

AFRICA RISK CONSULTING

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Egypt Summary 13 November 2018

Egypt's Financial Regulatory Authority (FRA) suspends the initial public offering (IPO) unit of Beltone Financial Holdings for six months citing "financial market irregularities". The Islamic State claims responsibility for a terrorist attack on Coptic Christians in Minya. Egypt is among the most-improved countries in the World Bank's latest Ease of Doing Business report, moving up eight places to rank 120th out of 190 countries.

Financial regulator suspends Beltone Investments for six months

Egypt's Financial Regulatory Authority (FRA) suspended the initial public offering (IPO) unit of **Beltone Financial Holdings** for six months in the final hour of trade on 1 November.¹ The move rattled the business community in **Cairo** at a time when increasingly companies and individual members of the financial establishment, once considered untouchable in the era of former president **Hosni Mubarak** (1981-2011) now find themselves in the cross-hairs of government regulatory bodies.

The regulator initially gave no reason for the suspension, which had immediate effect, but ordered the move just one day after Beltone's parent company announced that it was looking to acquire a 25% non-controlling stake in **Sarwa Capital**.² Beltone's parent company is **Orascom Investment Holding (OIH)**, which is owned by billionaire **Naguib Sawiris**.³ In October Beltone managed the IPO of Sarwa Capital, whose share price dropped by around 15% soon after it began trading on 15 October.⁴ Financial regulator deputy head **Khaled al-Nashar** said that *"The implementation of procedures for the offer (of Sarwa Capital) was marred by some financial market irregularities,"*⁵ but did not specify what those alleged irregularities were. The FRA also instructed Beltone's brokerage arm to take on more insurance against potential client claims.⁶ The firm has one month to raise its insurance cover to EGP 50m (\$2.8m) and must maintain it at that level for a year.⁷

Beltone is cooperating with investigators and said that it found the decision *"surprising"* and that it had *"yet to be informed of reasons for their issuance"*.⁸ The company is seeking an explanation and said it will *"pursue the appropriate legal actions to safeguard its interests and those of its shareholders and clients."*⁹ Beltone's brokerage arm is still trading.¹⁰

The Egyptian market reacted sharply to the suspension. Questions swirled in the business community, as a suspension of one of the "big six" firms is both unprecedented and

¹ Reuters, 1 Nov 2018.

² Enterprise, 4 Nov 2018.

³ Reuters, 1 Nov 2018.

⁴ Reuters, 1 Nov 2018.

⁵ Reuters, 4 Nov 2018.

⁶ Press release, 1 Nov 2018.

⁷ Enterprise, 4 Nov 2018.

⁸ Press release, 1 Nov 2018.

⁹ Reuters, 1 Nov 2018.

¹⁰ Press release, 2 Nov 2018.

unnerving, at a time when Egypt is trying to present itself on the international stage as an example of successful economic reform. Several sources suggested that the ban was related to the IPO, which saw Sarwa's share price dip, and was likely to be lifted soon. Others hinted that the suspension was related to Beltone's intention to secure a 30% stake in Sarwa. Sawiris's OIH said it had sought regulatory approval to acquire up to 30% of the company's shares in a voluntary offer in November.¹¹

*"The decision is strange, and because it's been shrouded in secrecy, the community is awash with rumours about money going missing from the IPO (which is all but impossible) or other improbable reasons for the suspension. However, it comes off the back of recent aggressive moves by government bodies like the **Egyptian Competition Authority (ECA)** and the financial regulator (FRA) using some heavy-handed tactics that are not good for business. The market needs to know what is happening here in light that we are trying to sell Egypt as an appealing investment prospect."*¹²

Beltone's shares fell by as much as 8% on 4 November, closing at EGP 6.60 (\$0.36) while Sarwa Capital's shares dipped 1.43%, closing at EGP 6.21 (\$0.34).¹³

Islamic State attacks Coptic Christians

Seven Coptic Christians were shot dead and another 17 injured on 2 November in an attack on multiple buses leaving a monastery in **Minya**.¹⁴ The attack represents the return of militants targeting Christians after an almost year-long hiatus of major attacks on Copts and government installations.¹⁵ It also brings into question the Egyptian government's claims that the "war on terrorism" that President **Abdel Fattah El Sisi** (2014-present) launched after he came to power in 2014 is being won.

The **Islamic State (ISIS)** claimed responsibility for the attack, which occurred close to the area where a similar shooting in 2017 killed 28 Christians.¹⁶ The group said the attacks were revenge for Egypt's imprisonment of female relatives of prominent **Muslim Brotherhood** members.¹⁷ This latest attack conducted in broad daylight came as El Sisi opened the **World Youth Forum**, which saw hundreds of foreign leaders and business leaders converge on the **Red Sea** city of **Sharm El Sheikh**.

As Sisi offered his condolences and vowed to step up Egypt's fight against terrorism, Egypt's Christian community and some media pointed to the targeting of the monastery as further proof of the government's lack of interest in protecting the Christian population from violence.¹⁸ In response to growing anger, the interior ministry announced 48 hours after the attack that its forces had killed 19 of the alleged perpetrators of the shooting.¹⁹

Sources pointed to this latest incident as evidence of the government's ongoing struggle to confront security challenges, even as ISIS's activities have increasingly been weakened in neighboring **Iraq** and **Syria**.²⁰ They also suggested that Sisi's crackdown on the Muslim

¹¹ Reuters, 4 Nov 2018.

¹² Source, fund manager, Cairo

¹³ Enterprise, 5 Nov 2018.

¹⁴ Press release, 12 Nov 2018.

¹⁵ New York Times, 2 Nov 2018.

¹⁶ The Guardian, 3 Nov 2018.

¹⁷ BBC, 2 Nov 2018.

¹⁸ BBC, 2 Nov 2018.

¹⁹ Bloomberg, 4 Nov 2018.

²⁰ Source, former diplomat, Cairo.

Brotherhood and its supporters has been damaging to Egypt's overall stability as further repression has created a ripe environment for extremism with ongoing security threats and terrorist attacks. Such attacks have previously made investors and tourists nervous, as Egypt attempts to reform the economy in the turbulent aftermath of the 2011 revolution and revive tourism.

These attacks show that Egypt's security environment remains unpredictable. Sources suggested that the possibility of attacks on members of the government and Western allies remains high as ISIS affiliated militants move from **North Sinai**, where they are being targeted by the Egyptian military, to safer areas in **Upper Egypt** and surrounding Cairo.

Egypt among most improved countries in World Bank's Doing Business report

Egypt moved up eight places to rank 120th out of 190 countries in the **World Bank's 2019 Ease of Doing Business** report.²¹ The country made it to the top performers in the 2017-18 list following a series of regulatory reforms that have been instituted since Egypt took a bailout loan from the **International Monetary Fund (IMF)** in 2016.²² The report confirms that efforts over the last two years to enact reforms are beginning to have an impact on day-to-day business operations, further strengthening confidence in Egypt's business climate.

The annual report measures regulations that enhance and constrain business activity in 190 countries.²³ There are 11 areas which are measured: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.²⁴

The 2019 report noted Egypt's efforts to strengthen the legal rights of borrowers and lenders,

"...by introducing the possibility of granting a non-possessory security right in a single category of movable assets without requiring a specific description of the collateral".²⁵

The World Bank report noted that secured creditors now receive *"absolute priority over other claims, such as labour and tax, both outside and within bankruptcy proceedings".²⁶*

Opening a new business in Egypt also became easier. The introduction of a single sign-up point for investors, which does not require a bank certificate, has helped reduce regulatory complexity.²⁷ The report also noted new protections for minority investors by expanding shareholders' role in company management, leading toward greater transparency.²⁸

The favorable findings come as the **European Bank for Reconstruction and Development (EBRD)** said it sees Egypt's economy improving with a recovery in tourism, increase in foreign direct investment, improved competitiveness, strengthening of exports, natural gas production from the **Zohr** gas field, business reforms and macroeconomic policies.²⁹ The

²¹ World Bank, Ease of Doing Business report, 2018.

²² Reuters, 11 Nov 2016.

²³ www.doingbusiness.org

²⁴ www.doingbusiness.org

²⁵ World Bank, Ease of Doing Business report, 2018.

²⁶ World Bank, Ease of Doing Business report, 2018.

²⁷ World Bank, Ease of Doing Business report, 2018.

²⁸ World Bank, Ease of Doing Business report, 2018.

²⁹ EBRD, Regional Economic prospects report, 2018.

bank projects that Egypt's GDP growth will reach 5.5% in FY2018-19, up from 5.3% in FY2017-18.³⁰

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme; 15 November **Cairo (Egypt)** *Al Masry Al Youm*. The **Central Bank of Egypt** reviews interest rates;

Nov 2018 **Cairo (Egypt)** *Al Masry Al Youm*. **French** President **Emmanuel Macron** to visit Cairo with trade delegation;

Nov- Dec 2018 **Cairo (Egypt)** *Enterprise*. **India's** prime minister, **Narendra Modi**, to visit Cairo for defence cooperation and trade relationship.

Chronology

13 Nov 2018 **Cairo (Egypt)** *Enterprise*. Egypt sees foreign direct investment at \$11.2 billion in 2022;

12 Nov 2018 **Cairo (Egypt)** *Enterprise*. The banking sector continues to seek large foreign loans to prop up the Egyptian pound; **Banque Misr** seeks \$550m from foreign lenders;

12 Nov 2018 **Cairo (Egypt)** *Youm7*. House speaker **Ali Abdel Aal** says metro ticket prices "must be raised";

11 Nov 2018 **Cairo (Egypt)** *Press release*. Annual headline inflation rose to 17.5% in October, up from 16% the previous month;

11 Nov 2018 **Cairo (Egypt)** *Enterprise*. EGP-denominated international bond issuance will not happen during the next two fiscal years;

11 Nov 2018 **Cairo (Egypt)** *Bloomberg*. Egyptian stocks lead losses across **Mideast, North Africa**;

11 Nov 2018 **Cairo (Egypt)** *Press release*. Economy grew 5.3% in 1Q18-19, according to preliminary government figures;

10 Nov 2018 **Cairo (Egypt)** *Al Watan*. Prime minister **Moustafa Madbouly** has formed a committee to amend the controversial NGOs Act;

10 Nov 2018 **Cairo (Egypt)** *Bloomberg*. Egypt is one of the countries most vulnerable to emerging market instability;

10 Nov 2018 **Cairo (Egypt)** *Enterprise*. President **Abdel Fattah El Sisi's** comments on the recent "potato crisis" are met with sharp criticism on social media;

10 Nov 2018 **Cairo (Egypt)** *Press release*. **United States (US)**-based **ExxonMobil** is to expand oil and gas activities in Egypt oil;

7 Nov 2018 **Cairo (Egypt)** *Enterprise*. The **Institute of International Finance (IIF)** sees Egypt's growth falling to 4% in 2022 unless policymakers go for deeper structural reforms;

³⁰ EBRD, Regional Economic prospects report, 2018.

7 Nov 2018 **Cairo (Egypt)** *Emirates NBD PMI gauge*. Egypt non-oil business activity is flat in October;

7 Nov 2018 **Cairo (Egypt)** *Enterprise*. **Beltone Financial Holdings** puts capital increase on ice amid fallout from suspension of investment banking arm;

7 Nov 2018 **Cairo (Egypt)** *Al Ahram*. President **Abdel Fattah El Sisi** says there will be no raises for civil service this year and cuts are coming to ministries

6 Nov 2018 **Cairo (Egypt)** *News24*. President **Abdel-Fattah el-Sisi** seeks formal agreement that **Ethiopia's** dam will not reduce **Egypt's** share of the **Nile**;

5 Nov 2018 **Cairo (Egypt)** *Globe*. Analysts suggest Egypt could become reliant on gas from **Israel** by 2030;

5 Nov 2018 **Cairo (Egypt)** *Press release*. **Financial Regulatory Authority (FRA)** says **Beltone** suspension was due to "irregularities" in **Sarwa** IPO;

5 Nov 2018 **Cairo (Egypt)** *Enterprise*. **Uber** and **Careem** are to pay 22.5% corporate tax; drivers to pay 3%;

5 Nov 2018 **Cairo (Egypt)** *Enterprise*. Prime minister **Moustafa Madbouly** meets in **Shanghai (China)** with companies taking part in national infrastructure projects;

5 Nov 2018 **Cairo (Egypt)** *Haartz*. Egypt's efforts to broker a truce between **Israel** and **Hamas** have received **Fatah's** blessing;

4 Nov 2018 **Minya (Egypt)** *Reuters*. Militants kill seven, wound nine Coptic Christians in monastery attack;

4 Nov 2018 **Cairo (Egypt)** *Reuters*. Financial regulator suspends **Beltone Investments**;

4 Nov 2018 **Cairo (Egypt)** *Press release*. **European Bank for Reconstruction and Development (EBRD)** sees Egypt economy improving on **Zohr**, rising FDI, strengthening exports, improved competitiveness;

4 Nov 2018 **Cairo (Egypt)** *Enterprise*. Egypt to cap foreign borrowing at \$14.3 billion in the next fiscal year;

4 Nov 2018 **Cairo (Egypt)** *Press release*. ACWA Power **Hassan Allam** sign power purchase agreement for \$2.3 billion power plant;

4 Nov 2018 **Cairo (Egypt)** *Enterprise*. **Egyptian Competition Authority (ECA)** raids **Agriculture Export Council** after suspected commodity monopolists cause potato shortages;

1 Nov 2018 **Cairo (Egypt)** *World Bank*. Egypt jumps eight spots in **World Bank's 2019 Ease of Doing Business** report;

30 Oct 2018 **Cairo (Egypt)** *Enterprise*. **Egyptian Business Association** says burgeoning relationship with **Beijing** is "win-win" for Cairo;

29 Oct 2018 **Cairo (Egypt)** *Al Mal*. Prime minister **Moustafa Madbouly** could slash cabinet posts, looks to cull civil service.

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