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*Egypt completes the second round of the parliamentary election, with the pro-government liberal **For the Love of Egypt (FLE)** coalition holding a sizeable majority of parliamentary seats. Germany-based Siemens AG secures first financial close agreement for part of its \$9 billion power generation contract. Egypt and Russia state-owned Rosatom Co sign an agreement to finance the construction of Dabaa nuclear power station. The International Chamber of Commerce orders Egyptian General Petroleum Corp and Egyptian Natural Gas Holding Co to pay \$2.05 billion in compensation to Israel-based companies. New Central Bank of Egypt governor Tarek Amer assumes office.*

Liberal parties dominate second round of parliamentary election

Egypt reached the third and final milestone of its political transition, following the completion of the second round of the parliamentary election on 2 December. The pro-government liberal **For the Love of Egypt (FLE)** coalition won all 60 party list seats available in the second round of elections meaning it will now hold all 120 party list seats in the unicameral house of representatives.¹ The exact makeup of the parliament remains unclear, as all but 9 of the 222 individual seats available in the second round required a run-off due to no candidate winning an overall majority.² The individual seats provided more meaningful competition as the party list seats whose “winner takes all” nature deterred parties from standing where they didn’t stand a decent chance of winning.

“On the list level there was no real competition. On the level of individual seats it was red-hot competition.”³

The final list of parliamentary members is expected on 20 December, but it looks as though the liberal FLE members **Free Egyptians, Nations Future** and **Wafd** will hold approximately 150 seats (see below).⁴

The second phase covered **Cairo, Qalyoubiya, Dakahliya, Menoufiya, Gharbeia, Kafr el-Sheikh, Sharqiya, Damietta, Port Said, Ismailia, Suez, North and South Sinai Governorates**. The **High Elections Commission** recorded a marginally higher turnout in the second round compared to the first, 29.84% compared to 26.56%.⁵ Cairo had the second lowest turnout in the second round with 19.9%.⁶ Voting took place in the second round of the parliamentary elections between 22 and 23 November.⁷ The Egyptian government gave state employees a half day off on 23 November, but this did not seem to increase the number of voters amid systemic political apathy due in part to the crackdown on liberal and Islamist parties.⁸ A low turnout combined with an absence of opposition critical of President **Abdel Fattah Al-Sisi** (2014- present) means the second round faces the same credibility concerns as the first round.⁹ This will undermine the democratic credibility of the new

¹ Egyptian Independent, 30 Nov 2015.

² Aswat Masriya, 30 Nov 2015.

³ Source, pro-government campaigner, Cairo

⁴ Aswat Masriya, 30 Nov 2015.

⁵ Al-Masry Al-Youm, 1 Dec 2015.

⁶ Al Ahram, 1 Dec 2015.

⁷ Al Ahram, 22 Nov 2015.

⁸ Al Ahram, 22 Nov 2015.

⁹ Source, journalist, Cairo

parliament before it even convenes in December. Observers, however, warned about the difficulty of determining the significance of voter apathy to Egypt's longer-term risk profile.¹⁰

*"We have not had an intense electoral or democratic experience in four years so you can't read what the trends are."*¹¹

The FLE is expected to dominate the parliament and is in discussions with other parties and individual candidates to form an even larger grouping, **The Coalition to Support the Egyptian State**. The FLE leadership includes **Sameh Seif al-Yazal**, a former military intelligence officer like Sisi, former foreign minister **Mohamed El-Orabi** and former information minister **Osama Heikal**.¹² The liberal private sector-friendly Free Egyptians under businessman **Naguib Sawiris** is expected to hold 65 seats, with the majority being individual candidates but some elected as part of FLE. The FLE members of parliament (MPs) include notable businessmen **Akmal Kurtam**, chairman of oil company **Sahara Projects and Investments Co**, **Mohamed Zaki El Sewedy** of **El Sewedy Electric Co**, and **Mortada Mansour**, the prominent chairman of Cairo's **Zamalek Sports Club**. The liberal Nations Future party under former student activist and **National Student Union** head **Mohammed Badran** is expected to hold 51 seats.¹³ The Nations Future party is linked to prominent businessmen **Ahmed Abu Hashima** and **Mohamed Farag Amer**.¹⁴ The liberal Wafd party whose leader is businessman **El-Sayed El-Badaw** is expected to hold 32 seats.¹⁵ The Salafist **Nour** party won only 11 seats.

The dominance of a coalition loyal to Sisi will raise concerns that parliament will not provide an effective check on his policy agenda.¹⁶

*"We have 65 parties in Egypt, can we name five of these parties that are in opposition to or against Sisi? No. There's no polarisation, and I believe polarisation is healthy for this kind of environment in Egypt because we need to talk about these things. If we're all just thinking, 'we are all against the terrorists, we are all against the war on terror', how can I debate with you on anything? We don't have any platform to debate about."*¹⁷

The FLE did not offer a meaningful electoral platform.

*"Elections are concerned with the personality, and not on the programme, the Egyptian voter depends on who gives him personal services, and solves his personal problems. When this bloc wins they'll build the programme for Sisi."*¹⁸

This will encourage Sisi to continue to make decisions unilaterally.

*"[A ruling party] can come up with ideas for policy, [but] I imagine Sisi can do this on his own, calling 10 of his buddies into a room, and asking, 'What's going on with the **Central Bank of Egypt [CBE]**?' I'm not sure a party is essential for these things. You can put stuff on autopilot."*¹⁹

Prime minister **Sherif Ismail** will present the current government's policy agenda to parliament.²⁰ If parliament backs the agenda, the current government will remain in office. If parliament does not approve, Sisi will appoint a new government.²¹ Increased popular discontent about insecurity following the downing of the **Kogalymavia Ltd (Metrojet)** plane in October (see *ARC Briefing Egypt November 2015*) has increased the importance of Ismail presenting a credible policy programme.

¹⁰ Soure, journalist, Cairo

¹¹ Source, liberal politician, Cairo

¹² Egyptian Independent, 30 Nov 2015.

¹³ Al Ahram, 3 Dec 2015.

¹⁴ Al Ahram, 3 Dec 2015.

¹⁵ Al Ahram, 3 Dec 2015.

¹⁶ Source, pro-government politician, Cairo

¹⁷ Source, pro-government politician, Cairo

¹⁸ Source, pro-government campaigner, Cairo

¹⁹ Source, political scientist, US

²⁰ Egyptian Independent, 5 Oct 2015.

²¹ Egyptian Independent, 5 Oct 2015.

Local media speculated in November that Ismail is struggling to balance increasing growth to 5.5% while retaining popular social security and subsidy programmes.²² Ismail has reportedly tasked the investment ministry to present a specific investment plan for each governorate.²³

Relationships between the government and parliament are crucial to political stability in 2016. The state council on 5 December appointed judge **Ahmed Saad** as secretary general of the house of representatives.²⁴ The appointment of an individual close to parliamentary affairs minister, **Magdy Al-Agaty**,²⁵ will reduce the independence of parliament. Agaty was previously vice president of the state council, a powerful judicial body. Saad replaces former intelligence officer **Khaled Al-Sadr** who had held the post since October 2014.²⁶ Sadr officially resigned on 4 December after Saad stated that he lacked the requisite academic and professional qualifications to be secretary general. However, Saad appears to have forced Sadr to resign amid frustration at his unilateral decision making during the parliamentary elections.²⁷

Egypt secures energy sector financing agreements

A series of financing agreements will reassure energy sector investors concerned that Egypt's foreign currency shortages will jeopardise ongoing and future projects. CBE capital controls prevent local banks from lending in dollars for projects that will receive revenue in pounds. The government guarantees payments for power producers in pounds. **Germany**-based **Siemens AG** announced on 23 November that it had secured the first financial close agreement for part of its \$9 billion contract to install 16.4 GW of new power generating capacity within the next four years.²⁸ Siemens and project partner El Sewedy Electric Co announced two credit supply agreements worth €2 billion (\$2.1 billion) with a consortium of banks.²⁹ The agreement will finance the **Beni Suef** natural gas-fired combined cycle power plant.³⁰ Overall, Siemens will deliver turnkey three natural gas-fired combined cycle power plants and 600 wind turbines.³¹ German and **Danish** export credit agencies are backing the project.³² The project will begin operating in 2016, and reach full production in the second quarter 2018. The project will increase Egypt's electricity supply by approximately 50% reducing pressure on the government to meet demand that it forecasts is increasing 6% annually.³³

Egypt has maintained its commitment to decreasing its dependence on conventional sources of energy. On 19 November, Egypt and **Russia** state-owned **Rosatomb Co** signed an agreement to finance the construction of the planned **Dabaa** nuclear power station.³⁴ The Egyptian government expects construction of the plant to finish by 2022.³⁵ Prime minister Sherif Ismail said on 28 November that nuclear power production will begin by 2024.³⁶ The plant will have four reactors, each with a production capacity of 1,200MW. The plant operator will be a company initially 20% Egyptian owned, and eventually 35%.³⁷ Neither government has confirmed the cost of the plant, but local media on 30 November published a draft agreement for a \$25 billion loan paid in tranches between 2016 and 2018.³⁸ The draft agreement states that the loan covers 85% of the costs, and that the Egyptian

²² Al Ahram, 22 Nov 2015.

²³ Al Ahram, 22 Nov 2015.

²⁴ Al Ahram, 5 Dec 2015.

²⁵ Al Ahram, 5 Dec 2015.

²⁶ Al Ahram, 5 Dec 2015.

²⁷ Al Ahram, 5 Dec 2015.

²⁸ Al Ahram, 3 Jun 2015.

²⁹ Reuters, 23 Nov 2015.

³⁰ Reuters, 23 Nov 2015.

³¹ Al Ahram, 3 Jun 2015.

³² Press Release, 3 Jun 2015.

³³ Al Ahram, 3 Jun 2015.

³⁴ Aswat Masriya, 19 Nov 2015.

³⁵ Aswat Masriya, 19 Nov 2015.

³⁶ Aswat Masriya, 28 Nov 2015.

³⁷ Aswat Masriya, 19 Nov 2015.

³⁸ Al Mal, 30 Nov 2015.

government will pay the remaining 15% either in dollars or Egyptian pounds straight to Rosatom.³⁹ Egypt will repay the loan over 22 years in bi-annual installments at a 3% annual interest rate, with the first payment due in October 2029.⁴⁰ Sisi has appeared to contradict this timeline, publicly stating that Egypt will repay the loan to Russia over 35 years from an unspecified share of revenues from the electricity generated.

Egypt has additionally secured financing from development finance institutions for its energy diversification strategy. The government on 30 November inaugurated the 200MW **Gabal Al-Zeit** wind plant.⁴¹ The German **Kreditanstalt für Wiederaufbau** development bank and the **European Investment Bank** provided two loans, and the **European Union** a grant, to finance the \$286m project.⁴² The deal was originally signed in December 2008 but the subsequent political uncertainty has delayed its completion. The **European Bank for Reconstruction and Development (EBRD)** has allocated \$500m and mobilised \$1.5 billion in debt and equity for 2016 to finance 2000MW solar projects.⁴³

Egypt has looked to various sources for hard currency for energy sector projects as it struggles to meet increasing demand. The **Saudi Fund for Development** on 29 November approved a \$100m loan for the expansion of **West Cairo Power Station**, which is expected to complete in the fourth quarter of 2019.⁴⁴ The **African Export-Import Bank** in November provided the state-owned **Egyptian Electricity Co** with a \$525m syndicated loan through its **Export Credit Agencies Loans Facilitation Programme** to finance the import of gas turbines from **Canada**.⁴⁵

Arbitration court orders Egypt companies to pay \$2.1 billion in compensation

The **Israel Electricity Corp (IEC)** and **Eastern Mediterranean Gas Co (EMG)** announced on 6 December that an arbitration court had ordered the state-owned **Egyptian General Petroleum Corp** and **Egyptian Natural Gas Holding Co** to pay \$2.05 billion in compensation.⁴⁶ The compensation ruling will prove detrimental to current talks over possible gas exports to Egypt from **Israel's** prospective offshore **Leviathan** field.⁴⁷ The compensation amounted to 40% of the total compensation IEC had sought, and 19% that EMG had sought.⁴⁸ The **Geneva-based International Chamber of Commerce** ruled in their favour after the Egyptian government annulled a 2005 20-year gas supply contract in April 2012 following repeated attacks on the export pipeline in the **Sinai Peninsula**.⁴⁹ The Egyptian petroleum ministry has said it will appeal the arbitration ruling and, until resolved, has suspended negotiations with IEC and EMG and the issuing of permits to companies importing gas from Israel.⁵⁰ In November, Israel-based **Delek Drilling LP** and **Avner Oil Exploration LP** signed a preliminary assessment to supply Egypt-based **Dolphinus Holdings** with four billion cubic meters of gas annually from Leviathan for a 15-year period when production begins in 2019/2020.

Reformists assume control of CBE

New CBE governor **Tarek Amer** assumed office on 27 November.⁵¹ Amer is likely to usher in monetary policy reforms including the possibility of the lifting of foreign exchange restrictions or

³⁹ Al Mal, 30 Nov 2015.

⁴⁰ Al Mal, 30 Nov 2015.

⁴¹ MENA, 30 Nov 2015.

⁴² MENA, 30 Nov 2015.

⁴³ www.ebrd.com

⁴⁴ www.ArabianBusiness.com

⁴⁵ Energy Monitor Worldwide, 27 Nov 2015.

⁴⁶ Daily News Egypt, 6 Dec 2015.

⁴⁷ Daily News Egypt, 6 Dec 2015.

⁴⁸ Daily News Egypt, 6 Dec 2015.

⁴⁹ Daily News Egypt, 6 Dec 2015.

⁵⁰ Daily News Egypt, 6 Dec 2015.

⁵¹ Al Ahram, 27 Nov 2015.

devaluation. The possibility of reform increased with Sisi appointing new reformist members to the CBE coordinating council. Former ousted president **Hosni Mubarak** (1981-2011) established the coordinating council in 2005 to determine the CBE's monetary agenda to deliver price and banking stability, and ensure effective harmonisation with government policy.⁵² The prime minister – head of the coordinating council – determines the agenda of meetings. Despite the intention that the coordinating council would meet once a quarter, Amer's predecessor **Hisham Ramez** underused and marginalised the council. The new members include **Farouk al-Okda**. Okda was the CBE governor between 2003 and 2013; he stabilised the pound within the managed floating exchange rate and established an interbank foreign exchange market. Sisi also extended the term of coordinating council member **Mohamed El Erian**, former CEO of **United States (US)**-based asset manager **Pimco**.⁵³ Other members include Amer, finance minister **Hany Kadry Dimian**, and **Abla Abdel Latif**, head of the presidential economic consultancy committee.⁵⁴ The new CBE leadership has moved quickly to reassure investors. It announced on 1 December that it had cleared a \$547m backlog of **Egyptian Exchange** foreign portfolio investment payments.⁵⁵ The CBE announcement triggered a rally, though the **EGX-30** benchmark index is still down approximately 25% across 2015.⁵⁶

Implications

The house of representatives is expected to hold its opening session at the end of December 2015 or in early January 2016. The Egyptian parliament will prove a fractious institution. Its immediate challenge is to review and vote on the hundreds of pieces of legislation passed in the two and a half years that Egypt has lacked a parliament. Constitutionally, parliament has only 15 days in which to complete this process. Particularly contentious laws include the March 2015 civil service law that revised the public sector payment structure and the August 2015 amended tax laws that suspended capital gains tax. The likelihood is that parliament will fail to meet the 15-day deadline, raising the risk of additional political and legal challenges for Sisi. Secretary general Ahmed Saad will play a key role in easing the relationship between parliament and the government. The number of businessmen in parliament will facilitate new business friendly legislation including an amended investment code.

The financing agreements will facilitate Egypt's current energy strategy, which aims to increase the share of renewable energy to 20% of Egypt's energy mix by 2020. Increased investment in the energy sector will eventually lift a key bottleneck to business activity in Egypt. Investors will, however, remain wary, especially of strategic, heavily politicised sectors such as energy. The strategic importance of natural gas and the involvement of state-owned enterprises increase the possibility that Egypt and Israel will reach a political settlement with regard to the arbitration ruling.

The changes at the CBE suggest reform of its monetary and exchange rate policy are imminent. Economic reforms will support growth and increased investment through 2016.

⁵² MENA, 26 Nov 2015.

⁵³ MENA, 26 Nov 2015.

⁵⁴ MENA, 26 Nov 2015.

⁵⁵ Egyptian Independent, 1 Dec 2015.

⁵⁶ Egyptian Independent, 1 Dec 2015.

About Africa Risk Consulting:

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