

AFRICA RISK CONSULTING

Egypt Monthly Briefing May 2022

Egypt Summary 16 May 2022

Prime minister Moustafa Madbouly announces government plans to more than double the private sector's contribution to the country's economy to 65% from the current 30% within the next three years. President Abdel Fattah el-Sisi (2014-present) expresses hopes for deeper counter-terrorism ties between the United States-(US) and Egypt in a meeting with US Central Forces chief Army General Michael "Erik" Kurilla after Islamic State (IS) claims a deadly ambush east of the Suez Canal that killed 11 Egyptian troops. Egyptian fintech startup Paymob announces it has raised \$50m in Series B funding, calling it the largest round of its type for an Egyptian fintech firm.

Government announces privatisation push

In a much-anticipated press conference, **Egyptian** prime minister **Moustafa Madbouly** announced plans by the government to more than double the private sector's contribution to the country's economy from 30% currently to 65% within the next three years.¹ The announcement came as Egypt is contending with spiraling public debt, a depreciating currency and inflation exacerbated by the war in **Ukraine**. President **Abdel Fattah el-Sisi** (2014-present) addressed the impact of the current global economic downturn on Egypt in a speech on 11 May:

*"The crisis is very big and its repercussions on tens and hundreds of countries, and Egypt is among the affected countries, but there is a difference between suffering and a major crisis, and we are now in the stage of suffering in Egypt, and all efforts are being made to alleviate this suffering."*²

In a pre-Eid holiday speech, Sisi said the government intends to use privatisation to gain \$40 billion in investment from the private sector over the next four years, urging the government to offer several military-owned firms on the **Egyptian Stock Exchange (EGX)** before the end of the year. Public enterprises minister **Hisham Tawfik** said 8 May that the government will resume its privatisation programme in September, without providing further details on the companies to be listed. Local press has suggested that military owned bottled-water maker **Safi** and petrol station operator **Wataniya** could be up for sale.³ State-owned **Heliopolis Housing and Development** and **Banque du Caire** are also expected to be put up for Initial Public Offering (IPO).

The government initially announced plans to sell state assets in 2018, saying that it would offer minority stakes in 23 state-owned companies. However, the programme has been repeatedly delayed due to weak markets and legal hurdles.⁴ After the instability of the **Covid-19** pandemic seemed to be passing, the government aimed to sell shares in up to 10 companies in 2022 before the war in Ukraine up-ended global markets. Since 2018 it has managed to successfully sell stakes in fintech company **e-market**, as well as secondary stakes in tobacco producer **Eastern Company** and **Abu Qir Fertilizers**.⁵

¹ Al Arabiya, 16 May 2022

² Al Masry Al Youm, 11 May 2022

³ Zawya, 21 Jun 2021

⁴ Al Arabiya, 8 May 2022

⁵ Enterprise, 8 May 2022

Renewed focus on privatisation comes as talks with the **International Monetary Fund (IMF)** for a new assistance package continue. Removing barriers to the private sector in Egypt has been one of the IMF's key concerns during previous talks.

While there is a need to increase public sector participation, business has met the government's latest moves with scepticism, particularly with regard to the lack of detail in the announcement. Sources commented that there was no information regarding which companies would be for sale, or when, or who would maintain a controlling stake. The core unaddressed issue remains the ease of doing business, particularly in terms of transparency, equal access to project tenders, clear legal and contractual frameworks applied to all parties equally, and the threat that the military's interest in the private sector poses.

United Kingdom-based weekly magazine **The Economist** highlighted some of the most frequently cited issues encountered by those trying to do business in Egypt in an April article titled "*Why Egypt isn't open for business*". Discussing the state's seizure of one of the country's most profitable private food companies, **Juhayna Food Industries**, on 24 April The Economist noted that few businessmen dare stand up to Egypt's army.⁶ Juhayna chairman **Safwan Thabet** was arrested and detained on 2 December 2020 on baseless terrorism charges after refusing to cede control of the family business to the military. He then appointed his son, **Seif Thabet**, as acting CEO. When Seif also refused to hand over control of the company, he was detained on 7 February 2021. While the family initially refrained from campaigning for the two men's release, Safwan Thabet's wife, **Bahira Elshawi**, undergoing chemotherapy treatment for cancer, made an emotional plea to President **Abdel Fattah al-Sisi** (2014-present) in 2021 asking for the release of her husband and son over their abusive detention conditions. After her video went viral, Elshawi was summoned by security services and accused of "*spreading false news*" and "*joining a terrorist group*". She died on 18 March 2022.⁷ Both men remain in detention in the notorious '**Scorpion**' wing of **Cairo's Torah Prison**, with no trial date set.⁸

The Economist article goes on to compare the pro-business leaning rhetoric of the government with the reality on the ground:

*"Mr Sisi makes pro-business noises in public. But his generals, who dominate chunks of the economy, make a mockery of the free market."*⁹

Islamic State claims responsibility for deadly attack on troops in Suez

More than 11 Egyptian troops were killed on 7 May in a militant attack on a water pumping station east of the **Suez Canal**.¹⁰ The militants ambushed troops guarding the pumping facility in **Qantara** in the province of **Ismailia**, which stretches eastwards from the Suez Canal, with an explosive-rigged vehicle and fired heavy weapons installed on pick-up trucks before fleeing to the desert in **Northern Sinai**. The attack, one of the deadliest against security forces in recent years, was later claimed by the **Islamic State**.¹¹ Days later, on 11 May, the military announced that a second attack had killed five more soldiers.¹² Militants attacked a checkpoint of border guards near the city of **Rafah**, on the country's **Mediterranean** coast that borders the **Gaza Strip**.

Egypt continues to face an insurgency in the restive **Sinai Peninsula**, which has intensified significantly since 2013, following the overthrow by then defence minister Sisi of Islamist president **Mohammed Morsi** (2012-2013). The militants have carried out dozens of attacks, primarily targeting security forces and Christians. While the government insists it has made progress in curbing the militants, its operations have taken place hidden from public view with the entire North Sinai area cut off from journalists and non-residents. Critics say the often-brutal tactics used by security forces in

⁶ The Economist, 24 Apr 2022

⁷ Middle East Eye, 18 Mar 2022

⁸ The Economist, 24 Apr 2022

⁹ The Economist, 24 Apr 2022

¹⁰ Press statement, 7 May 2022

¹¹ ABC, 14 May 2022

¹² AP, 11 May 2022

the area, including curfews, communications blackouts and extrajudicial killings, amount to collective punishment and have only fueled instability in the area.

In a meeting with **United States (US) Central Forces** chief Army General **Michael "Erik" Kurilla**, who oversees US forces in the **Middle East**, President Sisi expressed hopes for deeper US counter-terrorism ties.¹³ Following the meeting with Kurilla, the president's office said that terrorism was the foremost challenge to Egypt's security and stability and required "*collective efforts to combat it*".¹⁴

Kurilla's visit comes after US president **Joseph Biden's** (2021-present) administration announced in January that it would cut \$130m in military aid to Egypt over human rights concerns, including the jailing of hundreds of government critics, activists and journalists.¹⁵ Kurilla's trip represents the complexity of the US-Egypt relationship under Biden, whose increased focus on human rights has distanced him from the leaders of countries such as Egypt and **Saudi Arabia**. Comments on 12 May by **Israeli** national security adviser **Eyal Hulata** that Western countries should stop pressuring Sisi on human rights,¹⁶ represent the changing axis of security alliances in the region, with Israel viewing an authoritarian, but theoretically predictable, Egypt under Sisi, as a reliable partner for collaborating on regional security with, and a potential ally to countering the growing influence of **Iran** in the region.

Fintech start-up Paymob closes Egypt's largest-ever fintech Series B round

Egypt has seen a growing increase in startups, with a 300% increase in funding, accelerated by the digitalisation trends of the Covid-19 pandemic and more than double the average ticket size when it comes to fintech and fintech-enabled startups.¹⁷ Egyptian fintech startup **Paymob**, which enables merchants to accept digital payments online and in-store, announced on 9 May that it had raised \$50m in Series B funding, calling it the largest round of its type for a local fintech firm.¹⁸ The startup's mobile wallet infrastructure processes more than 85% of the market share of transactions processed in Egypt, and serves merchants in five other markets, including **Kenya**, **Pakistan** and **Palestine**.¹⁹ The round was led by emerging market investor **Kora Capital**, **PayPal's** venture capital arm, **PayPal Ventures**, and **Clay Point**, an agent of **United Kingdom (UK)**-based investor **Eden Rock**.²⁰

In September 2021, UK-based private equity fund **Apis**, the UK's **Development Partners International (DPI)** and **Lorax Capital Partners** led a \$120m round of funding for payment and logistics startup **MNT Halan**.²¹ In April, **Khazna**, a startup that provides online financial services through its salary advance application to Egyptians who have no bank account, raised \$38m in Series A funding. The interest in fintech startups is being driven by sizeable smartphone adoption in the region, a young tech savvy population and large gaps in a 104-million-strong consumer market when it comes to facilitating easy, non-cash payments, transport logistics and loans.

Government efforts toward digitalisation and financial inclusion have resulted in regulatory changes and paved the way for a surge in fintech investment. In March, three of Egypt's largest state-owned banks, the **National Bank of Egypt**, **Banque du Caire** and **Bank Misr**, announced that they would be investing in a new \$85m fintech fund launched by **Dubai-based VC Global Ventures**. The fund, named **Nclude**, will target early-and growth-stage fintech startups based in Egypt, as well as regional firms looking to expand into Egypt.

¹³ Al Aham, 9 May 2022

¹⁴ Press statement, 10 May 2022

¹⁵ Reuters, 28 Jan 2022

¹⁶ Axios, 12 May 2022

¹⁷ Enterprise, 27 Apr 2022

¹⁸ The National, 9 May 2022

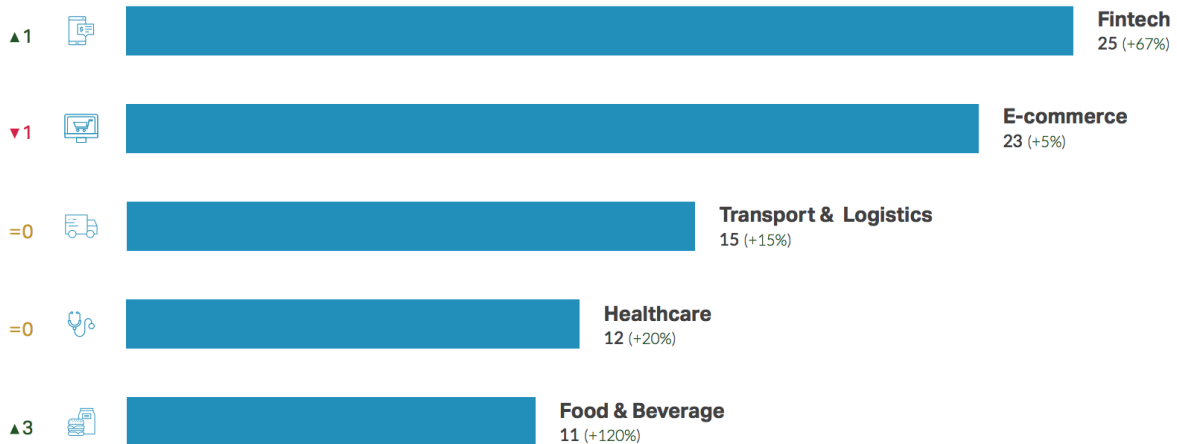
¹⁹ The National, 9 May 2022

²⁰ The National, 9 May 2022

²¹ Tech Crunch, 8 Sep 2021

In 2021, Egyptian startups raised a record \$491m in 147 deals and attracted the highest percentage of foreign investors in the MENA region.²² Fintech accounted for 17% of total deals closed in the country.²³

Top Industries by number of deals (#) in Egypt in 2021



Planner

May 2022: **Cairo (Egypt) *Ala Mas'ouleety***. Saudi Crown Prince **Mohamed bin Salman** expected to visit Cairo for talks with President **Abdel Fattah El Sisi**;

19 May 2022 **Cairo (Egypt) *Enterprise***. **Central Bank of Egypt** will meet to review interest rates and is touted to raise rates by up to 200 bps;

June: **Cairo (Egypt) *Press statement***. **Poland's** President **Andrzej Duda** will visit Egypt to coordinate ways to ship **Ukrainian** wheat to Egypt amid the war in Ukraine;

Sep 2022 **Cairo (Egypt) *Press statement***. Egyptian government will resume privatisation programme;

7-18 Nov 2022 **Sharm El Sheikh (Egypt) *AP***. Egypt will host **COP27** April 2022 **Cairo (Egypt) *Al Mal***. Egypt's second corporate green bond issuance expected to be announced;

April 2022 **Cairo (Egypt) *Al Mal***. A delegation from a major **Belgian** shipping company will arrive for talks on building an international shipping supply centre in Egypt;

7-18 Nov 2022 **Sharm El Sheikh (Egypt) *AP***. Egypt will host **COP27**

Chronology

15 May 2022 **Cairo (Egypt) *Reuters***. Egypt will buy 500,000 tonnes of wheat from **India**;

15 May 2022 **Cairo (Egypt) *Reuters***. The **Suez Canal Economic Zone (SCZone)** has signed six MoUs worth a total of \$10 billion for green ammonia and hydrogen projects in **Ain Sokhna**, with **Total Eren** and Africa-focused SME investor **Enara Capital**, **AlNowais' AMEA Power**, **Danish** shipping giant **Maersk**, **France**-based energy firm **EDF**, **Norway**-based firm **Scatec**, **Emirati** renewable energy company **Masdar**, and Egypt's **Hassan Allam Utilities**;

²² Magnitt, Egypt Venture Investment Report, 2021.

²³ Magnitt, Egypt Venture Investment Report, 2021.

- 14 May 2022 **London (United Kingdom)** *Reuters*. **Russia's** foreign minister, **Sergei Lavrov**, says Russia will withstand sanctions by forging deeper partnerships with **Egypt, Algeria** and **Gulf nations**, as well as **Asia** and **Latin America**;
- 13 May 2022 **Cairo (Egypt)** *Press statement*. Foreign minister **Samer Shoukry** says Egypt will announce its revised national targets to cut greenhouse gas emissions within weeks;
- 12 May 2022 **Cairo (Egypt)** *Enterprise*. **United States** e-commerce giant **Amazon** has agreed to purchase \$10m worth of **EFG Hermes' United Kingdom**-listed global depository receipts (GDRs) with an option to convert the investment into an equity stake in EFG's consumer finance arm, **valu**;
- 12 May 2022 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah el-Sisi** reportedly tells **United States (US) Central Command** chief major general **Michael "Erik" Kurilla** that **Egypt** is interested in closer security and counterterrorism ties with the US;
- 12 May 2022 **Cairo (Egypt)** *Financial Times*. The **Financial Times** has named **Egyptian** solar utilities company **Karm Solar** one of **Africa's** 20 fastest-growing companies in its inaugural Africa edition, placing it 19th in the ranking after more than tripling its revenues between 2017 and 2020, making it the second-fastest growing energy company on the continent;
- 12 May 2022 **Cairo (Egypt)** *Axios*. **Israeli** national security adviser **Eyal Hulata** said in a closed lecture to the board of governors of **Tel Aviv University** that Western countries should stop pressuring **Egyptian** President **Abdel Fattah al-Sisi** on human rights;
- 11 May 2022 **Cairo (Egypt)** *Tech Crunch*. **Cairo**-based e-commerce fulfillment startup **Mylerz** raises \$9.6m in funding round and say it will be used to enter three new markets in **North Africa** and expand across **Egypt** over the next three months;
- 10 May 2022 **Cairo (Egypt)** *CAPMAS*. Annual urban inflation jumps to 13.1% in April;
- 10 May 2022 **Cairo (Egypt)** *Youm 7*. Prime minister **Moustafa Madbouly** presents revised "crisis" budget to the **House of Representatives** with more spending on food, energy, health and education;
- 10 May 2022 **Cairo (Egypt)** *Al Mal*. The draft state budget shows that the government wants to raise EGP6 billion (\$327m) from selling shares in state-owned companies in the coming fiscal year;
- 10 May 2022 **Cairo (Egypt)** *AP*. Egyptian fintech startup **Paymob** closes Egypt's largest ever fintech series B round, amid surge in investor interest in local startups;
- 9 May 2022 **Cairo (Egypt)** *S&P Global purchasing managers' Index Survey*. Egyptian non-oil private sector activity contracted in April, continuing a 17-month deterioration as the **Ukraine** crisis added to price increases;
- 9 May 2022 **Cairo (Egypt)** *Daily News Egypt*. International cooperation ministry signs several development financing agreements with the **European Union** worth €138m (\$145m), supporting Egypt's efforts in rural and community development, administrative reform, local development, environment and health;
- 8 May 2022 **Cairo (Egypt)** *Enterprise*. Egypt's oil ministry and **Italy**-based energy firm **Eni** are implementing a pilot carbon capture project at the firm's **Meleiha** concessions in the **Western Desert**, marking Egypt's first carbon capture initiative implemented at a cost of \$25m and aiming to store roughly 25,000-30,000 tons of carbon dioxide each year;
- 7 May 2022 **Cairo (Egypt)** *The Guardian*. A militant attack kills 11 troops in **Northern Sinai**;
- 3 May 2022 **Washington (United States)** *Reuters*. **United States State Department** says death of Egyptian economic researcher **Ayman Hadhoud** requires a "thorough, transparent and

credible" investigation, after Hadhoud died in a **Cairo** psychiatric hospital where he was sent by the security services that detained him;

1 May 2022 **Cairo (Egypt)** *Al Jazeera*. **Egyptian** authorities free three journalists, the latest in a string of releases as President **Abdel Fattah el-Sisi** appears to be reaching out to critics of his administration;

24 Apr 2022 **Cairo (Egypt)** *Al-Ahram*. **Egypt** releases 41 prisoners, a week before the end of the Muslim holy month of Ramadan, which is typically a time of amnesty;

24 Apr 2022 **Cairo (Egypt)** *Middle East Eye*. Report published by **United Kingdom**-based investment bank **Renaissance Capital** says **Egyptian** government of President **Abdel Fattah el-Sisi** may be the most under threat in **Africa** from rising inflation;

21 Apr 2022 **Cairo (Egypt)** *Fitch Ratings*. Global credit rating agency **Fitch Ratings** affirms **Egypt's** long-term foreign-currency issuer default rating at 'B+' with a stable outlook;

19 Apr 2022 **Cairo (Egypt)** *Daily News Egypt*. **International Monetary Fund** upgrades its forecast for **Egypt's** growth to 5.9% in FY2021/22, up from the 5.6% that had been projected in January 2022 and the 5.2% that had been projected in October 2021;

About Africa Risk Consulting:

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