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An Egyptian Air Force airstrike kills Abu Duaa al-Ansari, leader of the Sinai Province militant group (formerly known as Ansar Beit al-Maqdis). Supply minister Khaled Hanafi resigns after a parliamentary committee finds him politically responsible for corruption in the wheat supply chain. The International Monetary Fund (IMF) reaches a staff-level agreement with Egypt for a \$12 billion three-year extended fund facility (EFF). The government increases electricity prices between 2.9-19% and 21-57% for commercial and residential users respectively. Electricity minister Mohamed Shaker meets feed-in-tariff (FIT) developers to discuss their objections to revised Egyptian Electricity Transmission Co (EETC) project terms.

Military kills Sinai Province militant leader

The **Sinai Province** militant group (formerly known as **Ansar Beit al-Maqdis**) on 18 August confirmed the death of its leader **Abu Duaa al-Ansari** following **Egyptian Air Force** airstrikes.¹ It is unlikely that Ansari's death will in the long-term significantly curb the Sinai Province group's capacity to conduct attacks in either the **Sinai Peninsula** or major urban centres including **Cairo**. The military in a statement on 4 August claimed that it killed Ansari and 45 other militants in a series of air strikes on an unspecified date that targeted militants and an arms depot to the south of **El-Arish (North Sinai Governorate)**.² North Sinai is the Sinai Province militant group's heartland, though it is increasingly active in central Sinai.³ Until the Sinai Province statement, there was uncertainty about the air strikes and the position of Ansari. The military had not previously referred to Ansari as the leader of the Sinai Province and, as Ansari appears to be a *nom de guerre*, does not appear to know his real identity.⁴ The Sinai Province group had never publically declared the identity of its leader.⁵ After announcing the death of Ansari, the Sinai Province group named **Abd Allah** as his successor.⁶ In its statement, the Sinai Province group reiterated its commitment to the **Islamic State (IS)** militant group.⁷ The Sinai Province group changed its name from Ansar Beit al-Maqdis in November 2014 when it first pledged allegiance to the Islamic State.

The Egyptian military claims that "*accurate intelligence*"⁸ guided the airstrikes. Egyptian security services have previously struggled to gather intelligence about the Sinai Province group.⁹ This has encouraged the military's heavy-handed operations in the Sinai Peninsula, including the widespread demolition of houses and property.¹⁰ Instead of curbing the activities of the Sinai Province group, it fuelled anti-government grievances.¹¹

"Clearly in line with the government message, the local press hailed Ansari's death as the 'end of terrorism' but there's not much to suggest this is true. You cannot bomb away the legitimate

¹ Aswat Masriya, 19 Aug 2016.

² Aswat Masriya, 5 Aug 2016.

³ Aswat Masriya, 5 Aug 2016.

⁴ Aswat Masriya, 5 Aug 2016.

⁵ Aswat Masriya, 5 Aug 2016.

⁶ Aswat Masriya, 19 Aug 2016.

⁷ Aswat Masriya, 19 Aug 2016.

⁸ Aswat Masriya, 5 Aug 2016.

⁹ Source, analyst, Egypt

¹⁰ Source, analyst, Egypt

¹¹ Source, analyst, Egypt

*grievances of the local population that led to some joining the insurgency and others to becoming sympathisers. These grievances still remain, they're bigger than the government's sudden announcement it will develop the Sinai with **Saudi Arabia** money. After decades of mistreatment, people in Sinai don't trust the Egyptian government. Period. The bombing of **Arish** and **Rafah**, and creating an exclusion zone, which cost hundreds of people their homes, have only turned people towards the militants. This war isn't about this one man or the Islamic State, and it's hardly over."*¹²

According to a second source,

*"There is a lot of scepticism, both from the residents of North Sinai and from those who have been watching the region over the past few years as to what the death of this leader will mean. The military have shown themselves to be brutal occupiers so far. Phone and electricity blackouts, extrajudicial killings, and most recently they stopped the passage of food trucks into Rafah. The strategy hasn't worked so far, but instead feels like more punishment for people who were already marginalised."*¹³

The Egyptian military launched its **Operation Martyr's Right** in September 2015, and is currently in the third stage of the counter-terrorism strategy.¹⁴ This involves using airstrikes to dislodge Islamist militants, before the **Egyptian Armed Forces (EAF)** deploy soldiers to secure the territory.¹⁵ While the EAF have successfully conducted the first half of this strategy, they have proved less successful at holding territory.¹⁶ In recent months, the Sinai Province group has increased the frequency and effectiveness of its attacks by targeting military sites, checkpoints and patrols in North Sinai.

*"North Sinai continues to unravel, despite the military's assertions. The efforts to rid the area of tunnels and of militants have caused great hardship for the average resident, and in typical style the execution of army policy, which has included destroying homes and the deaths of a number of innocent locals couldn't not have been done with less consideration or at a worse time."*¹⁷

While the Sinai Province group is the best established and most active of Egypt's Islamist militant groups, others continue to pose a threat. The less-prominent **Hasam Movement** on 5 August claimed responsibility for the attempted assassination of former grand mufti **Ali Gomaa**.¹⁸ Gunmen opened fire on Gomaa and his bodyguards as he entered a mosque in Cairo's **6th of October** district to deliver the Friday sermon.¹⁹ The attack was notable as it was the first targeting of a senior cleric since the insurgency escalated in mid-2014 following the ousting of former president **Mohamed Morsi** (2012-2013) the previous year. The grand mufti is a state appointment position that Gomaa held between 2003 and 2013.²⁰ Gomaa backed the military campaign in the Sinai Peninsula and is a public supporter of President **Abdel Fattah Al-Sisi** (2014- present) who has promoted a state-sanctioned moderate brand of Islam.²¹ Sisi has marginalised Islamist politics in Egypt, including proscribing the **Muslim Brotherhood**.²² This has forced their younger members towards more radical groups.²³

"The attempted assassination of Gomaa is an example of the intersection of various disputes. Between the government and a fractured militancy, amongst the religious establishment itself, in

¹² Source, journalist, Cairo

¹³ Source, journalist, Cairo

¹⁴ www.dailynewsegypt.com

¹⁵ www.dailynewsegypt.com

¹⁶ Source, analyst, Egypt

¹⁷ Source, Sinai expert, Cairo

¹⁸ Aswat Masriya, 5 Aug 2016.

¹⁹ Aswat Masriya, 5 Aug 2016.

²⁰ Aswat Masriya, 5 Aug 2016.

²¹ Aswat Masriya, 5 Aug 2016.

²² Source, analyst, Egypt

²³ Source, analyst, Egypt

which Gomaa continues to stir controversy. And also is indicative of the anger in the country, which, without any avenue for judicial remedy, boils into sporadic outbursts of violence.”²⁴

Supply minister Khaled Hanafi resigns amid corruption allegations

Supply minister **Khaled Hanafi** resigned on 25 August amid alleged corruption in the procurement, storage and sale of wheat.²⁵ Prime minister **Sherif Ismail** will prioritise political stability until the **International Monetary Fund (IMF)** executive board approves the \$12 billion extra fund facility (EFF) (see below), reducing the possibility that Hanafi’s resignation will result in a broader cabinet reshuffle. The supply ministry is responsible for both the government’s food subsidy programme and the state-owned grain purchaser, the **General Authority for Supply Commodities (GASC)**. Hanafi had a reputation for failing to efficiently implement bread subsidy reforms, for allowing rice shortages, and for failing to address price spikes.²⁶ Hanafi resigned after member of parliament (MP) **Mustafa Bakri** accused him of using public funds to maintain a suite at a five-star hotel in Cairo since his ministerial appointment in February 2014.²⁷ Bakri is a member of a parliamentary committee that in July started scrutinising alleged systemic fraud and corruption in the wheat supply system (see below).²⁸

The parliamentary committee in early August submitted a report to parliamentary speaker **Ali Abdel-Al** that found Hanafi politically responsible for “wasting public funds”²⁹ through corruption worth 1 billion Egyptian pounds (EGP) (\$112.6m) during each wheat procurement season.³⁰ The report details alleged corruption throughout the supply chain, but does not accuse Hanafi of directly benefiting from misallocated funds. The report claims that local suppliers falsified receipts to receive increased government payments. Alleged incidents of corruption include 200,000 tonnes of wheat missing at ten privately owned and managed storage sites.³¹ The report also alleges that companies are mixing domestic and smuggled imported wheat to benefit from the government’s higher fixed price for locally produced grain.³² Hanafi had previously called on the government to abandon the two-tier price system and in late 2015 oversaw a failed attempt to adopt a single price.³³ Abdel-Al on 29 August submitted the report to the office of the prosecutor general and the **Illicit Gains Authority** for criminal investigation and possible prosecution.³⁴ Authorities have subsequently ordered arrests, travel bans and asset freezes on private silo owners. Trade minister **Tareq Kabil** assumed responsibility for the supply portfolio before the government on 7 September appointed former army general major general **Mohammed Ali el-Sheikh** as Hanafi’s permanent successor.³⁵

IMF reaches staff-level agreement with Egypt

The IMF on 11 August announced that it had reached a staff-level agreement with Egypt for a \$12 billion three-year extended fund facility (EFF).³⁶ The EFF faces domestic popular opposition, which increases implementation risks. The IMF executive board must still approve the EFF agreement.³⁷ The board is expected to meet to discuss the proposed agreement in the coming weeks.³⁸ Deputy finance minister **Ahmed Kouchouk**, has said Egypt could receive the first \$2.5 billion EFF disbursement

²⁴ Source, security focused journalist, Cairo.

²⁵ Aswat Masriya, 25 Aug 2016.

²⁶ Reuters, 29 Aug 2016.

²⁷ Aswat Masriya, 25 Aug 2016.

²⁸ Aswat Masriya, 25 Aug 2016.

²⁹ Aswat Masriya, 25 Aug 2016.

³⁰ Aswat Masriya, 25 Aug 2016.

³¹ Aswat Masriya, 25 Aug 2016.

³² Aswat Masriya, 25 Aug 2016.

³³ Aswat Masriya, 25 Aug 2016.

³⁴ Aswat Masriya, 29 Aug 2016.

³⁵ Aswat Masriya, 25 Aug 2016.

³⁶ Aswat Masriya, 11 Aug 2016.

³⁷ Aswat Masriya, 11 Aug 2016.

³⁸ Aswat Masriya, 11 Aug 2016.

before the end of September.³⁹ The remaining tranches would be tied to performance conditions (see below). The IMF would release the next \$1.5 billion subject to the first scheduled review in February/March 2017.⁴⁰ The IMF would disburse the remaining \$8 billion in four equal instalments during the final two years of the EFF.⁴¹

The EFF will facilitate the government's economic reform programme, which parliament approved in April, including improving the efficiency of the foreign exchange market, decreasing the fiscal deficit and government debt, and encouraging growth and employment.⁴² The government has reportedly agreed with the IMF to fully implement value added tax (VAT), continue its policy of removing energy subsidies, and prioritise capital infrastructure investment.⁴³ Under the programme, the IMF expects government debt to decrease from 98% of gross domestic product (GDP) in 2015/2016 to approximately 88% of GDP in 2018/2019.⁴⁴

Additionally, the IMF has called on the government to support the **Central Bank of Egypt (CBE)** in introducing a flexible exchange rate regime and increasing foreign reserves.⁴⁵ Pressure on foreign reserves has increased in recent months. In July, the CBE repaid \$2.25 billion foreign debts, including \$1.02 billion owed to **Qatar** for the redemption of Eurobonds, \$715m owed to the **Paris Club** creditors under a 1991 rescheduling deal, and \$250m owed to **Libya** from a five-year interest free CBE deposit agreed in 2013.⁴⁶ Additionally, the CBE paid \$207m to the **National Petroleum Authority** and covered \$55m in short-term debt.⁴⁷ These payments contributed to a decline in net international reserves from \$17.55 billion at the end of June to \$15.54 billion at the end of July.⁴⁸ Egypt is due to repay international bonds worth \$3 billion on 17 December.⁴⁹ Without additional multilateral and bilateral donor support, the repayment schedule will exacerbate the CBE dollar liquidity crisis. According to the finance ministry, the return on the bonds issued in December 2013 is 3%.⁵⁰ The finance ministry has additional \$500m commitments by 1 June 2017.⁵¹

The IMF reforms may carry implementation risks as they will probably involve currency devaluation, which will increase inflation at the expense of real incomes, and politically unpalatable subsidy cuts.⁵² Finance minister **Amr al-Garhy** has said that the government will strengthen the social safety net while introducing these reforms, but has not provided specific details about how it intends to do this. Sisi on 14 August said he is committed to economic reform to reduce the government debt and deficit despite the risk of social unrest.⁵³

The IMF called on multilateral financial institutions and bilateral **Gulf State** donors to increase their support to Egypt.⁵⁴ The IMF has warned that executive board approval will need the government to secure \$5 billion to \$6 billion in bilateral financing during the first year of the IMF programme.⁵⁵ Saudi Arabia and the **United Arab Emirates** previously pledged a combined \$4.5 billion in CBE deposits and investments subject to the approval of an IMF loan.⁵⁶ International cooperation minister **Sahar**

³⁹ MENA Today, 12 Aug 2016.

⁴⁰ MENA Today, 12 Aug 2016.

⁴¹ MENA Today, 12 Aug 2016.

⁴² MENA Today, 12 Aug 2016.

⁴³ MENA Today, 12 Aug 2016.

⁴⁴ MENA Today, 12 Aug 2016.

⁴⁵ MENA Today, 12 Aug 2016.

⁴⁶ MENA, 17 Aug 2016.

⁴⁷ MENA, 17 Aug 2016.

⁴⁸ MENA, 17 Aug 2016.

⁴⁹ MENA, 17 Aug 2016.

⁵⁰ MENA, 17 Aug 2016.

⁵¹ MENA, 17 Aug 2016.

⁵² Aswat Masriya, 11 Aug 2016.

⁵³ Nile TV, 13 Aug 2016.

⁵⁴ MENA Today, 12 Aug 2016.

⁵⁵ MENA Today, 12 Aug 2016.

⁵⁶ MENA Today, 12 Aug 2016.

Nasr said on 18 August that the CBE is due to receive a previously unannounced \$2 billion deposit from Saudi Arabia.⁵⁷

Ratings agency **Fitch** has welcomed the IMF financial package.⁵⁸ Fitch, however, warned that implementation risks are high and that economic challenges will persist. Fitch said that the IMF deal, if concluded, would fall short of Egypt's total annual financing needs of \$10 billion.⁵⁹ However, the IMF package would encourage increased investment inflows, facilitate currency devaluation, and accelerate fiscal reform.⁶⁰ Fitch also noted that the IMF assistance would come in scheduled tranches, making it more predictable and transparent than Egypt's current financial support from the Gulf states.⁶¹ Fitch warned of political opposition to the IMF deal, but said the IMF is likely to accommodate domestic concerns about the pace of fiscal retrenchment.⁶²

Government increases electricity prices

The government on 9 August increased electricity prices in line with the planned phasing out of power subsidies by 2020.⁶³ The **Egyptian Electric Utility and Consumer Protection Regulatory Agency (EEUCPRA)** is responsible for reviewing energy prices. The EEUCPRA cited the increased cost of electricity production, which has risen 34% in the past year from 0.47 Egyptian pounds (EGP) (\$0.053) per 1 kilowatt hour (kWh) to EGP 0.63 (\$0.072).⁶⁴ This has increased pressure on the government subsidy bill, which the government projected would treble unless prices increased.⁶⁵ The new rates come into effect in September, but will be applied retrospectively to cover the period from July.⁶⁶ For commercial and household consumers, the new prices will continue to depend on usage:⁶⁷

Usage (kWh)	Current price (EGP)	New price (EGP)	Change (%)
Commercial			
0-100	0.34 (\$0.038)	0.35 (\$0.039)	2.94
101-600	0.58 (\$0.065)	0.69 (\$0.078)	19.0
Above 600	0.86 (\$0.097)	0.96 (\$0.11)	11.6
Residential			
0-50	0.07 (\$0.008)	0.11 (\$0.012)	57.0
51-100	0.14 (\$0.016)	0.19 (\$0.021)	35.7
100-200	0.16 (\$0.018)	0.21 (\$0.024)	31.2
200-350	0.30 (\$0.034)	0.42 (\$0.047)	40.0
351-650	0.39 (\$0.044)	0.55 (\$0.062)	41.0
651-1,000	0.68 (\$0.077)	0.95 (\$0.11)	39.7
Above 1,000	0.78 (\$0.088)	0.95 (\$0.11)	21.8

⁵⁷ Aswat Masriya, 18 Aug 2016.

⁵⁸ Financial Services Monitor Worldwide, 3 Aug 2016.

⁵⁹ Financial Services Monitor Worldwide, 3 Aug 2016.

⁶⁰ Financial Services Monitor Worldwide, 3 Aug 2016.

⁶¹ Financial Services Monitor Worldwide, 3 Aug 2016.

⁶² Financial Services Monitor Worldwide, 3 Aug 2016.

⁶³ www.dailynewsegyp.com

⁶⁴ www.dailynewsegyp.com

⁶⁵ www.dailynewsegyp.com

⁶⁶ Utilities Monitor Worldwide, 10 Aug 2016.

⁶⁷ Utilities Monitor Worldwide, 10 Aug 2016.

The **Egyptian Federation of Investor Associations** has warned that the electricity price change will increase the production costs of domestically manufactured goods between 20 and 30%.⁶⁸

The electricity ministry in May revised 2014 proposals for the phasing out of electricity subsidies, changing the deadline from 2019 to 2020 due in part to the declining value of the Egyptian pound.⁶⁹ The current budget provides for EGP 30 billion (\$3.4 billion) in electricity subsidies compared to EGP 39 billion (\$4.4 billion) in 2015/2016.⁷⁰ The government is targeting EGP 9 billion (\$1.1 billion) electricity subsidies in 2019.⁷¹

The price increase comes as the government dispute with renewable energy developers continues over the feed-in-tariff (FIT) programme. Electricity minister **Mohamed Shaker** held a series of meetings with developers in August to discuss their objections to revisions that the government made in May to **Egyptian Electricity Transmission Co (EETC)** project terms.⁷² The new terms restrict companies to domestic arbitration and insist that 85% of funding come from foreign sources.⁷³ At least 20 companies are reportedly reconsidering their investments ahead of planned financial closure for phase 1 of the government's renewables development strategy in October.⁷⁴

Implications

The EAF will use the death of Ansari to defend its airstrikes-led strategy against the Sinai Province group. However, the strategy has so far had little impact on Sinai Province's operational capacities. It has failed to stop the group increasing its activities in central Sinai, nearer to strategic economic targets (including the **Suez Zone** and the **Arish-Taba** gas pipeline) and tourist targets (including the **Sharm el-Sheikh** resorts). The government prohibition on vehicles for moderate political Islam will encourage radical group recruitment including in poor urban areas of Cairo.

The resignation of Hanafi and the critical parliamentary report highlights the risk of corruption in state commercial interactions. This may increase popular support for IMF-backed economic reforms. However, it may deter potential investors as the government looks to privatise state-owned enterprises amid concerns about continued state interference.

The IMF executive board is likely to approve the EFF in the third quarter, and Egypt will then receive the first tranche of funds in the same quarter. This will immediately reduce pressure on the CBE's foreign reserves and the dollar liquidity crisis. It will also unlock additional external funding from other multilateral and bilateral sources, and support the implementation of fiscal and economic reforms.

The new electricity prices will reduce pressure on government spending. However, companies are likely to pass on the additional cost to consumers, increasing inflationary pressures. While the government cannot afford to rehabilitate and extend its energy infrastructure, the uncertainty over the FIT programme signals the challenges in developing a fair and attractive investment environment within the sector. The government is expected to make an announcement on the future of the FIT programme in early September.

⁶⁸ www.dailynewsegypt.com

⁶⁹ Utilities Monitor Worldwide, 10 Aug 2016.

⁷⁰ Utilities Monitor Worldwide, 10 Aug 2016.

⁷¹ www.dailynewsegypt.com

⁷² Al Borsa, 25 Aug 2016.

⁷³ Al Borsa, 25 Aug 2016.

⁷⁴ Al Borsa, 25 Aug 2016.

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