

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing December 2019

---

#### Egypt Summary 15 December 2019

***United States (US)-mediated talks between Egypt and Ethiopia continue in Washington DC (US) over Ethiopia's Grand Ethiopian Renaissance Dam (GERD). Egypt, Cyprus and Greece reject a border and security agreement between Libya's Presidential Council chair and prime minister of the Government of National Accord of Libya, Fayez Mustafa al-Sarraj, and Turkey. 2019 has been a tumultuous year in Egypt. With multiple terror attacks and ongoing insurgency in the Sinai, security and the ability of the government to achieve it will be a major issue for 2020. The removal of fuel and food subsidies represents an ongoing stability challenge for the government.***

---

#### Washington GERD talks see slow progress

The foreign and irrigation ministers of **Egypt, Ethiopia and Sudan** met in **Washington (United States)** on 9 December to discuss a roadmap for the on-going negotiations over Ethiopia's contentious **Grand Ethiopian Renaissance Dam (GERD)**.<sup>1</sup> The talks were mediated by the US and the **World Bank** in an attempt to push the countries towards a solution to the deadlock that has seen increasing tension between **African** basin countries and Egypt. The **US State Department** issued a press release saying that the three countries had agreed that

*"... the strategic direction of the next two technical meetings should be the development of technical rules and guidelines for the filling and operation of the dam, the definition of drought conditions, and drought mitigation measures to be taken."*<sup>2</sup>

The three countries have committed to reaching an agreement by 15 January 2020, which will mark the end of the fourth round of talks, scheduled to begin in Washington D.C on 13 January.<sup>3</sup>

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.<sup>4</sup>

Egypt currently receives about 85% of its water from the Nile and is already anticipating a nationwide shortage of fresh water by 2025.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup>

Ethiopia has positioned the GERD, announced in 2011, as the centrepiece of its push to become **Africa's** biggest power exporter, generating more than 6,000 megawatts. However, Egypt says that

---

<sup>1</sup> Press release 10 Dec 2019.

<sup>2</sup> Press release, 9 Dec 2019.

<sup>3</sup> Enterprise, 10 Dec 2019.

<sup>4</sup> Associated Press, 16 Sep 2019.

<sup>5</sup> Quartz, 17 Sep 2019.

<sup>6</sup> Earth Future Report, Aug 2019.

<sup>7</sup> Earth Future Report, Aug 2019.

without the concessions it has asked for, it risks losing more than one million jobs and \$1.8 billion in economic output annually, as well as electricity valued at \$300m.<sup>8</sup>

### Egypt protests Turkey-Libya co-operation agreements

Egypt has condemned the signing on 27 November of two memoranda of understanding by the **Turkish** and **Libyan** prime ministers on maritime borders and security.<sup>9</sup> The border deal, endorsed by the Turkish parliament last week, has fueled regional tensions with **Greece**, **Cyprus** and Egypt over oil and gas drilling rights in the eastern **Mediterranean**. Egypt's foreign ministry was quick to assert that:

*"The two memoranda of understanding have no legal effect, they cannot be officially recognised in light of the [December 2015 Libyan political agreement signed in **Skhirat (Morocco)**], **Skhirat Agreement's** Article 8, which stipulates that the [Libyan] government or the cabinet, not the prime minister, have the authority to sign international agreements."<sup>10</sup>*

Greece, Cyprus and Egypt, which lie between Turkey and Libya, have blasted the maritime border accord as being contrary to international law. In response, Greece has expelled the Libyan ambassador over the deal.<sup>11</sup> The **European Union (EU)**, already angered by Turkey's attempts to drill for gas off Cyprus, has said it

*"...unequivocally reaffirms its solidarity with Greece and Cyprus regarding these actions by Turkey."<sup>12</sup>*

Referring to the **Ankara-Tripoli** deal, Turkey's President **Recep Tayyip Erdogan** (2014-present) said:

*"Other international actors cannot conduct exploration activities in the areas marked in the Turkish-Libyan memorandum. Greek Cypriots, Egypt, Greece and Israel cannot establish a natural gas transmission line without Turkey's consent."<sup>13</sup>*

The move is likely to further bolster support for rebel **Libyan National Army (LNA)** leader **Khalifa Haftar**, whose east-based army in April launched its push on the capital, Tripoli, with the aim of taking control from the **United Nations (UN)**-backed government led by **Fayez Al Serraj**. Haftar is backed by the **United Arab Emirates**, Egypt, **France** and **Russia**. The Tripoli-based government receives aid from Turkey, **Qatar** and **Italy**. The latest move indicates that side-stepping Turkey in the divvying up of gas in the Eastern Mediterranean may not be a viable long-term strategy. Turkey is angry at being sidelined and is making the point that it will not be ignored in the future. Pressing Egypt and the EU on Libya, which is a particular sensitive point for neighbouring Egypt, is one way to do that. Demonstrating its desire for an increasingly independent role in regional policies and with potential for further outcry from the international community, Turkey has vowed to continue undeterred, with watchers suggesting that a lack of agreement over gas drilling rights presents major source of conflict in the region and an impediment to the potential for the Eastern Mediterranean to become a global gas hub.

### Looking back at 2019 and ahead to 2020

2019 has been a tumultuous year in Egypt. With multiple terror attacks and ongoing insurgency in the **Sinai**, security and the ability of the government to achieve it will be a major issue for 2020. Part of the security challenge is also economic: the removal of fuel and food subsidies represents an ongoing stability challenge for the government, which, following unprecedented protests in September, called for the removal of President **Abdel Fattah El Sisi** (2014-present), and added back more than 1

<sup>8</sup> Reuters, 16 Sep 2019.

<sup>9</sup> Press release, 27 Nov 2019.

<sup>10</sup> Press release 27 Nov 2019.

<sup>11</sup> The New York Times, 28 Nov 2019

<sup>12</sup> Associated Press, 12 Dec 2019.

<sup>13</sup> TRT World, 10 Dec 2019.

million Egyptians onto the subsidy roll.<sup>14</sup> While sources have praised the government's ongoing commitment to economic reforms despite the risk of backlash, they warned that there is still far to go, reiterating that Egypt remains subject to emerging market volatility, particularly in light of its debt position. Several also pointed to the government's lack of a long-term strategy for job creation, stating that there was little point in reducing subsidy spending, if it was unable to create jobs and decrease the current pressure on the poor.

The World Bank said in April that 60% of Egyptians were “either poor or vulnerable”. The numbers released found that 33% of Egypt's 99 million citizens were classified as poor last year, up from 28% in 2015.<sup>15</sup> The state of poverty in post-subsidy Egypt continues to be the biggest challenge to security and stability as the government quietly recognises that in order to sustain growth and shore off civil unrest, economic growth must lift out of poverty larger numbers of Egyptians than it is currently doing.

For investors both local and international, one of the key issues for 2020 will be Egypt's ability to demonstrate it is not favouring the military economy at the cost of the private sector. With Sisi recently touting the potential for military-owned companies on the stock exchange (see *ARC Briefing Egypt November 2019*), investors will be watching to see if the government is serious about bolstering its support for the private sector in meaningful ways.

For Sisi, whose popularity continues to diminish, his ability to find a solution to Egypt's water issues with Ethiopia over the Grand Ethiopian Renaissance Dam (GERD) will be critical, with water shortages presenting an existential threat to Egyptians. The amendments made to the constitution this year, which critics say concentrate more powers in the hands of a leader accused of presiding over the most brutal crackdown on freedoms in Egypt's modern history<sup>16</sup> alongside protests, allegations of corruption, the expensive construction of the new capital, and swelling repression including the targeting of the country's last independent media outlet and its journalists, have put him in a vulnerable position. Egyptians are growing tired of what is increasingly seen as self-serving leadership of the president, and his family members who have been appointed to key positions (see *ARC Briefing Egypt September 2019*) Loosening repression, alongside demonstrating commitment to improving the lives of Egyptians, will be key to Sisi's ability to make further economic reforms and his overall ability to maintain his grip on power.

### Planner

2019-2020 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

Jan 2020: *Asharq Al Aswat*. **Grand Ethiopian Renaissance Dam (GERD)** talks to take place in **Washington DC (United States)**;

2020: *Al Ahram*. **Dabaa (Egypt)** Construction to begin on **Dabaa Power Plant**.

### Chronology

13 Dec 2019 **Cairo (Egypt)** *Press release*. **United States**-based non-profit organisation **Committee to Protect Journalists (CPJ)** reports that Egypt has the world's third-highest number of jailed journalists;

11 Dec 2019 **Cairo (Egypt)** *Reuters*. **Ayman Soliman**, CEO of Egypt's new sovereign fund, **Tharaa**, says it is picking assets to lure investors;

11 Dec 2019 **Cairo (Egypt)** *Enterprise*. Egypt's official statistics agency, the **Central Agency for Public Mobilization and Statistics (CAPMAS)**, says inflation rose for the first time in six months in November;

<sup>14</sup> Enterprise, 2 Oct 2019.

<sup>15</sup> CAPMAS, Jul 2019.

<sup>16</sup> The Washington Post, 9 Feb 2019.

- 9 Dec 2019 **Cairo (Egypt)** *Associated Press*. Cairo court sentences whistleblower **Mohamed Ali** to a five-year prison term in absentia for tax evasion;
- 9 Dec 2019 **Cairo (Egypt)** *Enterprise*. Finance minister **Mohamed Maait** says Egypt is considering three bond offerings during the 2019-2020 financial year;
- 9 Dec 2019 **Cairo (Egypt)** *Press release*. Finance ministry says government spending on fuel subsidies fell 69% year-on-year in Q1 2019-2020;
- 8 Dec 2019 **Cairo (Egypt)** *World Bank*. Egyptian expatriates are projected to send home the fifth highest value of remittances in the world by the end of 2019;
- 8 Dec 2019 **Cairo (Egypt)** *Al Mal*. Finance ministry projects a 6.5% year-on-year reduction in government spending in the 2020-2021 budget;
- 4 Dec 2019 **Cairo (Egypt)** *Al Borsa*. Finance minister **Mohamed Maait** says **Cayman Islands**-headquartered **Endeavour Mining** bid for **Jersey**-based gold mining company **Centamin** will boost mining interest in Egypt;
- 3 Dec 2019 **Cairo (Egypt)** *Reuters*. **Israel**-based **Delek Drilling** and **United States**-based **Noble Energy** expect to begin supplying natural gas from the offshore **Leviathan field** to the Israeli market within three weeks, after which exports to Egypt and **Jordan** will begin;
- 1 Dec 2019 **Cairo (Egypt)** *Press release*. Egyptian government condemns as illegal the signing of two agreements on maritime boundaries in the **Mediterranean** and security cooperation between **Turkey** and **Libya**;
- 30 Nov 2019 **Cairo (Egypt)** *Enterprise*. Egypt became a signatory to the **Yaoundé Declaration** which is designed to combat tax evasion and the flows of illicit financing through a network of information exchange between **African** countries;
- 27 Nov 2019 **Cairo (Egypt)** Egypt sentences top militant suspect **Hisham Ashmawy** to death;
- 27 Nov 2019 **Washington DC (United States)** *Enterprise*. **United States** secretary of state **Mike Pompeo** calls on the **Egyptian** government to end its clampdown on the press following a raid on news outlet **Mada Masr**;
- 27 Nov 2019 **Cairo (Egypt)** *Associated Press*. **United Kingdom**-headquartered non-governmental organisation **Amnesty International** accuses Egypt's prosecution branch of using force to crush dissent;
- 26 Nov 2019 **Cairo (Egypt)** *Reuters*. Egypt hands down seven death sentences on terror charges;

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)