

AFRICA RISK CONSULTING

Egypt Monthly Briefing August 2019

Egypt Summary 22 August 2019

A car full of explosives detonates outside Egypt's Cancer Institute in Cairo, leaving scores injured and 20 dead. Two weeks prior to the explosion, United Kingdom-based airline British Airways suspends flights to Cairo without warning, citing security concerns. United States-based Harvard University's Center for International Development (CID) reports that Egypt will grow at a record 6%, but structural challenges remain, amid growing concerns that poverty rates are also growing at an unsustainable pace.

Cairo car bomb highlights security concerns ...

A large car-bomb explosion outside a hospital in **Cairo** on 4 August killed at least 20 people and injured dozens more, in the deadliest terrorist attack in more than two years, raising fears of a new wave of violence in Cairo. The car, which was driving against traffic on the **Corniche**, a main artery road of the downtown area, exploded, causing chaos as emergency responders struggled to contain the flames.¹ The severity of the blast caused extensive damage to the hospital and left body parts strewn metres away in the **Nile River**.²

Officials initially said the explosion was caused when a car driving against the traffic collided with three other cars.³ Later, the interior ministry announced that the explosion was a terrorist attack, and accusing the **Hasm** militant group affiliated to the now outlawed **Muslim Brotherhood, Egypt's** oldest Islamic movement, of being the perpetrators.⁴

"The initial technical examination also showed that the car contained explosives, and the collision led to their detonation. It is estimated that the car was being transported to a location for use in the execution of a terrorist operation."⁵

Just three days later, on 8 August, the police announced that they had identified the bomber and that security forces had killed 15 suspected militants also accused of affiliation with Hasm. Such raids in the immediate aftermath of attacks have become the default response of the government, which, nervous about public opinion, moves fast to name and kill alleged terrorists. An investigation by global media outlet **Reuters** in April found that Egyptian security forces had shot dead hundreds of alleged militants in what the interior ministry said were gun battles, but which families claimed were extrajudicial executions.⁶

This latest attack comes as Egyptian security forces continue to wage a counterinsurgency campaign against Islamist militants, some with links to **Islamic State (ISIS)**, in the **Sinai Peninsula** but who have in recent years also increasingly staged attacks in Cairo and the **Nile Delta**.⁷ This new attack represents a further blow to the government, which has insisted that security is improving in Egypt in the wake of a series of violent explosions, assassinations and attacks on police and military

¹ Al Hayat, 5 Aug 2019

² Al Ahram, 6 Aug 2019.

³ Press release 6 Aug 2019.

⁴ Reuters, 8 Aug 2019.

⁵ Press release, 5 Aug 2019.

⁶ Reuters, 5 Apr 2019.

⁷ Associated Press, 5 Aug 2019.

checkpoints that have become a frequent occurrence since President **Abdel Fattah El Sisi** (2014-present) came to power in 2014.⁸

Renewed attacks like this one draw further attention to the worsening security in Egypt. Despite enormous control over the public sphere, and massive efforts and expenditure to surveil the population, the government has done little to prevent security breaches. Sources point to the worsening economic climate for the majority of Egyptians, alongside the mass detention of youth in prisons, as factors driving young men to be radicalised. Lack of security, made worse by an absence of the rule of law in Egypt, remains an issue facing the business community locally and an obstacle to foreign investors interested in opportunities in the Egyptian market.

... as British Airways suspends flights to Egypt

United Kingdom (UK)-based airline **British Airways** suspended all flights to Cairo on 20 July for one week as a security precaution. The airline made the surprise announcement by email that all flights to and from the Egyptian capital were halted:

“We constantly review our security arrangements at all our airports around the world, and have suspended flights to Cairo for seven days as a precaution to allow for further assessment. The safety and security of our customers and crew is always our priority, and we would never operate an aircraft unless it was safe to do so.”⁹

The move was said to have come after an inspection of Cairo and **Hurghada Airports** by **British** officials days before.¹⁰ Local press attempted to connect the suspension to expected strikes at London’s **Heathrow Airport**.¹¹ However, speculation mounted after **Germany**-based airline **Lufthansa** also suspended flights to Cairo and the UK **Foreign Office (FCO)** upped its travel advisories to British nationals travelling to Egypt, warning of “*a heightened risk of terrorism against aviation*”.

With an estimated 415,000 British nationals visiting Egypt in 2018, the move angered Egypt, which responded saying that the suspension was not called for by the British government, but was instead a decision made by the airline. While only in place for one week, the suspension comes as Egypt continues to lobby the UK and **Russia** to re-instate flights suspended after the downing of a Russian **Metrojet** flight in the **Red Sea** resort town of **Sharm El Sheikh** by ISIS militants in 2015, which killed all 224 people on board.¹² Following the bombing, serious security flaws were found to exist in Egyptian airport security procedures.

Three years after the attack, Egypt argues that it has diligently worked to make all necessary changes. It has also employed a UK-security firm, **Restrata**, to train more than 6,000 Egyptian airport security staff in a bid to get flights restarted.¹³ Despite this, former British prime minister **Theresa May** (2016-2019) said in early 2019 that the ban was still “*under review*”.¹⁴

Tourism is a key source of revenue and foreign currency for Egypt and in recent months it has ramped up efforts to lure tourists back with promises of safety. Any suspension of this kind, alongside the car-bomb explosion (see above), hampers efforts to attract badly needed foreign currency. Sources say that security challenges are on-going and expected, but the determining factor will be the government’s ability to convince foreign governments to resume flights, based on changes made to security measures. This, they say, would be a major signal of confidence to the investment market as well.

⁸ The Guardian, 5 Aug 2019.

⁹ Press release, 20 Aug 2019.

¹⁰ Source, public official, Cairo

¹¹ Youm7, 20 July 2019.

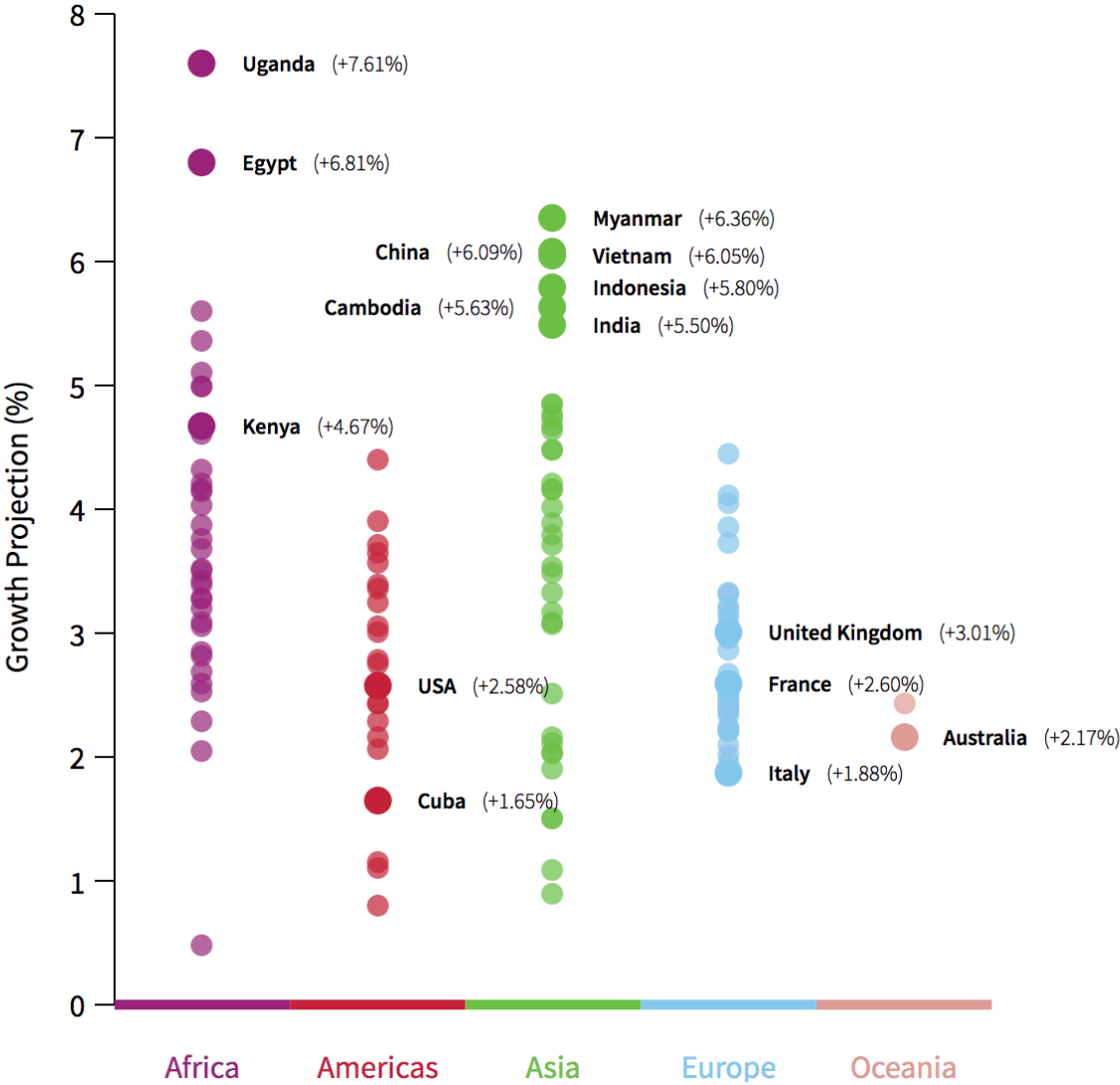
¹² The Guardian. 20 Jul 2019.

¹³ The Guardian. 20 Jul 2019.

¹⁴ Reuters, 28 Feb 2019.

Harvard researchers predict 6.8% annual growth for Egypt until 2027

Researchers at the **Growth Lab** at **United States (US)**-based **Harvard University's Center for International Development (CID)** have forecast that Egypt will grow at a rate of 6.8% over the coming decade, making it one of the world's fastest growing economies.¹⁵ The growth projections are based on the single measure of economic complexity, which captures the diversity and sophistication of the productive capabilities embedded in the exports of each country. **Uganda, Myanmar, China, and Vietnam** also topped the list of the fastest-growing economies to 2027, all expected to grow by at least 6% annually.



External sentiment remains positive about Egypt's economy, with the country having moved up eight places to rank 120th out of 190 countries in the **World Bank's 2019 Ease of Doing Business** report (see *ARC Briefing Egypt November 2018*).¹⁶ However, the report noted that despite Egypt's efforts in two key areas – strengthening the legal rights of borrowers and lenders, and efforts to make starting a business easier – challenges remain. A recent **World Bank Report** defied the typical wisdom regarding currency devaluation's impact on overall growth and noted that in Egypt, non oil-exports remain low, mostly comprising low-value-added or traditional products such as cotton, fertilisers, and

¹⁵ Harvard Center for International Development's 2027 Growth Projection.

¹⁶ World Bank 2019 Ease of Doing Business Report

tobacco products that are seeing a decline in global demand.¹⁷ Egypt also remains seriously under-integrated into the regional economy, alongside ongoing trade barriers, including extensive customs and trade regulations that impose intensive documentation requirements.¹⁸

Egypt's national statistics agency, the **Center for Public Mobilisation and Statistics (CAPMAS)**, released a long-delayed (and twice amended) report on household finances on 29 July. A number of sources suggested alongside significant social media coverage that the report was altered to distort the true picture of poverty in the country. The government has fixed the official poverty line at just \$45 a month, a figure that many argue is too low.¹⁹ The World Bank said in April that 60% of Egyptians were "either poor or vulnerable".²⁰ The numbers released by CAPMAS showed that 33% of Egypt's 99 million citizens were classified as poor last year, up from 28% in 2015.²¹

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 stave off civil unrest, economic growth must lift out of poverty larger numbers of Egyptians than it is currently doing. Sources suggest that one of the most prominent challenges is job creation, which outside of government-sponsored mega-projects such as the **Suez Canal** and **New Capital**, has seen only slight improvement. Sources say the government must devise new ways to further train and place Egyptians in greater numbers into skilled jobs, alongside finding greater means to offset rising cost of living pressures in crucial areas like food and transport.

Planner

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

Aug 2019 **Cairo (Egypt)** *Al Borsa*. The National Railway Authority is expected to sign a 15-year maintenance agreement for 1,300 railcars it had agreed to purchase from **Russia's Transmashholding** under a contract worth more than \$1 billion.

24 Aug 2019 **Cairo (Egypt)** *Al Ahram*. The Supreme Administrative Court will hear appeals filed by the **State Lawsuits Authority** and a number of iron and steel companies to overturn the trade ministry's decision to impose 15% import duty on iron billets;

Sep 2019 **Rome (Italy)** *Al Masry Al Youm*. Rome conference to showcase **Egyptian** investment landscape;

9-12 Sep 2019 **London (United Kingdom)** *Enterprise*. The 9th Annual EFG Hermes London Conference;

22 Sep 2019 **Cairo (Egypt)** *Al Mal*. The justice ministry's dispute resolution committee will look into a case filed by **Raya Holding** chairman **Medhat Khalil** against the **Financial Regulatory Authority (FRA)**.

Chronology

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 has killed 12 militants in

¹⁷ World Bank Report, Jul 2019.

¹⁸ World Bank Report, Jul 2019.

¹⁹ Al Fanack, 22 Jul 2019.

²⁰ World Bank report, Apr 2019.

²¹ CAPMAS, July 2019

Sinai;

19 Aug 2019 **Cairo (Egypt)** *Harvard Growth Report*. **Harvard University's Center for International Development (CID)** forecasts Egypt's economy will grow at a 6.8% annual rate over next decade;

18 Aug 2019 **Cairo (Egypt)** *Press release*. Finance ministry is planning to reduce Egypt's debt-to-GDP ratio to pre-2011 levels of 77.5% by the end of FY2021-2022;

15 Aug 2019 **Cairo (Egypt)** *Reuters*. **Zohr** natural gas output triples in the first six months of 2019;

15 Aug 2019 **Cairo (Egypt)** *Libyan Express*. Foreign ministry releases statement of support behind rebel **Libyan National Army (LNA)** leader **Khalifa Haftar**;

14 Aug 2019 **Cairo (Egypt)** *Enterprise*. Inflation falls to four-year low in July despite subsidy cuts;

14 Aug 2019 **Cairo (Egypt)** *Enterprise*. Egyptian e-payments platform **Fawry's** IPO — the first this year — sees shares up 31% on the first day of trading;

14 Aug 2019 **Cairo (Egypt)** *Press release*. Egypt's unemployment rate fell to 7.5% in second quarter of 2019, down from 9.9% in 2Q 2018 and 8.1% in the first quarter of 2019;

14 Aug 2019 **Cairo (Egypt)** *Enterprise*. Investment bank **EFG Hermes'** net income surges 49% year-on-year in 2Q2019;

8 Aug 2019 **Cairo (Egypt)** *Washington Post*. The interior ministry says that security forces killed 17 suspected militants in raids linked to the 4 August terrorist car bombing;

8 Aug 2019 **Cairo (Egypt)** *Egypt Today*. The **Central Bank of Egypt** says annual inflation dropped to 5.9% in June, down 0.5% year-on-year;

6 Aug 2019 **Cairo (Egypt)** *Reuters*. The government plans to attract 12 million tourists in the 2019/2020 financial year, an 11% increase year-on-year;

5 Aug 2019 **Cairo (Egypt)** *Reuters*. **Canada**-based engineering company **Bombardier Inc** says it has won a \$4.5 billion contract to build and operate two monorail lines in **Egypt**;

5 Aug 2019 **Cairo (Egypt)** *Middle East Monitor*. The interior ministry says that a car bomb killed at least 20 people near a hospital;

28 Jul 2019 **Cairo (Egypt)** *Egypt Independent*. The cabinet says that net foreign reserves rose to \$44.4 billion in June 2019, up from \$20.1 billion in June 2015;

24 Jul 2019 **Cairo (Egypt)** *Bloomberg*. The **International Monetary Fund** approves the last instalment of a \$12 billion loan to **Egypt**;

22 Jul 2019 **Cairo (Egypt)** *DefenceWeb*. The **United States** transfers a final shipment of 101 mine-resistant ambush protected vehicles to **Egypt** and Egypt requests 1,000 more for \$120m;

21 Jul 2019 **Cairo (Egypt)** *Enterprise*. The government unveils the details of the long-awaited export subsidy framework;

21 July 2019 **Cairo (Egypt)** *SkyNews*. **United Kingdom**-based airline **British Airways** and **Germany**-based airline **Lufthansa** abruptly suspend flights to Cairo, citing security concerns;

19 Jul 2019 **Cairo (Egypt)** *Asharq Al Aswat*. **Palestinian** information minister **Nabil Abu Rudeineh** says that Arab efforts exerted by **Saudi Arabia**, **Egypt** and **Jordan**, have foiled the so-called "*Century Deal*";

17 Jul 2019 **Cairo (Egypt)** *Enterprise*. The **European Development and Reconstruction Bank (ERDB)** wants to expand its private equity portfolio in Egypt;

16 Jul 2019 **Cairo (Egypt)** Reuters. **Kuwait** hands **Muslim Brotherhood**-linked militants to Egypt;

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

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

Getting in touch

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

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