

AFRICA RISK CONSULTING

Egypt Monthly Briefing February 2016

Egypt Summary 26 February 2016

The unexplained death of Italian student Giulio Regeni highlights increased concern about security forces abusing their powers. President Abdel Fattah Al-Sisi (2014- present) promises new legislation will limit Egyptian Police abuses following a separate incident in which an off duty police officer shot dead a taxi driver. China and Egypt announce a series of infrastructure projects and financing agreements. The World Bank publishes policy prescriptions of a \$3 billion loan. The Central Bank of Egypt (CBE) loosens controls on foreign currency cash deposit limits, as the government imposes customs tariffs on a range of imported goods.

Killing of Italian student causes political tensions

Relations between **Italy** and **Egypt** have deteriorated following the death in **Cairo** of Italian student **Giulio Regeni**.¹ If the involvement of security forces in Regeni's death is proved, it will signal that foreigners are not immune from the government's ongoing crackdown on internal dissent. Regeni was a PhD student from the **University of Cambridge (United Kingdom)** undertaking research in Egypt.² Regeni disappeared on 25 January and his body was found on 4 February.³ Government officials initially stated that Regeni had died in a road accident. However, prosecutor **Ahmad Nagi** retracted this and confirmed that Regeni's body indicated signs of torture.⁴ Regeni was researching labour unions in Egypt, and published stories in the Italian media on the topic critical of the Egyptian government. Regeni reportedly told his Italian employers, daily newspaper **Il Manifesto**, to publish his articles under a fake name due to concerns about his safety.⁵ An Egyptian journalist has also alleged that she saw security forces detain a westerner resembling Regeni at protests in **Giza** on 25 January.⁶

"Giulio Regeni's death has inadvertently given the world an inside view of Egypt's grim internal politics."⁷

Regeni's death has focused attention on President **Abdel Fattah Al-Sisi's** (2014-present) ongoing security crackdown and the broad powers that the security forces enjoy under the August 2015 anti-terror law.⁸

"In the aftermath of Regeni's death, there is a lot more attention on the government and the absurd events happening in Egypt. It has created this question about legitimacy; both domestically, and internationally questions are being asked."⁹

The incident has damaged bilateral relations. Italy initially suspended a delegation of businessmen and development ministry officials scheduled to visit Cairo on 4 February.¹⁰ The delegation was due

¹ Egyptian Independent, 5 Feb 2016.

² Egyptian Independent, 5 Feb 2016.

³ Egyptian Independent, 5 Feb 2016.

⁴ Egyptian Independent, 5 Feb 2016.

⁵ Reuters, 5 Feb 2016.

⁶ www.madamasr.com

⁷ Source, economic analyst, Cairo

⁸ Egyptian Independent, 18 Jan 2015.

⁹ Source, journalist, Cairo

to discuss investment opportunities in the **Suez Canal Corridor Area Project**.¹¹ Italy is a leading investor in Egypt, with investments in the energy, telecommunications and banking sectors worth €2.5 billion (\$2.8 billion).¹² However, the trade delegation did eventually travel to Cairo.

“It defies belief that the Italians are prepared to continue working as ‘partners in peace’ with a government that has no intention of holding to account those responsible for the gruesome death of Regeni. And as for justice...what justice? While Egypt continues to deny that Regeni was tortured, despite his body bearing the hallmarks of an inside job... the [Italian] trade delegation is back in Cairo collaborating on projects to boost the country’s failing tourism sector.”¹³

There is a perception that the Italians are responding to domestic pressure to be seen to be doing something in response to Regeni’s death but will continue to prioritise commercial interests.

“Publicly the Italians want someone held responsible, their citizens are demanding it, but if they were interested in justice they would be protesting the fact that the officer leading the investigation [into Regeni’s death] has been previously implicated in torturing another man to death. So it seems like business as usual.”¹⁴

However, the incident has damaged investor perceptions of Egypt, and it may not just be the Italian government that is questioning its economic and commercial ties with the Sisi government.

*“Aside from shining a bright light on the reality that Egyptians are facing every day, [the circumstances of Regeni’s death] also place an uncomfortable spotlight on the Italians, and for that matter the business activities of the **European Union** countries themselves. They knew all along of the abuses happening under this government [that they are working with] and they looked the other way, thinking the price of doing business would not be paid for by one of their own. They were wrong. And in the long term, it will be interesting to see how sustainable this partnership, and others like it, actually are.”¹⁵*

Sisi on 18 February said he would use legislative reform to curb **Egyptian Police** abuses.¹⁶ Security force abuses have increased popular criticism of the Sisi government. An off duty police officer on 18 February allegedly shot dead unarmed taxi driver **Mohamed Ali** in the **al-Darb al-Ahmar** neighborhood of Cairo.¹⁷ According to the interior ministry account, the civilian and the police officer argued over the taxi fare.¹⁸ The policer officer fired his weapon after a crowd gathered around the dispute.¹⁹ The killing triggered peaceful protests outside the security directorate in Cairo.²⁰ The day after the incident, Sisi discussed the incident with interior minister **Magdy Abdel Ghaffar**.²¹ Sisi ordered the interior ministry to introduce legislation to toughen sanctions for police abuses and ensure greater accountability.²² Ghaffar has begun a review of all legal frameworks that govern the Egyptian Police, and Sisi will introduce amendments to parliament in the next weeks.²³ Egyptian

¹⁰ Egyptian Independent, 5 Feb 2016.

¹¹ AFP, 8 Feb 2016.

¹² Source, business consultant, UK

¹³ Source, foreign diplomat, Cairo

¹⁴ Source, senior economic advisor, Cairo

¹⁵ Source, economic analyst, Cairo

¹⁶ Aswat Masriya, 19 Feb 2016.

¹⁷ Aswat Masriya, 19 Feb 2016.

¹⁸ Aswat Masriya, 19 Feb 2016.

¹⁹ Aswat Masriya, 19 Feb 2016.

²⁰ Aswat Masriya, 19 Feb 2016.

²¹ Aswat Masriya, 19 Feb 2016.

²² Aswat Masriya, 19 Feb 2016.

²³ Egyptian Independent, 21 Feb 2016.

prosecutors on 21 February announced charges against the police officer.²⁴ However, it is uncertain whether Sisi has the authority or the will to address the powers of the security forces.

“The brutal death of Giulio Regeni represents yet another failed attempt by the government to control the fragmented security apparatus. Worse still, it shows the lack of political savviness of this government. Anger regarding police abuse is again brewing. Instead of coming out in front of this crisis [the government] is running scared and resorting to conspiracy theories, and what they don’t see is that denial is not going to cut it anymore.”²⁵

Government looks abroad for foreign exchange

The Egyptian government has looked to international sources to meet its shortage of foreign exchange. International loans will reassure Egypt’s suppliers and creditors in the medium term, but it is not clear if they are sufficient to ensure the government can meet its short-term payment obligations. **China** and Egypt announced a series of infrastructure projects and financing agreements during the state visit of President **Xi Jinping** (2013- present) on 21 and 22 January.²⁶ The injection of Chinese funds will reduce pressure on Egypt’s balance of payments with both private and state-owned enterprises struggling to meet their payment obligations. The Chinese delegation announced a \$1 billion loan facility to the **Central Bank of Egypt (CBE)** and \$700m to the state-owned **National Bank of Egypt (NBE)**.²⁷ It is not clear whether the CBE facility is a government loan or a long-term deposit from the state-owned **People’s Bank of China**. The NBE loan agreement was signed with the **China Development Bank**.²⁸ The NBE loan will finance infrastructure projects involving Chinese companies. Egypt will repay the NBE loan over eight years with three years’ grace, but has not disclosed the interest rate.²⁹ The total value of the infrastructure projects is approximately \$15 billion.³⁰ The memorandum of understanding includes:

- **China State Construction Engineering Corp**-constructed \$2.7 billion first phase of Egypt’s new administrative capital including parliament and government buildings;³¹
- **Shanghai Electric Co Ltd**-constructed \$2.6 billion 2,640 megawatt (MW) coal-fired power station in the **Red Sea Governorate**;
- **State Grid Corp of China**-constructed \$650m transmission grid extension project;
- **Dongfang Electric Corp**-constructed \$1 billion 3,960MW coal fired power station in the Red Sea Governorate; and
- **AVIC International Holding Corp** and **China Railway Group Ltd**-constructed \$1.5 billion light rail project linking Cairo to industrial areas in eastern Egypt.

The **Export Import Bank of China (China Exim)** and **Industrial and Commercial Bank of China** will finance the majority of the infrastructure projects.³² Xi pledged that Chinese investment in the **Suez Canal** economic zone would increase from \$400m currently to \$2.5 billion in the next phase of its development.³³ Egypt also agreed to encourage Chinese oil and gas companies and petrochemicals companies, including the construction of refineries.³⁴ Egypt also announced a visa-waiver arrangement for Chinese tourists.

²⁴ Egyptian Independent, 21 Feb 2016.

²⁵ Source, political analyst, Cairo

²⁶ Egyptian Independent, 21 Jan 2016.

²⁷ Egyptian Independent, 21 Jan 2016.

²⁸ Al Borsa, 21 Jan 2016.

²⁹ Al Borsa, 21 Jan 2016.

³⁰ Al Borsa, 21 Jan 2016.

³¹ Al Borsa, 21 Jan 2016.

³² Al Ahram, 21 Jan 2016.

³³ Reuters, 22 Jan 2016.

³⁴ SinoCast, 22 Jan 2016.

The **World Bank** on 30 January published details of its \$3 billion loan to the Egyptian government.³⁵ The World Bank agreed the development policy finance loan in December. The loan is the first disbursement under an \$8 billion financing plan between 2015 and 2019.³⁶ The loan will further ease pressure on Egypt's foreign reserves. The World Bank will disburse the remaining funds over the next four years with future loan installments dependent on the progress of economic reforms. The soft loans have an interest rate of 1.68%, a grace period of five years, and a 35-year maturity.³⁷ The World Bank said of the remainder, \$3 billion would finance development projects and \$2 billion the private sector. The World Bank's **International Finance Corp** is providing approximately \$2 billion of the total loan.³⁸ The World Bank in January said the government has committed to decreasing the ratio of the government's wage bill from 8.2% of gross domestic product (GDP) in the 2015-2016 fiscal year to 7.5% by 2018-2019.³⁹ The government has also committed to increasing non-sovereign corporate income tax proceeds and sales taxes from 5.4% to 6.7% in the same period.⁴⁰ The government aims to decrease energy subsidies as a percentage of GDP from 6.6% in 2014-2015 to 3.3% in 2016-2017.⁴¹ Egypt has agreed to increase the average consumer electricity tariff from 0.226 Egyptian pounds (EGP) (\$0.029) per kilowatt hour in 2014-2015 to EGP 0.451 (\$0.058) by 2018-2019.⁴² The government also agreed to increase private sector-owned renewable energy projects to 1,500MW by 2018-2019.⁴³

The China agreements and World Bank loan come after **Saudi** defence minister and deputy crown prince **Mohammed bin Salman bin Abdel-Aziz al-Saud** said in December that Saudi Arabia will provide Egypt with \$8 billion in financial support over five years.⁴⁴ The pledge of continued Saudi financial support will alleviate the shortage of foreign exchange. The Saudi government said the support would include investments in the Egyptian economy, fuel supplies, and increased Saudi shipping traffic through the Suez Canal.⁴⁵ There is also speculation that Saudi Arabia will invest in Egyptian treasury bills and bonds, which would finance the fiscal deficit and increase capital inflows, improving Egypt's balance of payments.⁴⁶

Central bank reforms import regulations

The CBE on 26 January loosened controls on foreign currency cash deposit limits for importers. The move signals a more business-friendly stance under new CBE governor **Tarek Amer** than under predecessor **Hesham Ramez**. The CBE increased the monthly cap on dollar deposits for basic imports, including capital goods, to \$250,000 (or equivalent in foreign currency) from \$50,000 and removed entirely the \$10,000 daily cap.⁴⁷ The CBE also allowed importers to carry forward to the following month any unused remainder of the \$250,000 allocation. The majority of Egypt's imports including food supplies fall under the CBE's definition of basic goods. The CBE in February 2015 introduced the deposit restrictions to shore up foreign reserves and curb the foreign currency black market. The increased limit covers both basic commodities and production machinery, manufacturing components, chemical products and pharmaceuticals. Restrictions remain in place on companies and

³⁵ Middle East Business News, 31 Jan 2016.

³⁶ World Bank, 18 Dec 2015.

³⁷ Daily News Egypt, 19 Dec 2015.

³⁸ World Bank, 18 Dec 2015.

³⁹ Middle East Business News, 31 Jan 2016.

⁴⁰ Middle East Business News, 31 Jan 2016.

⁴¹ Middle East Business News, 31 Jan 2016.

⁴² Middle East Business News, 31 Jan 2016.

⁴³ Middle East Business News, 31 Jan 2016.

⁴⁴ Saudi Press Agency, 19 Dec 2015.

⁴⁵ Saudi Press Agency, 19 Dec 2015.

⁴⁶ MENA, 17 Dec 2015.

⁴⁷ MENA, 26 Jan 2016.

individuals importing all other goods. The CBE also prohibited companies that do not register with the government from importing finished products.⁴⁸

The government on 31 January additionally gazetted Sisi's presidential decree (25/2016) imposing customs tariffs on a range of imported goods.⁴⁹ The government expects the decree to support local manufacturing and reduce pressure on foreign reserves. The new tariffs of between 5% and 40% affect hundreds of household appliances, consumer electronics, clothing and luxury items.⁵⁰ These compare to previous tariffs of between 10% and 30%.⁵¹ **Magdi Abdel-Aziz**, head of the **Egyptian Customs Authority**, has said the new tariffs will increase customs revenue by \$128m in the second half of the 2015/ 2016 fiscal year.⁵² The government additionally adds a 25% sales tax to customs tariffs.

Implications

Egyptians have under Sisi accepted a deterioration in Egypt's human rights record as the price of stability since the chaos that followed the 2011 uprising that ousted former president **Hosni Mubarak** (1981-2011). The death of Regeni highlights that other governments are also making compromises in dealing with the Egyptian state. The suspension of the Italian trade delegation, even if only temporary, highlights the possible costs of Sisi's strategy when security forces abuse their powers. The protests that followed the death of Mohamed Ali indicate that the patience of the Egyptian public also has its limits.

The international financial support will ease pressure on Egypt's financial reserves with the current account remaining in decline, and will therefore facilitate government procurement of strategic goods. However, importers will continue to struggle to secure foreign exchange to pay suppliers.

The new tariffs will help the local manufacturing sector, but will increase prices for consumers and businesses dependent on imports as the currency continues to depreciate. Investors will continue to call for a currency devaluation.

⁴⁸ MENA, 26 Jan 2016.

⁴⁹ Egyptian Independent, 1 Feb 2016.

⁵⁰ Egyptian Independent, 1 Feb 2016.

⁵¹ Egyptian Independent, 1 Feb 2016.

⁵² MENA, 31 Jan 2016.

About Africa Risk Consulting:

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