

## AFRICA RISK CONSULTING

### Egypt Briefing November 2019

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#### Egypt Summary 26 November 2019

*President Abdel Fattah El Sisi (2013-present) suggests that military-owned companies could be floated on the Egyptian Stock Exchange (EGX30) as part of his government's wider sell-off of state-owned enterprises. The United States (US) warns Egypt that it could face sanctions over a \$2 billion contract to buy warplanes from Russia. The Egyptian pound rallies to a two-year high against the US dollar. Egypt jumps six spots to rank 114<sup>th</sup> out of 190 countries in the World Bank Group's 2020 Ease of Doing Business report.*

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#### Sisi says military companies could be floated on stock exchange

President **Abdel Fattah El Sisi** (2013-present) has raised the idea of including military companies in his administration's stake sale programme.<sup>1</sup> The move comes as an angry **Egyptian** population continues to bear the strain of on-going austerity measures, and as the private sector expresses frustration about being shut out by the military economic complex. Sisi has said the army is not competing with the private sector:

*"The offerings being prepared by the Egyptian state should include a chance for the armed forces companies. In this way we will have opened a door for the Egyptian people and society to these companies."*<sup>2</sup>

This is not the first time the president has stressed that the army doesn't undertake projects at the expense of the private sector. In 2018 he said that the military's economic activity constitutes only 2-3% of Egypt's total gross domestic product (GDP).<sup>3</sup> However, independent estimates place the figure as high as 45%. But the protests triggered in September by a former civilian contractor who worked with the military, and who made explosive claims about corruption (see *ARC Briefing Egypt September 2019*), have made the government extremely sensitive to growing disquiet about the unfair advantages afforded to the military at the expense of the private sector. In a local television interview on 5 November, billionaire businessman **Naguib Sawiris** lamented the privileges afforded to the military and suggested they have deterred investment in the private sector.<sup>4</sup>

Military-owned enterprises have only grown since Sisi, the former defence minister, came to power in 2013 and investors continue to contend with attempting to compete with an institution that enjoys an array of advantages – from minimal taxes to subsidised conscripted labour and privileged access to credit. As the complaints of the business community have grown, the **International Monetary Fund (IMF)** has also spoken on the need for the state to reduce its involvement in the economy.<sup>5</sup>

*"Egypt's rulers have long prioritized control over growth, and patronage over progress. This has spawned a class of interested parties, the military preeminent among them, that sees no benefit in the reforms needed to lift the country out of poverty, such as reducing red tape and making*

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<sup>1</sup> Press release, 31 Oct 2019.

<sup>2</sup> Press release, 31 Oct 2019.

<sup>3</sup> Al Ahram, 31 Oct 2019.

<sup>4</sup> Al Kahera Alaan, 5 Nov 2019.

<sup>5</sup> Al Monitor, 24 Jun 2018.

*regulations more consistent, coherent and efficiently applied; streamlining customs procedures; expanding judicial independence; and subjecting military enterprises to the same tax and regulatory burdens applied to the private sector.”<sup>6</sup>*

Critics met the president’s comments with disdain. While military business is shrouded for the most part from public scrutiny, in order to comply with trading regulations, companies that are military-owned would need to dramatically improve their transparency. Members of the private sector worry that the state could grant these companies further legal exemptions, allowing them to be listed publicly with a reduced level of disclosure. This would not only give them another advantage, it would also damage the integrity of the **Egyptian Stock Exchange (EGX30)**. However, there is also doubt about the potential for this to eventuate considering that the government’s initial plan announced last year to IPO up to 23 state-owned companies has been repeatedly delayed due to weak markets and legal hurdles.<sup>7</sup>

### US warns Egypt over potential sanctions for Russia warplanes purchase

The **United States (US)** has warned Egypt that it could face sanctions over a \$2 billion contract to buy warplanes from **Russia**. A letter obtained by the US-based daily newspaper, the **Wall Street Journal (WSJ)**, sent by secretary of state **Michael Pompeo** and defence secretary **Mark Esper** to Egyptian defence minister **Mohammed Ahmed Zaki**, is an unusual rebuke of Egypt, which has been a key US ally in the region. The administration of President **Donald Trump** (2017-present) has worked to build close ties with Sisi personally.

Russia plans to start deliveries of fighter jets to Egypt as early as 2020. The WSJ on 14 November quoted Pompeo and Esper in the letter:

*“Major new arms deals with Russia would – at a minimum – complicate future US defense transactions with and security assistance to Egypt.”<sup>8</sup>*

In 2017, the US, aiming to punish Russia for actions including its annexation of **Crimea** and alleged interference in the 2016 US elections, placed secondary sanctions on countries who do business with Russia’s defence and intelligence sectors.

The US has long been a major supplier of weapons to Egypt but Russia has been aggressively expanding its influence in the **Middle East** and more recently in **Africa**, bolstering the regime of **Syria’s** President **Bashar al-Assad** (2000-present), aiding the government of the **Central African Republic** with weapons and security personnel, and building ties with **Turkey**.<sup>9</sup> Russia and Egypt co-hosted the first **Russia-Africa Summit and Economic Forum** from 23-24 October in **Sochi** (Russia), inviting 40 heads of state to discuss greater collaboration on trade and security.

The warning from the US comes after Russian defence minister **Sergey Shoigu** met with Sisi and defence minister **Mohamed Zaki** in **Cairo** on 11 November, calling for “*closer*” military ties between Egypt and Russia.<sup>10</sup>

There has been significant chatter in Cairene political circles since Sisi agreed to let Russia fund and build a nuclear power facility on the northern shores of **Dabaa**. While it was natural for Egypt to cultivate more diverse foreign allies, an alliance with a volatile Russia was a potentially dangerous political move. And, while Russia and Egypt co-hosted the Russia-Africa summit in October, Russia still refuses to resume flights to Egypt since the downing of a Russian passenger plane in **Sharm El Sheikh** in 2015. To many sources, the Russians are still using the plane disaster as a political carrot.

<sup>6</sup> Bloomberg, 19 Nov 2019.

<sup>7</sup> Reuters, 31 Oct 2019.

<sup>8</sup> The Wall Street Journal, 14 Nov 2019.

<sup>9</sup> The Economist, 26 Oct 2019.

<sup>10</sup> Ahram Gate, 12 Nov 2019.

The Egyptian government has yet to comment on the sanctions, but on 20 November it was reported that the president's son, **Mahmoud El Sisi**, who previously held a prominent role in the **General Intelligence Services (GIS)**, has been re-assigned to the Egyptian embassy in **Moscow**.<sup>11</sup> Sources suggest that such a move is an obvious signal to the US that Sisi will continue to foster ties with Russia and will not be intimidated by threats.

### Egyptian pound rallies to two-and-a-half year high

The Egyptian pound rose to a two-and-a-half year high against the US dollar, hitting EGP 16.12 (\$0.62) on 27 October.<sup>12</sup> The pound has risen almost 10% against the US dollar since the beginning of 2019. A strong pound is likely to aid the government's attempts to contain inflation. Since the **Central Bank of Egypt (CBE)** devalued the currency in 2016 as part of a deal to secure a bailout loan from the IMF, economists say they have closely controlled the value of the pound, which was last this strong in March 2017.<sup>13</sup>

Inflows came from investments in Egyptian treasuries, improving tourism, foreign worker remittances and substitution of natural gas imports with domestic production. Tourism revenues alone have increased by 50% year on year to \$11.4 billion,<sup>14</sup> while foreign holdings of Egyptian treasuries amounted to \$18.3 billion in August.<sup>15</sup>

**London** (UK)-based financial research firm **Capital Economics** has suggested that the government could inject fiscal stimulus equal to 0.5% of GDP while keeping the debt-to-GDP ratio at manageable levels.<sup>16</sup> The report states that political instability remains the key risk for Egypt, predicting that the government would likely loosen fiscal policy aggressively in the event of further unrest:

*"This would fuel a build-up of macro imbalances and lead to a sharp economic adjustment further ahead. The government has already moved to re-introduce subsidies, alongside lowering the cost of some food staples as they remain concerned about the potential for further civil unrest."*<sup>17</sup>

Egypt advanced six places on the **World Bank's 2020 Doing Business** report, ranking 114<sup>th</sup> out of 190 countries. The ranking marks an improvement from Egypt's ranking of 120<sup>th</sup> on the 2019 Doing Business report.<sup>18</sup> However, investors continue to complain that despite ongoing reforms moving in the right direction, there remains need for more aggressive changes. The actual investment climate remains difficult and bureaucratic with banking, tax and bankruptcy laws. However, the Doing Business report noted that improvements in the tax index were supported by the introduction of a new electronic system for filing VAT and income tax and allowing electronic payment for those taxes. This system was comprehensively applied to all companies in Egypt.<sup>19</sup>

<sup>11</sup> Mada Masr, 20 Nov 2019.

<sup>12</sup> Central Bank, 27 Oct 2019.

<sup>13</sup> Reuters, 28 Oct 2019.

<sup>14</sup> Egyptian Tourism Commission, Oct 2019.

<sup>15</sup> Enterprise, 1 Oct 2019.

<sup>16</sup> Capital Economics report, Oct 2019.

<sup>17</sup> MENA, 16 Nov 2019.

<sup>18</sup> World Bank Ease of Doing Business Report 2020.

<sup>19</sup> Al Masry Al Youm, 23 Oct 2019.

## Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

Nov-Dec 2019 *Enterprise*. **Russia** state nuclear energy authority **Rosatom** and the **Nuclear Power Plants Authority** will organise a forum to introduce local suppliers and contractors to the **Dabaa** nuclear plant;

Dec 2019 **Cairo (Egypt)** *Al Akhbar*. **Cairo Criminal Court** “stock market manipulation” trial of **Gamal** and **Alaa Mubarak**;

## Chronology

26 Nov 2019 **Cairo (Egypt)** *Al Ahram*. **Central Bank of Egypt** governor **Tarek Amer** to remain for another four-year term;

26 Nov 2019 **Cairo (Egypt)** *Press release*. **French** energy company **EDF Renewables** has acquired a “strategic stake” for \$25m in Egyptian renewable company **Karm Solar**;

24 Nov 2019 **Cairo (Egypt)** *Financial Times*. Egypt’s last remaining independent news outlet, **Mada Masr**, is raided and editor-in-chief and journalists arrested after report on President **Abdel Fattah El Sisi**’s son, **Mahmoud al-Sisi**;

20 Nov 2019 **Cairo (Egypt)** *Mada Masr*. President’s eldest son, **Mahmoud al-Sisi**, is sidelined from powerful intelligence position to diplomatic mission in **Russia**;

18 Nov 2019 **Cairo (Egypt)** *Hapi Journal*. **Elsewedy Electric** CEO **Ahmed Elsewedy** says the company is looking to acquire a stake in the three combined-cycle power plants the company co-built with **Germany**-based industrial manufacturing company **Siemens** and **Cairo**-based **Orascom Construction**;

17 Nov 2019 **Cairo (Egypt)** *Press release*. Egypt successfully closes a \$2-billion triple-tranche Eurobond issuance in its first international debt auction for 2019-2020;

16 Nov 2019 **Cairo (Egypt)** *MENA*. Supply and internal trade minister **Ali Moselhi** says Egypt will reduce subsidised staple food prices;

14 Nov 2019 **Cairo (Egypt)** *Wall Street Journal*. The **United States** has threatened Egypt with sanctions over a deal to buy arms from **Russia**;

13 Nov 2019 **Cairo (Egypt)** *Reuters Africa*. The **United States** presses Egypt on alleged torture and mass arrests at a **United Nations** review;

13 Nov 2019 **Cairo (Egypt)** *Associated Press*. The **United States**, the **United Kingdom** and **Germany** express concern over human rights in Egypt at a **United Nations** review in **Geneva**;

12 Nov 2019 **Cairo (Egypt)** *Al Borsa*. Sovereign wealth fund CEO **Ayman Soliman** says the fund will raise authorised capital to up to 1 trillion pounds (\$62.5 billion)

8 Nov 2019 **Cairo (Egypt)** *Associated Press*. **United Nations** experts say ‘Brutal’ prison killed former president **Mohamed Morsi**;

7 Nov 2019 **Cairo (Egypt)** *Press release*. Following **United States**-mediated talks with his **Ethiopian** and **Sudanese** counterparts, foreign minister **Samer Shourky** says the **Grand Ethiopian Renaissance Dam** dispute will be solved by January 2020;

7 Nov 2019 **Cairo (Egypt)** *Al Mal*. **Central Bank of Egypt** governor **Tarek Amer** says the state-owned **Banque du Caire** will issue an IPO in Q1 2020;

- 6 Nov 2019 **Cairo (Egypt)** *MENA*. Lawmaker from left-leaning 25-30 party **Ahmed Tantwai** says parliament could sack him for criticism of President **Abdel Fattah El Sisi**;
- 5 Nov 2019 **Cairo (Egypt)** *Associated Press*. President **Abdel Fattah El Sisi** praises President **Donald Trump** on social media calling him a “*man of unique power*”;
- 5 Nov 2019 **Cairo (Egypt)** *Enterprise*. Finance ministry sets a more ambitious public debt reduction target, but a more conservative GDP growth estimate of 6.5% for 2020-2021;
- 4 Nov 2019 **Cairo (Egypt)** *Press release*. Egyptian forces say they killed 83 militants in “*clashes*” in the Sinai;
- 2 Nov 2019 **Cairo (Egypt)** *Reuters*. The **Sinai Province** swears allegiance to new **Islamic State** leader **Abu Ibrahim al-Hashimi al-Qurayshi**;
- 29 Oct 2019 **Cairo (Egypt)** *Press release*. The **International Monetary Fund (IMF)** confirms talks are on-going with Egypt on post-loan cooperation;
- 28 Oct 2019 **Cairo (Egypt)** *Enterprise*. Billionaire businessman and **Orascom Development Holding AG** CEO **Samih Sawiris** is setting up EGP1 billion (\$70m) non-banking financial services firm alongside seven other business figures from the banking and construction industries;
- 31 Oct 2019 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah El Sisi** says Egypt's army companies should be floated;
- 27 Oct 2019 **Cairo (Egypt)** *World; Bank*. Egypt jumps six spots to rank 114<sup>th</sup> out of 190 countries in the **World Bank Group's 2020 Ease of Doing Business** report, up from 120<sup>th</sup> last year;
- 24 Oct 2019 **Cairo (Egypt)** *Magnitt*. Egypt is the second most active FinTech startup hub in the **Middle East and North Africa**;
- 24 Oct 2019 **Cairo (Egypt)** *Egypt Today*. Tensions fray with Ethiopia over the **Grand Ethiopian Renaissance Dam** dispute as Egypt deems Ethiopian threats of aggression unacceptable;
- 22 Oct 2019 **Cairo (Egypt)** *Washington Post*. Egypt accepts invitation to meet in the **United States** over **Grand Ethiopian Renaissance Dam** dispute;

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