

AFRICA RISK CONSULTING Egypt Monthly Briefing July 2018

Egypt Summary 20 July 2018

Jared Kushner, senior adviser to United States President Donald Trump (2017-present), visits Cairo to discuss an Israeli-Palestinian peace deal as part of an Arab trip to finalise what is being called the “deal of the century”. Egypt receives the fourth tranche of its \$12 billion loan from the International Monetary Fund (IMF). Police arrest Customs Authority head Gamal Abdel Azim amid an ongoing crackdown on corruption.

Kushner visits Cairo to discuss “Deal of the Century”

Jared Kushner, senior adviser to **United States (US)** President **Donald Trump** (2017-present), and US special envoy **Jason Greenblatt** met President **Abdel Fattah el Sisi** (2014-present) in **Cairo** on 21 June¹ to further discuss the details of the so-called “*deal of the century*”. **Saudi Arabia**, the US and the **United Arab Emirates (UAE)** devised the plan to resolve the long-standing **Israeli-Palestinian** conflict.² Kushner and Goldblatt’s five-stop tour to present this new US vision included Israel, **Jordan**, Saudi Arabia, Egypt and **Qatar**. However, it by-passed the **Palestinian Authority**, which lashed out against the Trump administration for attempting “*to bury*” the Palestinian cause.³

Several sources have said that the success of the deal will hinge on Cairo’s support. Egypt oversees the only border for human and commercial traffic out of the besieged territory. Against Israel’s wishes, Sisi has opened the border since May as he tries to negotiate with Palestinian Sunni-Islamist fundamentalist organisation **Hamas**, which has controlled the small enclave since 2006. Some sources have suggested that the opening of the border is a strategic move to make clear to Israel that should it proceed with a deal that excludes the Palestinians’ desire for a diplomatic solution to the question of statehood, Egypt will keep the border with Hamas open, disregarding its previous agreement to uphold the siege.⁴

For its part, following the visit the Egyptian government seemed to be less enthusiastic about the deal than it was previously. In comments released to the media it stressed the peace settlement must be based on,

*“...agreed-upon international frames of reference and on the two-state solution that provides for the establishment of a Palestinian state within the pre-June 1967 borders with its capital in **East Jerusalem**”.*⁵

This is a deviation from the position of the Saudi crown prince, **Mohammed bin Salman**, who is said to have agreed with Kushner on an alternative capital.⁶ However, sources say his

¹ Embassy of Egypt, Washington DC press release, 22 June 2018.

² Source, analyst, Cairo

³ Al Ahram, 5 Jul 2018.

⁴ Source, former diplomat, Cairo

⁵ Al Ahram, 5 Jul 2018.

⁶ Haaretz, 26 Jun 2018.

father, King **Salman bin Abdulaziz Al Saud** (2017-present), disagrees and fears a revolt in **Riyadh** should they up-end their position on the Palestinian issue.⁷

Sources say that if the Trump administration pushes forward with the deal, it could be the precursor to the next war in the **Middle East**.⁸ Many have labelled the deal grossly unfair: it would see Israel control the **Jordan Valley** and the Palestinians without East Jerusalem as their capital.⁹ The business community in Cairo has been nervously discussing the deal since Kushner first presented it, amid rumors that Sisi might cede some of Egypt's territory in **North Sinai** to enable the plan's completion. The ceding of Egyptian territory, along with a backflip by the Saudis as well as the recent US announcement of Qatari involvement in financing the plan to invest in **Gaza**, against the wishes of the **Arab Quartet** (Saudi Arabia, the UAE, **Bahrain** and Egypt), brings together a series of potentially combustible consequences. All of these could be greatly destabilising, especially for the Egyptian government already under strain as its reform plans continue to be unpopular among the Egyptian public.

Tensions have again flared between Gaza and Israel after Israel's prime minister, **Benjamin Netanyahu** (1996-1999, 2009-present), was criticised for failing to quell a series of fire balloons have been sent from Gaza into Southern Israel destroying cropland.¹⁰ Israel later responded with dozens of airstrikes, and Hamas retaliated with rocket fire, the largest escalation since the 2014 war.¹¹ Egypt brokered a brief ceasefire, but Israel again launched airstrikes after a soldier was killed in a return of gunfire on the Gaza border that also saw two Palestinian teenagers killed.¹² Israel has also closed the only crossing point for goods into the besieged territory, denying the passage of cooking oil, petrol and other vital supplies.¹³

Amidst these renewed tensions, Egypt's foreign ministry and Al Azhar, the region's most influential authority on Sunni Islam, condemned a new law passed in Israel defining the country as the nation state of the Jewish people, describing it as "racist".¹⁴

*"Al-Azhar strongly denounces what is being called the national Jewish state law, in a move that reflects ugly racism and proves the true nature of that occupation."*¹⁵

The law defines the country as the nation state of the Jewish people and declares Hebrew the official language.¹⁶ It also defines the establishment of Jewish communities as being in the national interest.

The **United Nations** envoy for the Middle East peace process, **Nikolay Mladenov**, described the situation as "precarious" and called for de-escalation, saying on **Twitter** on 20 July that "everyone in Gaza needs to step back from the brink".¹⁷

⁷ Haaretz, 26 Jun 2018.

⁸ Source, analyst, Cairo

⁹ Haaretz, 26 Jun 2018.

¹⁰ Reuters, 14 Jul 2018.

¹¹ Reuters, 14 Jul 2018.

¹² The Guardian, 20 Jul 2018.

¹³ Al Wafd, 18 Jul 2018.

¹⁴ Al Ahram, 20 Jul 2018.

¹⁵ Press release, 20 Jul 2018.

¹⁶ Al Ahram, 20 Jul 2018.

¹⁷ Nikolay Mladenov, Twitter, 20 Jul 2018.

Egypt receives fourth tranche of IMF loan

Egypt received the fourth tranche of its \$12 billion-dollar loan from the **International Monetary Fund (IMF)** on 5 July.¹⁸ IMF approval of the most recent review of Egypt's economic progress, which took place in May, brings the total disbursements under the programme to \$8 billion. The report praised a series of painful subsidy cuts on water, fuel and electricity recently undertaken by the Egyptian government as necessary. The report suggests the IMF believes Egypt is well positioned to weather increasing turmoil in emerging markets.¹⁹ The IMF raised Egypt's economic growth estimates to 5.2% for the current fiscal year in April.

Finance minister **Mohamed Maait** said the IMF praised Egypt as a successful model for reform with the economy becoming more stable since the government introduced a series of austerity measures, the first of which was the floatation of the pound in 2016.²⁰ Maait said he expects a further review from the fund before the disbursement of the fifth installment.²¹ Egypt is expected to begin repaying the loan in installments starting in 2021 to 2026.²²

This latest review is another signal to investors that Egypt is on the path to growth. There remains concern about the country's debt levels, which peaked at 107% of GDP in 2016 but are now between 91-92% of GDP.²³ However, the finance ministry has said it plans to reduce public debt to 80% of GDP by 2020²⁴ by reducing the budget deficit, achieving a 2% primary surplus, and raising per capita income.²⁵

Customs authority head arrested on corruption charges

The **Administrative Control Authority** announced the arrest of **Customs Authority** head **Gamal Abdel Azim** on 9 July on charges of accepting bribes in exchange for facilitating the clearance of goods through customs.²⁶ Abdel Azim reportedly received bribes from a businessman to skip customs procedures. Abdel Azim previously headed the **Port Said Customs Department**. Former finance minister **Amr Gahly** appointed him as Customs Authority head in May.²⁷ His predecessor is expected to resume the position.²⁸

Curtailing corruption was one of Sisi's election promises. Many had complained he had done little to do so until recent months which have seen several arrests of government workers in the supply ministry, as well as the governor of **Monifia** and the head of the **Food Industries Holding** company, a state-run company responsible for importing food commodities.²⁹

Following Abdel Azim's arrest, **House of Representatives Economic Committee** member **Medhat Sherif** introduced a new anti-corruption law currently being discussed in the house.³⁰ Sherif said that the proposed law is a continuation of new prime minister **Moustafa**

¹⁸ Al Sharouk, 5 Jul 2018.

¹⁹ Youm7, 6 Jul 2018.

²⁰ Mubasher, 5 Jul 2018.

²¹ Press release, 5 Jul 2018

²² Al Sharouk, 9 Jul 2018.

²³ Enterprise, 7 May 2018.

²⁴ Press release, 5 May 2018.

²⁵ Enterprise, 7 May 2018.

²⁶ Al Shorouk, 10 Jul 2018.

²⁷ Al Ahram, 9 May 2018.

²⁸ Al Masry Al Youm, 5 May 2018.

²⁹ Enterprise, 9 Jul 2018.

³⁰ Enterprise, 10 Jul 2018.

Madbouly's recent policy platform that addresses the need to combat corruption.³¹ Egypt ranked 117th out of 180 countries on **Transparency International's 2017 Corruption Perception Index**, scoring 32 points, down from its scores of 34 in 2016 and 36 in 2015.³² A score of zero is highly corrupt while 100 is very clean.³³

Local sources suggest that firings similar to this one tend not to occur because of a genuine crackdown on corruption. Instead dismissals may be payback from a political enemy, or the government ousts one person from a large graft ring in order to maintain the illusion that it is acting on corruption. The government is currently unpopular with the Egyptian public, which has been suffering from inflation and austerity measures following the economic crisis that saw the pound devalued and subsidies on utilities slashed:

*"The [government] needs to appear to be doing something. Anger is mounting over the cost of everything and the difficulties of living in Egypt. People are talking more and more about how the government has failed to make life better. How they have failed to provide security and jobs. They feel [former president] **Hosni Mubarak** [1981-2011] was not good, but at least better than Sisi. Life was bearable under Mubarak, under Sisi it's miserable and everything is expensive."³⁴*

The government's crackdowns on corruption tend to run in waves, depending on the political climate and its allies at the time. Those who were once partners of the government or within it can quickly fall out of favour. When former **Central Auditing Agency** head **Hisham Geneina** wrote a report detailing the extent of what he believed amounted to government corruption in 2016, Sisi amended the law so he could fire Geneina and personally appoint his replacement.³⁵ Geneina now languishes in a military prison awaiting trial on charges of spreading fake news and insulting the military.³⁶

*"Getting rid of Geneina was about creating a distraction. Instead of people considering what he was saying in his role, the public was distracted with a flurry of stories about the **Muslim Brotherhood** and him being a traitor. His credibility was cut up by the press on behalf of the government. What should have been discussed is why a once staunch supporter of the president went from the inner circle to jail after he started talking about the size of corruption in Egypt. That should have been what people were discussing."³⁷*

Some sources suggest that high-profile arrests aid the public impression that Egypt is serious about changing its corrupt government framework, creating a favorable impression both to the IMF and potential investors. Other sources hint that such crackdowns do not play well with investors, who prefer quiet continuity. Crackdowns on alleged corruption represent the volatility of working in the Egyptian market. Regardless of the motivation behind the crackdown, investors and business operators would do well to ensure they mitigate risk in their dealings with politically exposed persons (PEPs) and operate cleanly and transparently at all times.

³¹ Enterprise, 10 Jul 2018.

³² Transparency International, Corruption Perceptions Index 2017, 21 Feb 2018

³³ Transparency International, Corruption Perceptions Index 2017, 21 Feb 2018

³⁴ Source, newspaper columnist, Cairo

³⁵ Al Masry Youm, 5 Aug 2015.

³⁶ Reuters, 2 Jun 2016.

³⁷ Source, banker, Cairo

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;
 July 2018 **Cairo (Egypt)** *Enterprise*. **Italian** PM to visit Egypt in first high-level visit since **Cambridge** (UK) PhD student **Giulio Regeni** was tortured and murdered in 2016;
 16 Aug 2018 **Cairo (Egypt)** *Al Ahram*. **Central Bank of Egypt** Monetary Policy Committee meeting.

Chronology

14 Jul 2018 **Cairo (Egypt)** *Reuters*. State-owned **Telecom Egypt** signs a memorandum of understanding with **South Africa**-based **Liquid Telecom** to enable Liquid Telecom to complete a terrestrial fibre network from **Cape Town**, South Africa, to Cairo;

13 Jul 2018 **Cairo (Egypt)** *BBC*. An explosion at a chemical factory near **Cairo International Airport** injures 12 people;

11 Jul 2018 **al-Arish (Egypt)** *Reuters*. Egyptian security forces kill 11 suspected militants;

9 Jul 2018 **Cairo (Egypt)** *Reuters*. The **Administrative Control Authority** announces the arrest of **Gamal Abdelazim**, head of Egypt's **Customs Authority**, on suspicion of bribery;

9 Jul 2018 **Cairo (Egypt)** *Al Mal*. Egypt was Africa's third largest market for "corporate transactions" in Q1 2018;

9 Jul 2018 **Cairo (Egypt)** *Al Ahram*. Egypt requests \$2 billion in funding from the **World Bank**;

8 Jul 2018 **Cairo (Egypt)** *Al Sharouk*. **Moustafa Madbouly** government announces it is aiming for a primary surplus of 2% of GDP in 2018-19;

8 Jul 2018 **Cairo (Egypt)** *Press Release*. Finance minister **Mohamed Maait** hints at further foreign-denominated bond issuances in 2018-19;

8 Jul 2018 **Cairo (Egypt)** *Enterprise*. Egyptian businessman **Shafik Gabr**, with close ties to Washington politicians, denies links to **United States** probe into **Volkswagen** emissions testing scandal;

8 Jul 2018 **Cairo (Egypt)** *Reuters*. French investigators report **EgyptAir MS804 May 2016** flight crash was caused by cockpit fire;

6 Jul 2018 **Cairo (Egypt)** *Enterprise*. Egypt-based petrochemicals company **Carbon Holdings** signs contracts with the **Suez Canal Authority** kicking off its \$10.9 billion petrochemicals facility known as **Tahrir Petrochemicals Corporation (TPC)**;

5 Jul 2018 **Cairo (Egypt)** *Youm7*. Egypt receives the fourth tranche of its \$12 billion Extended Fund Facility from the **International Monetary Fund (IMF)**;

5 Jul 2018 **Cairo (Egypt)** *Enterprise*. Egypt's sovereign fund draws interest from the **United Arab Emirates (UAE)** and **Oman**;

3 Jul 2018 **Cairo (Egypt)** *Al Masry Al Youm*. IMF praises subsidy reforms, calls for more monetary tightening in third review;

- 2 Jul 2018 **Cairo (Egypt)** *Press release*. Egypt, **Sudan** and **Ethiopia** launch a joint development fund;
- 27 Jun 2018 **Cairo (Egypt)** *Press release* UAE companies plan to build \$200m factories for renewable energy in **6 October City**;
- 27 Jun 2018 **Cairo (Egypt)** *Enterprise*. Finance minister **Mohamed Maait** says first wave of share sales in government's privatisation programme are coming in July or August;
- 26 Jun 2018 **Cairo (Egypt)** *Associated Press*. Egyptians duel on **Twitter** over support for Sisi and reforms;
- 25 Jun 2018 **Jabal al-Zeit (Egypt)** *Al Hayah fi Misr*. Electricity ministry to inaugurate an EGP 12 billion wind farm;
- 25 Jun 2018 **Cairo (Egypt)** *Enterprise*. **Egyptian Tax Authority (ETA)** looks to collect as much as EGP 6 billion from ride-sharing apps **Uber** and **Careem** in retroactive VAT payments for the last two years;
- 25 Jun 2018 **Cairo (Egypt)** *Al Ahram*. Parliament signs off on a EGP 70.3 billion overdraft for the 2017-18 state budget;
- 25 Jun 2018 **Cairo (Egypt)** *Al Masry Al Youm*. Parliament approves extending the state of emergency for an additional three months;
- 25 Jun 2018 **Cairo (Egypt)** *Al Masry Al Youm*. **Hassan Allam** consortium wins \$4.4 billion contract to build the "world's largest coal power plant";
- 24 Jun 2018 **Cairo (Egypt)** *Reuters*. Cairo-based investment bank **EFG Hermes** head of macroeconomic analysis **Mohamed Abu Basha** warns of "too much reform, too fast";
- 21 Jun **Cairo (Egypt)** *Enterprise*. **Jared Kushner**, senior adviser to **United States (US) President Donald Trump**, and special envoy **Jason Greenblatt** meet with President Abdel Fattah El Sisi to discuss "peace plan";

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