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Ensuring proper implementation of annual profit-sharing payments to workers in Egypt

THE ISSUE

Egypt's Law No. 159/1981 (the "Companies Law") mandates employers share profits with their workers. However, reports indicate that suppliers in Egypt are not properly implementing profit-sharing payments to workers, resulting in negative impacts on worker wages and non-compliance with legal requirements.

BACKGROUND

Under the Companies Law, all joint stock companies, partnerships limited by shares, and limited liability companies must allocate no less than 10% of their annual net profits to their workers. This allocation is capped at an amount not exceeding the total annual wages paid within the company.¹ For workers in Egypt, this provision represents a significant source of additional income. Despite this clear mandate, the Fair Labor Association (FLA) has observed challenges with some textile and garment suppliers in Egypt paying this legally required compensation. Several factors contribute to this non-compliance:

1. **Lack of awareness or knowledge by suppliers, auditors, and workers:** Social compliance audits often focus primarily on labor laws and their associated regulations. The legal requirement for profit-sharing with workers in Egypt can be inadvertently overlooked by brands sourcing from the region because the profit-sharing mandate operates under a separate legal framework, distinct from the core labor laws governing wages and benefits.
 - **Suppliers:** Suppliers may be unaware of the requirement because it is not part of the primary Egyptian Labor Code but rather a separate legislative framework.
 - **Auditors:** Many auditors are not aware of or checking for this requirement during the regular social compliance audits in Egypt.
 - **Workers:** Workers may not be aware of the law. In the absence of strong, independent union representation, workers are often uninformed about this legally granted benefit and its applicability conditions by the suppliers.

¹ Law No. 159 of 1981 concerning joint-stock companies, partnerships limited by shares, limited liability companies, and single-person companies. General Authority for Investment and Free Zones (GAFI). Published September 17, 1981. Accessed July 18, 2025. <https://www.gafi.gov.eg/English/StartaBusiness/Laws-and-Regulations/Documents/Lawno159oftheyear1981.pdf>

2. **Lack of proper implementation and verification:** Suppliers are not adequately integrating this legal obligation into their monitoring activities and supplier communications. This can result from:
 - **Confidentiality claims:** Compliance with this obligation requires auditors to access sensitive financial records, such as year-end financial statements and supplier meeting minutes.
 - Supplier management may decline to disclose these documents to the auditors due to confidentiality concerns, hindering the verification process.
 - Supplier management may claim ongoing investments as a reason for withholding payments, without providing auditors access to detailed profit-and-loss statements to verify the actual financial situation or confirm whether profit distributions were made to shareholders.
 - **Shareholder-centric profit distribution:** Some suppliers fail to address the profit-sharing obligation with workers because they prioritize profit distribution solely among shareholders.
 - **Lack of adequate training for workers:** The profit-sharing requirement is frequently omitted from existing orientation programs and ongoing trainings regarding supplier wage and benefit structures.

FLA RECOMMENDATIONS

To effectively address this issue, companies sourcing from Egypt should take the following steps to integrate this legal obligation into their monitoring activities and supplier communications:

1. **Confirm if suppliers are impacted by the legal structure:** Determine if your suppliers are subject to Egyptian Law No. 159/1981 (e.g., operating as a joint stock company, partnership limited by shares, or limited liability company).
2. **Assess supplier awareness:** If the supplier falls under the scope of this law, verify their awareness of the profit-sharing obligation and whether they have made such payments in the past.
3. **Ensure workers are informed:** If profit sharing applies, ensure workers are clearly informed of their entitlement by engaging with workers, unions, and/or civil society organizations. Awareness materials can be included in:
 - Employment contracts;
 - Wage and benefits policies;
 - Orientation and periodical training sessions; and
 - Employee handbooks or workplace notice boards.
4. **Request supporting documentation:** If the supplier claims to have distributed profits, request documentation that demonstrates at least 10% of the net annual profit (not exceeding the total annual wages and salaries) has been paid to employees.
5. **Cross-verify payments with workers:** During audits, conduct interviews with workers to confirm their awareness of profit sharing and whether they have actually received the appropriate payments.

6. **Understand and verify exceptions:** If a supplier has not paid a profit share, inquire about the reasons (e.g., the company incurred a net loss or shareholder profits were withheld to distribute them for strategic investments).
7. **Emphasize that compliance is mandatory:** If profit-sharing payments were made to shareholders, equivalent payments to workers are legally mandated and cannot be postponed or cancelled by supplier management.

As Egypt continues to play a growing role in global textile and apparel supply chains, ensuring legal compliance around profit sharing is both a regulatory obligation and a significant worker rights issue. FLA members and all brands sourcing from the country have a key role to play in driving supplier awareness, auditor diligence, and transparent worker communication around this important component of fair compensation.

Please contact info@fairlabor.org for more information about this update.

FLA CODE ELEMENTS

FLA COMPENSATION BENCHMARKS FOR MANUFACTURING

C.1: Employers shall comply with all national laws, regulations and procedures concerning the payment of compensation to workers.

C.7: All payments to workers, including hourly wages, piecework, fringe benefits and other incentives shall be calculated, recorded, and paid accurately.

C.19: Employers shall make every reasonable effort to ensure workers understand their compensation.

ABOUT FAIR LABOR ASSOCIATION

Fair Labor Association (FLA) promotes human rights at work. We are an international network of companies, universities, and civil society organizations collaborating to ensure that millions of people working at the world's factories and farms are paid fairly and protected from risks to their health, safety, and well-being.