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The Islamic State (IS) claims responsibility for a terrorist attack on the St Peter and St Paul Church in Cairo that kills 25 worshippers as part of a new sectarian strategy in Egypt. The cabinet approves a new draft investment law, which prioritises manufacturing, agricultural, transportation, oil and gas, and energy sectors. The electricity ministry revises its five-year plan to phase out electricity subsidies, due to an increased subsidy bill following the currency flotation and related increases in fuel prices.

Terror attacks hit Cairo

Three separate terror attacks in **Cairo** over the long holiday weekend from 9 to 12 December killed at least 30 people.¹ Continued Islamist militant attacks will undermine the authority of the government, but not result in its collapse. In the most significant incident, a bomb targeting the weekly Sunday service at the **St Peter and St Paul Church** on 11 December killed 25 worshippers.² The **Islamic State** militant group on 14 December claimed responsibility for the St Peter and St Paul Church attack.³ The church is part of the **St Mark's Cathedral** complex, the seat of the **Coptic Orthodox Church** in Egypt and of pope **Tawadros II**.⁴ It appears that a suicide bomber detonated his explosives in a part of the church reserved for women.⁵ The sectarian nature of the attack and the targeting of civilians were unprecedented.

*"This certainly represents an escalation in what has mostly been a low-level insurgency since the coup in 2013, bombing a church full of people and doing so in the part of the church that held women and children... This is the first-time civilians have been specifically targeted, and in the heart of central Cairo. It shows that they believe civilian losses are now necessary in making their point very loudly heard by the government."*⁶

The government has named the suicide bomber as **Mahmoud Shafiq Mohamed Mostafa**, reportedly arrested and imprisoned in 2012 for the possession of weapons, and who then spent time in **Syria** subsequent to his release.⁷ Mostafa was reportedly based in the **Sinai Peninsula**, the stronghold of the Islamic State-affiliated **Sinai Province** militant group (formerly known as **Ansar Bayt al-Maqdis**). Highlighting the military's failure to establish control over the region, suspected Islamist militants on 9 January killed eight members of the security forces and one civilian in a vehicle-borne improvised explosive device (VBIED) attack on the **el-Masaeid** checkpoint in **el-Arish** in **North Sinai**.⁸

Following the St Peter and St Paul Church attack, president **Abdel Fattah Al-Sisi** (2014-present) cancelled the **Moulid el Nabi** celebrations scheduled for 12 December.⁹ Moulid el Nabi marks the birth of **Prophet Mohammed** and was the reason for the long weekend. The minority Coptic

¹ Al Mal, 12 Dec 2016.

² Al Mal, 12 Dec 2016.

³ Aram, 14 Dec 2016.

⁴ Al Mal, 12 Dec 2016.

⁵ MENA, 12 Dec 2016.

⁶ Source, think tank expert, Cairo

⁷ www.middle-east-online.com

⁸ Aswat Masriya, 9 Jan 2017.

⁹ MENA, 12 Dec 2016.

Christians, who make up approximately 10% of the Egyptian population, were early backers of the Sisi administration. They have since criticised his administration for failing to address their relative political and economic marginalisation, and for restricting the construction of churches. Violent incidents against the Copt community are fairly common, but the last incident of this significance occurred in 2011 when an improvised explosive device killed 23 people in a church in **Alexandria**. The government's response to the attack risks exacerbating sectarian tensions further.

*"They [the government] are proposing that all churches in Egypt should now come under the auspices of the military, can you believe that a place of worship has to be protected by soldiers so it's not attacked? We pledged our support, to this government, to this president, this is not good enough."*¹⁰

The St Peter and St Paul Church attack has taken on political significance. After the attack, protesters outside the church called for the resignation of interior minister **Magdy Abdel-Ghaffar**.¹¹

*"Outside the Church an angry mob gathered, attacking pro-state television talk show hosts and chanting 'down with regime'. This should be a jolt to Sisi; people are frustrated and tired. And the strategy of repression against dissent has not protected anyone, least of all the Christians who have been staunch supporters of Sisi from the beginning."*¹²

Mohamed El Sewedy, leader of the **Support Egypt** parliamentary coalition, has responded to the attack by seeking to amend the penal code to restrict appeals on terrorism charges.¹³ However, observers have questioned whether further political repression will curb the terrorism threat.

*"This is another episode in the government's failed anti-terrorism efforts. Since 2013, they have committed violations that even by former president **Hosni Mubarak's** (1981-2011) standards are extreme, selling it to Egyptians as a trade off in return for 'security', but there has been no security because the government and the militants keep trading attacks, this is the latest in a long line. This government and all its fragmented security institutions have learnt no lessons from the past..."*¹⁴

As well as the sectarian attack, Islamist militants also targeted security forces over the holiday weekend. In the first incident, a bomb attack on a checkpoint in **Talibiya** district in Cairo on a road to the **Pyramids of Giza** killed six members of the **Egyptian National Police (ENP)** on 9 December.¹⁵ A separate attack on 9 December on a road between **Kafr El-Sheikh** and **Baltim**, in the **Kafr El-Sheikh Governorate**, killed a civilian and injured three ENP officers.¹⁶ The **Hasm Movement** claimed responsibility for the Pyramids of Giza attacks.¹⁷ The Hasm has only recently emerged as a splinter group from more established Islamist militants. Since July, it has claimed responsibility for a series of attacks against government and security targets, including the unsuccessful assassination of former grand mufti **Ali Gomaa**.¹⁸ The government alleges that Hasm has links to the proscribed **Muslim Brotherhood**.¹⁹ Both Hasm and the Muslim Brotherhood condemned the St Peter and St Paul Church attack in separate statements that denied any involvement.²⁰ The security forces on 8 December killed three Hasm gunmen in a raid in **Asyut (Asyut Governorate)**.²¹

¹⁰ Source, Christian community leader, Cairo

¹¹ Al-Masry al-Youm, 11 Dec 2016.

¹² Source, journalist, Cairo

¹³ Al Shorouk, 13 Dec 2016.

¹⁴ Source, journalist, Cairo

¹⁵ MENA, 9 Dec 2016.

¹⁶ MENA, 9 Dec 2016.

¹⁷ Al Mal, 12 Dec 2016.

¹⁸ Al Mal, 12 Dec 2016.

¹⁹ Al Mal, 12 Dec 2016.

²⁰ Al Mal, 12 Dec 2016.

²¹ MENA, 10 Dec 2016.

The continued violence in both the Sinai and Cairo and its environs, as well as the emergence of new militant groups, has raised criticism of the government's anti-terrorism strategy.

"Despite all its talk to Western nations that it's at the forefront of anti-terrorism activities, the government continues to expunge the Muslim Brotherhood from all civil life, to repress youth across the country with arrests, torture and killing; it continues to bomb and kill citizens of Sinai; it cuts off phone and internet access, and deprives food from villages. And it goes about these 'scorched earth' military tactics with a blanket ban on any media access to the area. This approach can only inflame existing tensions, as well as creating conditions for youth to be radicalised by groups now aligning with the Islamic State."²²

The St Peter and St Paul Church attack is indicative of a shifting Islamic State strategy in Egypt. It appears to have broadened its strategy from government, security and tourist targets to sectarian attacks. This is line with its tactics elsewhere in the **Middle East and North Africa** region. Further attacks against places of worship and religious figures are probable. The Islamic State will hope that the Copts turn against the Sisi administration for insufficiently protecting it. The VBIED attack on the checkpoint is a reminder of the military's failure to eliminate the insurgency in the Sinai Peninsula, increasing the risk of suicide and rocket attacks in the **Nile Delta** and **Israel**.

Cabinet approves investment law

The cabinet on 29 December approved a new draft investment law.²³ The new investment law mainly streamlines existing legislation to address inconsistencies and contradictions to benefit both local and international investors. The cabinet has submitted the draft investment law to the **Maglis al Dowla** (state council) to ensure it complies with the constitution, before the Maglis al Dowla sends the draft law to the house of representatives (parliament) for debate.²⁴ Maglis al Dowla approval may take up to four weeks. To avoid further delays to the long-overdue legislation, investment minister **Dalia Khorshid** has said her ministry will start drafting executive regulations to enact the law prior to Maglis al Dowla approval.²⁵ Khorshid noted the draft law has the backing of the finance ministry and justice ministry to ensure effective implementation.²⁶

The new investment law lists its priority sectors as manufacturing, mining, land reclamation, agricultural production, transportation, oil and gas, energy, hospital care, hotels, communication and information technology, education services, and sports investments.²⁷ Priority regions are likely to be the same as those the **Supreme Investment Council** listed in a November 2016 policy statement: **Upper Egypt, Port Said** and the **New Administrative Council**.²⁸

The new law:

- guarantees that investors can repatriate profits freely, and import inputs without having to register with the import registry;
- ensures foreign investors are treated the same as domestic with protection against nationalisation, confiscation, permit cancellations, and additional costs without **General Authority for Investment (GAFI)** approval;
- allows companies to employ international staff for 10% of their workforce, but this can go up to 20% if the local labour market cannot meet specific employment requirements;
- exempts companies from stamp and registration tax for five years;

²² Source, think tank expert, Cairo

²³ MENA, 29 Dec 2016.

²⁴ Al Borsa, 2 Jan 2017.

²⁵ Al Borsa, 2 Jan 2017.

²⁶ Al Borsa, 2 Jan 2017.

²⁷ Al Borsa, 2 Jan 2017.

²⁸ Enterprise, 2 Jan 2017.

- restricts customs duties to flat-rate 2% on all inputs and machinery imports for the first five years;
- allows investors to secure up to 40% deductions on income tax against costs;
- provides for unspecified incentives determined by the type and location of project, especially within the **Suez Canal Economic Development Zone**;
- establishes the GAFI as the sole authority responsible for issuing permits to incorporate companies, which can now be done online. The GAFI will assess all requests within one day.²⁹

The government will hope that the investment law will accelerate improving investment inflows. The **Central Bank of Egypt (CBE)** published data on 29 December showing that net inflows of foreign direct investment reached \$1.9 billion in the first quarter of the 2016/2017 financial year compared to \$1.4 billion during the same period in the previous year.³⁰ Portfolio investments registered an \$841m outflow compared to a \$1.4 billion outflow during the same period in the previous year.³¹

The government is committed to broad investor-friendly reforms. Notably, **Egyptian Competition Authority (ECA)** chair **Mona El Garf** said in November that proposed amendments to the **Competition Act** will extend the ECA's powers to regulate mergers and acquisitions (M&A).³² The government is concerned that the dominance of conglomerates active across sectors increases the risk of anti-competitive behaviour. The proposed amendments would allow the ECA to monitor and approve M&A transactions prior to their completion.³³ Currently, the ECA can only review M&A after contracts are signed and only if they exceed EGP 100m (\$6.2m).³⁴ The amendments would additionally allow the ECA to block transactions that violate antitrust regulations, in line with international best practice.³⁵ The ECA is reportedly currently investigating antitrust violations in the healthcare and insurance sectors.³⁶ M&A activity in Egypt increased 30% in Egypt in 2015, accounting for 14% of all regional M&A transactions.³⁷

As long as parliament does not undertake revisions to the investment law, Khorshid's pro-active stances towards the executive regulations should expedite its implementation. The drafting of the law, which involved lengthy consultations with the private sector and government colleagues, reflects well upon Khorshid and her relative standing in the government. The enactment of the law may not have an immediate impact on foreign direct investment, with investors likely to wait for the currency to stabilise before committing to long-term direct investment.

Government restructures electricity subsidy reform

Local media reported on 26 December that the electricity ministry is revising its five-year plan to phase out electricity subsidies.³⁸ The electricity ministry's subsidies bill has reportedly doubled following the currency flotation in November and related increases in fuel prices. The government now projects that the electricity ministry's annual subsidies budget will reach 63 billion Egyptian pounds (EGP) (\$3.3 billion) in the 2017/2018 financial year.³⁹ Additionally, the electricity ministry on 21 December agreed with internationally owned power companies to cover additional expenses from the implementation of VAT.⁴⁰ The government originally planned to cut power subsidies 50% from

²⁹ Unless otherwise noted - Al Borsa, 2 Jan 2017.

³⁰ Reuters, 29 Dec 2016.

³¹ Reuters, 29 Dec 2016.

³² Enterprise, 17 Nov 2016.

³³ Enterprise, 17 Nov 2016.

³⁴ Enterprise, 17 Nov 2016.

³⁵ Enterprise, 17 Nov 2016.

³⁶ Enterprise, 17 Nov 2016.

³⁷ Enterprise, 17 Nov 2016.

³⁸ Al Borsa, 26 Dec 2016.

³⁹ Al Borsa, 26 Dec 2016.

⁴⁰ Al Mal, 21 Dec 2016.

2014 to 2020, and remove them entirely by 2025. Reportedly, the government is now considering three plans:

- increasing electricity prices in July 2017 as currently scheduled, and then removing subsidies entirely by 2018/2019;
- removing subsidies, except for low-tier consumers, entirely in 2017/2018;
- removing subsidies for high-tier consumers by 2017/2018, and low-tier consumers by 2019.⁴¹

The cabinet is due to review the revised plan by the end of January.⁴²

Sisi is especially sensitive to electricity subsidies as inflation has impacted consumer purchasing power. There are reports that 20% of consumers did not pay their October electricity bill due to the impact of inflation.⁴³ The CBE noted on 9 December that headline inflation reached 19.4% year-on-year in November, its highest level since July 2008.⁴⁴

The proposed revision is indicative of the increased pressure on government ministries, departments and agencies following the currency flotation. Subsidy reform is politically sensitive in Egypt, and will remain subject to delays, as Sisi fears the popular protests – amid the high inflation environment – that accelerated implementation would bring.

⁴¹ Al Borsa, 26 Dec 2016.

⁴² Al Borsa, 26 Dec 2016.

⁴³ Al Borsa, 8 Nov 2016.

⁴⁴ Al Mal, 10 Dec 2016.

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