and an electronic connection has been furnished between GAFI and NASI.

■ Finally, a new Investment Law was approved to be the cornerstone of the previous reform measures. The law reflects to what extent the Egyptian government and legislative authorities are keen to avoid any misreading of local and foreign investors' needs. Some of the general points can be indicated hereunder in an attempt to explore the most important articles included in the law.

## INVESTMENT LAW'S MAIN OBJECTIVES

- Granting equal opportunities regardless of the size or location of the project without any discrimination.
- Ensuring the country's support to the start-up entrepreneurs and Micro, Small and Medium Enterprises (MSMES).
- Considering the social dimension and protecting of the environment and public health.
- Ensuring competition, preventing monopoly and protecting consumers' rights.
- Following principles of governance and preventing conflict of interests.
- Exerting efforts to guarantee the stability of investment policies.
- Easing investment procedures and facilitating doing business.
- Assuring the right of the state to maintain national security and public interest.

## FDI GROWTH RATE



Source: Central Bank Of Egypt

## KEY FEATURES OF THE INVESTMENT LAW

### Equitable Treatment

- The Law guarantees fair and equitable treatment to both foreign and Egyptian investors and prohibits confiscation of private investments. It also grants investors the right to repatriate profits without restriction and provides a residence permit for foreign investors throughout the term of their investment projects in Egypt.
- Investment projects can employ up to 10% foreign employees in their companies. This percentage may increase to 20% if there are insufficient local employees with the necessary qualifications.

### Investment systems

The law distinguishes between three types of investment systems as follows:

#### A. Internal Investment System:

The Law provides the possibility of investing in any area, other than the Investment and Free Zones, whereby the relevant investment projects shall be made in full compliance with the provisions of all applicable laws without having any special treatments other than those stated in the law.

#### B. Investment Zones System:

An investment zone can be established by a decree from the Prime Minister and covers any of the investment sectors without having the limitations applied to Free Zones.

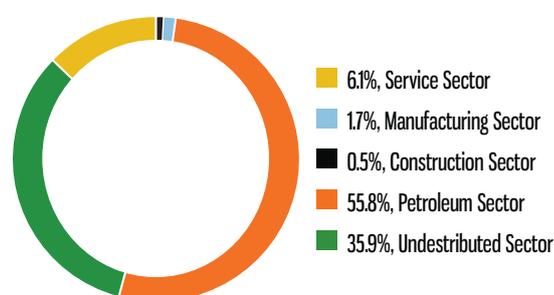
#### C. Free Zones System:

Free Zones may be established in a form of Public or Private Free Zones by a decree from the Prime Minister mainly for the exportation purpose.

### Return of The Private Free Zones

- The law restores Private Sector Free Zones which are defined as an area of the state's land, limited to one project or more, operating in similar activities. Goods movement, either in and out, customs, import, monetary system and other aspects in private free zones differ from similar procedures applied inside the country. It is worth noting that Egypt currently has 209 Private Free Zones.
- The advocates of the return of these Zones believe they increase Egyptian exports, thus enhancing trade balance, attract foreign capital and create employment opportunities. However, the Ministry of Finance believes that Private Free Zones did not achieve their designated targets as they are considered a "back door" for illegal smugglers. The Ministry also believes that most of their products are channeled towards the local market instead of exporting them.
- The Law lists several activities which may not be pursued in a free zone (Appendix No.2) such as petroleum manufacturing, steel, natural gas liquefaction, industries which require high energy consumption and alcoholic beverages industries.

Total FDI In Egypt By Economic Sector Jul.-Dec. 2016/17



Source: Central Bank Of Egypt

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## D. Establishment of Technological Zones:

Aiming to support activity in the fields of technology and IT, the Law allows the establishment of technological zones, areas for manufacturing and developing electronics programming and technological education. All equipment used in technological zones are exempted from custom duties.

### Eliminating Bureaucracy

The law establishes an Investors Service Centers, replacing the One-Stop-Shop in the old investment law which was difficult to implement due to the lack of sufficient qualified personnel and the bureaucratic complications. The law also states the establishment of an electronic system that allows finalizing all procedures electronically. Under the new law, Investors Service Center will have a 60-day deadline to provide investors with all the requested authorizations. If the center did not respond during this period, the request will be automatically accepted. The law also establishes committees, affiliated to GAFI, responsible for handling petitions from investors within 30 days



### Investment Map

The law enforces the announcement of the investment map that includes all the investment opportunities in the public and private sectors as well as the opportunities of Public-Private Partnership (PPP) and the investment opportunities in investment and free zones with full details about each project including size, land area and tendering procedures. The Ministry of Investment and International Cooperation is almost ready to publish the investment map. The map offers about 600 investment opportunities in several projects in the New Administrative Capital, ports and infrastructure, real estate, tourism, energy, industry, and waste management.

### Granting Different Incentives

#### General Incentives

- Companies are exempted from stamp tax and administrative fees for five years, once registered in the commercial registry.
- Companies importing machinery and equipment at only 2% customs.

#### Special Incentives

- 50% discount on the investment costs for the investment projects that will be established in Zone A, which indicates geographic locations in most need of development as to be specified by the Central Agency For Public Mobilization & Statistics.
- 30% discount on the investment costs for the investment projects that will be established in all the country for projects mentioned in appendix No. 3.

#### Additional Incentives

- Allocating land for free for some strategic activities.
- The government partially contributes to the cost of technical training for employees.
- Refunding half of the value of the allocated land for industrial projects, if production starts within 2 years from receiving it.

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## Authorities Responsible For Investment

- The law tasks the Supreme Council for Investment, currently existing and headed by the President, with setting the plan of work and taking all measures required to enhance the investment atmosphere.
- While the General Authority for Free Zones and Investments (GAFI) will be affiliated to the Ministry of Investment and International Cooperation and will be responsible for organizing, promoting, supporting investment and preparing the investment map.

## Corporate Social Responsibility

The New Investment Law gives investors the right to deduct up to 10% from their income tax if they allocate an equal amount of their net profits to social development projects.



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## Appendix 1

### Supreme Investment Council Decisions

- a. Extending the freeze of the 10% capital gains tax to three years
- b. Introducing new ways to settle tax disputes and remove bureaucratic barriers
- c. Taking all legal measures to reconcile with SMEs that don't have tax records
- d. Forming a "National Payments Council" that will work on restricting money circulation outside the banking sector
- e. Producers of agricultural crops that Egypt imports or exports will get tax exemptions
- f. Five-year tax exemptions for manufacturers of "strategic" goods that Egypt imports or exports
- g. Five-year tax exemptions for agriculture and industrial investments in Upper Egypt
- h. Setting a minor symbolic tax for SMEs to encourage them to file tax returns and be eligible for the CBE's funding initiative
- g. Five-year tax exemptions for agriculture and industrial investments in Upper Egypt
- i. The Egyptian Rural Development Company (which manages the 1.5 mn feddan project), the New Administrative Capital Company, the New Al Alamein development company and the companies managing the Siemens combined cycle power plants have been added to the roster state-owned companies that could go to IPO in the coming three years
- j. 25% discount on land in the New Capital, East Port Said and other new Urban Developments for three months
- k. The Industrial Development Authority (IDA) will issue temporary permits for unlicensed factories for one year, effectively giving them 12 months to obtain full permits
- l. Begin tendering land with utilities for industry in Upper Egypt for free as outlined by the IDA
- m. Granting public-private partnership units in the government more leeway to operate
- n. Giving 35% discounts on settlements reached with the "committee to repossess illegally occupied land"
- o. Ensuring all ministries back government-brokered solutions on investment disputes

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## Appendix 2

Activities Which Will Not Be Pursued In A Free Zone

1. Petroleum Manufacturing
2. Steel
3. Natural Gas Liquefaction And Transport
4. Industries Which Require High Energy Consumption
5. Alcoholic Beverages Industries

## Appendix 3

Investment Projects To Be Granted A 30% Discount On Investment Cost

1. Extensive Manpower
2. Micro And Small Enterprises
3. Projects Using New And Renewal Energy
4. National And Strategic Or Tourism Projects
5. Electricity Production And Distribution Projects
6. Project Exporting Its Production Outside Egypt
7. Automotive Production And Its Supporting Projects
8. Wooden, Furniture, Printing, Packing And Petrochemical Projects
9. Production Of Antibiotics
10. Pharmaceutical
11. Cancer Drugs Or Beauty Treats
12. Production Of Leather
13. Foods And Agricultural Production
14. Management Of Agricultural Waste
15. Engineering And Mineral Production

