

AFRICA RISK CONSULTING

Egypt Monthly Briefing September 2019

Egypt Summary 25 September 2019

Unprecedented protests erupt in cities across Egypt for the first time in years demanding that President Abdel Fattah El Sisi (2014-present) leave office and sparking talk of renewed unrest. Talks between Egypt and Ethiopia hit tension amid fallout over Egypt's water security and Ethiopia's construction of the Grand Ethiopian Renaissance Dam (GERD). The government ramps up efforts on regulations enabling small and medium enterprises (SMEs).

Small but bold protests call for Sisi's ouster

Egypt witnessed an unprecedented outbreak of public protests on 20 September with spontaneous demonstrations occurring in cities including **Cairo, Alexandria, Mansoura, Damietta** and **Suez** calling for President **Abdel Fattah El Sisi** (2014-present) to leave office.¹ While small and scattered, the eruption of public anger is unprecedented since Sisi banned all forms of public assembly in 2013.² Those who have attempted to protest previously have faced long prison sentences and at times the death penalty.

The protests occurred just hours after Sisi departed Egypt for **New York (United States)** to attend the opening of the 74th **General Assembly at the United Nations**, where he was set to speak on 25 September.³ In a marked difference from 2011, the protesters were not organised via the activism of the middle upper-class elite on social media. They were instead young men from working class backgrounds who seemed to take the police by surprise, and were eventually dispersed with teargas and in some cities with live munitions and birdshot. A number of sources labelled this outburst of public anger as symbolic of a barrier of fear being broken for the first time in years, as well as being further evidence of the unsustainability of the current regime's means of governing. It is widely known in political circles that Sisi believes the downfall of former president **Hosni Mubarak** (1981-2011) came about because he allowed criticism of his government in public and popular culture, particularly in the last decade of his reign which saw protests allowed.

Sources were fiercely divided as to what the outcome of the protests would be; all feared that more violence could push an already fractured Egypt to further instability. Members of what is sometimes called '**Generation Revolution**', the activist leaders of the 2011 uprising, now almost nine years later were sceptical of what result any uprising could have, given Egypt's long history of violent leadership ousters and the omnipresent role of the military in public life.

"Egypt cannot withstand another revolution. We made so many mistakes the first time and what I know now is that we have to find other means to develop civilian governance – street politics are easily manipulated. And the country is still so broken from last time. We have to find another way forward, but we are at such a point with no space for politics under Sisi that I don't see a road..."⁴

Others argued that with so little space for dissent or political outreach, particularly after the arrest of parliamentarians like **Ziad Elamy** and diplomats who attempted to create new parties or dialogue with youth, that civil disobedience was the only remaining option.⁵ **United States (US)**-based media

¹ The New York Times, 20 Sep 2019.

² Carnegie Endowment report, 2013.

³ Al Ahram, 20 Sep 2019.

⁴ Source, political commentator, Cairo

⁵ Al Ahram, 20 Jun 2019.

outlet **The Wall Street Journal** reported on 13 September that US President **Donald Trump** (2017-present) had referred to Sisi's authoritarianism in closed meetings at the **G7 Summit** on 24-26 August in **Biarritz (France)** calling him his "*favourite dictator*" as other officials present looked on in stunned silence.⁶

Tensions have been steadily rising since 2 September following the release online of a series of viral videos by **Mohamed Ali**, a one-time actor who worked as a contractor with the Egyptian army for decades and who recently fled Egypt for **Spain**.⁷ In the videos, Ali alleges corruption and waste of public funds by Sisi, his family, and close supporters of the regime totaling millions of dollars, which include the building of a number of palaces, luxury hotels and the assigning of tens of projects without any tender process. The videos, at times bizarre and rambling, have captivated Egyptians for weeks with Ali's allegations rocking the delicate political balance for a government that is already deeply paranoid. Sources also point to the possibility that the videos could be part of a power grab by factions within the intelligence agencies and/or other security bodies that have historically competed for power, prestige and favour with the ruling leader.⁸ Sisi's recent push to amend the constitution to allow himself to potentially rule until 2034 has also divided the military establishment according to sources.

In a hastily organised conference just days after the emergence of the videos, Sisi responded directly to the allegations calling them "*sheer lies and defamation*".⁹ He added:

*"I've built presidential palaces and I will continue to do so. I am building a new country ... All of this is not mine. It's Egypt's."*¹⁰

The military's economic might has expanded since Sisi became president, especially under the auspices of the **Armed Forces Engineering Authority**, the body that has overseen a series of costly mega projects initiated by Sisi including the expansion of the **Suez Canal**. Numerous other small companies owned by the military have also flourished, causing concern amongst local businessmen and foreign investors.

Critics say the costs of projects such as the Suez Canal expansion and the new capital would have been better spent on rebuilding a wrecked economy and improving health and education. Repression, including the massive detention of youth and the control of almost all private media by security services, as well as the significant cost of living pressures facing Egyptians as debt has spiraled under Sisi, have created a simmering pot of anger that has until now had no outlet.

Following a second night of unrest on 21 September in the **Nile Delta** city of Suez, the city known as the first city to ignite in what later became the 2011 uprising, the **Egyptian Exchange** opened 2 points down, and continued to plunge until trading was briefly suspended late in the afternoon after the **EGX 100 Index** fell by 5%.¹¹ Business leaders are nervously watching events as they unfold as the current situation presents huge uncertainty at a time when some of the financial losses incurred after 2011 were starting to ease.

Tension between Egypt and Ethiopia flare again as latest GERD proposal fails

Negotiations on the **Grand Ethiopian Renaissance Dam (GERD)** that **Ethiopia** is building on the **Nile River** resumed on 15 September after having stopped for more than a year. The talks saw Ethiopia reject a proposal by Egypt to operate a \$4 billion hydropower dam that Ethiopia is constructing on the Nile, further deepening the ongoing dispute between the two countries over the project.¹²

⁶ The Wall Street Journal, 13 Sep 2019.

⁷ Vice, 8 Sep 2019.

⁸ Mada Masr, 4 Dec 2018.

⁹ Associated Press, 15 Sep 2019.

¹⁰ Mada Masr, 13 Sep 2019.

¹¹ Reuters, 23 Sep 2019.

¹² Reuters, 16 Sep 2019.

The deadlock revolves around key differences over the annual flow of water that should be guaranteed to Egypt and how to manage flows during droughts. Ethiopia and **Sudan** assert their right to exploit the Nile waters to further develop their economies while Egypt sees any loss of Nile water as an existential threat. Following the talks, Ethiopia's minister for water, irrigation and energy, **Seleshi Bekele**, suggested the latest plan presented by Egypt represented a violation of Ethiopia's sovereignty.¹³

Egypt currently receives about 85% of its water from the Nile and is already anticipating a nationwide shortage of fresh water by 2025.¹⁴ A new report released in August by US-based **Dartmouth College** suggests that flows from the **Upper Nile Basin** into Egypt could drop by as much as 25% in the next 15 years.¹⁵ The report goes into detail on the devastating impact of climate change, saying that even without the interruptions of the dam, flows of the Nile would already fail to meet demand by 2030.¹⁶

The GERD, announced in 2011, has been positioned as the centrepiece of Ethiopia's push to become **Africa's** biggest power exporter, generating more than 6,000 megawatts. However, Egypt says that without the concessions it has asked for, it would risk losing more than one million jobs and \$1.8 billion in economic output annually, as well as electricity valued at \$300m.¹⁷

Speaking at the **United Nations** on 24 September, President Sisi commented on the lack of progress as a potential source of regional instability should the dam issue not be resolved, and characterised Egypt's situation as "*a life or death issue*".¹⁸ But Egypt has also failed to make meaningful headway in negotiations so far because of a failure to incentivise Sudan, which will benefit from cheap electricity generated by the dam, to join Egypt's lobbying efforts. While tensions between Ethiopia and Egypt have cooled relatively over the past year, there is a pressing need to address key issues such as the filling pace of the dam to avoid the potential of the three nations blundering into a needless conflict. Unresolved issues over the Nile and the previous nationalistic positioning of the issue and ensuing military buildup that followed, if re-ignited, have huge potential for destabilising an already tense political situation in Egypt.

Parliament set to discuss draft SME law

Parliament will soon discuss a new draft Small and Medium Enterprise (SME) law that will include tax and non-tax incentives to support the sector and encourage small businesses to incorporate into the formal economy.¹⁹ The SME tax incentives package could cost the government EGP 1.5-2 billion (\$140m) each year.²⁰ If passed, the incentives would include exemptions from stamp duty as well as the fees to register contracts to set up companies and credit facilities for five years from the commercial registration date.²¹ SMEs would also be exempt from land registration costs.

The draft has in recent months drawn input from local businesses that say there needs to be a major push by the government as part of its continuing economic reform programme to further remove significant red tape that stands in the way of start-ups and SMEs. Other ideas the business community has suggested for aiding the SME sector include setting up a company to drum up interest for SME support products, as well as prioritising tech-intensive projects.²² Egypt was voted 120 out of 190 countries in the **World Bank's Ease of Doing Business Report** in 2019, eight places higher than in 2018.²³

¹³ Associated Press, 16 Sep 2019.

¹⁴ Quartz, 17 Sep 2019.

¹⁵ Earth Future Report, Aug 2019.

¹⁶ Earth Future Report, Aug 2019.

¹⁷ Reuters, 16 Sep 2019.

¹⁸ Al Ahram, 24 Sep 2019.

¹⁹ Press release, 24 Sep 2019.

²⁰ Al Masry Al Youm 7 Sep 2019.

²¹ Al Mal, 8 Sep 2019.

²² Al Masry Al Youm, 7 Sep 2019.

²³ Ease of Doing Business Report 2019.

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;
 Oct 2019 **Cairo (Egypt)** *Al Akhbar*. **Cairo Criminal Court** “stock market manipulation” trial of **Gamal** and **Alaa Mubarak**;
 Oct 2019 *Enterprise*. **Russia-based Rosatom** and the **Nuclear Power Plants Authority** forum to introduce local suppliers and contractors to the **Dabaa** nuclear plant.

Chronology

24 Sep 2019 **Cairo (Egypt)** *Enterprise*. Shares slide for second day in a row following protests;
 23 Sep 2019 **Cairo (Egypt)** *Netblocks.com*. Egyptian authorities block access to **BBC Arabic** and disrupt access to social media sites;
 22 Sep 2019 **Cairo (Egypt)** *Reuters*. **United States** President **Donald Trump** (2017-present) backs President **Abdel Fattah El Sisi** in the face of protest;
 22 Sep 2019 **Cairo (Egypt)** *Enterprise*. The **Egyptian Exchange** turns in its worst day since 2016 as investors wrap their heads around weekend protests;
 21 Sep 2019 **Cairo (Egypt)** *Wall Street Journal*. Egyptian authorities arrest dozens following protests;
 20 Sep 2019 **Cairo (Egypt)** *The New York Times*. Protests against President **Abdel Fattah El Sisi** erupt in Cairo and other cities;
 20 Sep 2019 **Cairo (Egypt)** *Mada Masr*. President **Abdel Fattah El Sisi** mulls canceling a trip to **New York (United States)** amid high-level meetings to combat ‘destabilisation campaign’;
 20 Sep 2019 **Cairo (Egypt)** *Associated Press*. **Ethiopia** says Egypt's proposal on filling of the **Grand Ethiopian Renaissance Dam (GERD)** puts Ethiopia's sovereignty in question;
 19 Sep 2019 **Cairo (Egypt)** *MenaBytes*. Egyptian tuk-tuk startup **Halan** is to expand into **Ethiopia**;
 17 Sep 2019 **Cairo (Egypt)** Egyptian ride-sharing app **Swvl** looking to raise over \$100m in a financing round in Q1 2020.
 16 Sep 2019 **Cairo (Egypt)** *Press release*. Egypt expects its economy to grow by around 8% by 2022;
 14 Sep 2019 **Abaiqaiq (Saudi Arabia)** *The Wall Street Journal*. **Houthi** drone strikes hit **Saudi Arabia**-based oil company **Aramco**'s biggest oil facilities ;
 12 Sep 2019 **Cairo (Egypt)** *Enterprise*. **United Arab Emirates**-based **Dana Gas** has received offers from companies interested in buying its \$500 m Egypt portfolio;
 12 Sep 2019 **Cairo (Egypt)** *The Wall Street Journal*. **United States** officials say that security threats are delaying the **Egypt-Israel** gas deal;
 10 Sep 2019 **Cairo (Egypt)** *Press release*. Official statistics agency **Central Agency for Public Mobilization and Statistics (CAPMAS)** reports Egypt's headline inflation rate fell to 7.5% in August from 8.7% in July;
 10 Sep 2019 **Cairo (Egypt)** *Press release*. The finance ministry plans to issue \$3-7 billion-worth of international bonds this fiscal year;
 5 Sep 2019 **Cairo (Egypt)** *The Guardian*. Son of former Egyptian president **Mohamed Morsi** dies aged 25;

22 Aug 2019 **Cairo (Egypt)** *Associated Press*. Prominent **Palestinian** politician **Nabil Shaath** says that Egyptian authorities arrested his son, **Ramy Shaath**, in Cairo on 5 July;

22 Aug 2019 **Cairo (Egypt)** *Reuters*. The **Central Bank of Egypt** cuts rates by 150 bps after inflation slows;

20 Aug 2019 **Cairo (Egypt)** *Associated Press*. Egyptian military says it has killed 12 militants in **Sinai**.

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