

Egypt

Wednesday December 18 2013

www.ft.com/reports | [@ftreports](https://twitter.com/ftreports)

Military returns to centre stage

Weak parties and rift in society have led to political vacuum, writes *Heba Saleh*

When young secular activists tried to defy a law issued by Egypt's military-backed authorities to restrict protests, police put on a show of force and dispersed them in minutes. Riot police massed outside parliament in late November, aiming water hoses at the dozens of protesters crammed on a narrow Cairo pavement. An armoured vehicle fired tear-gas at those who had not run away. Policemen grabbed organisers, thrashed them and hauled them into the parliament grounds. "They were extremely aggressive and violent," says Nazli Hussein, one of more than 20 women subjected to beatings before being dumped in the desert that night. "We are going back to rule by a terrifying state. They are entrenching a frightening, repressive state." Six months after the popularly backed military coup on July 3 that overthrew the Islamist Mohamed Morsi, Egypt's first elected president, the country appears to be sliding back into full-scale authoritarianism with power reverting to the army leadership and the security services clamping down on dissent. Yet again in the throes of an often violent transition, Egypt seems to have turned full circle since the January 2011 uprising that ended the autocratic rule of Hosni Mubarak and ignited hopes of a democratic future. Once again, the security agencies are resurgent, thousands of Islamists are in prison and the democracy activists



Appeal: women detained for obstructing traffic during an Islamist protest demand their freedom at a hearing in an Alexandria courthouse

Reuters

who launched the revolution are harassed and branded foreign agents and saboteurs. To many, Mr Mubarak may be out of the picture, but "Mubarakism" is staging a comeback. Bolstered by a nationalist pro-army mood encouraged by the media, the authorities have reconfigured the political landscape to the exclusion of Mr Morsi's Muslim Brotherhood group, banned by court order with its members the targets of suppression. A new constitution enshrining the independence of the military from civilian

scrutiny has been drafted and parliamentary and presidential elections are planned within the next six months. With the Brotherhood sidelined and civilian parties weak, the military and security establishments are controlling the transition. There is an interim president – Adly Mansour, a senior judge – but real power resides with Abdel Fattah al-Sisi, the defence minister who led the coup. The army's intervention ended what many considered a flawed, Islamist-led experiment in democracy. Mr

Morsi's leadership was seen by many as divisive, inept and laying the grounds for a monopolisation of power by the Muslim Brotherhood. But his removal has aggravated fractures in a divided nation with little prospect of reconciliation. Both sides appear entrenched. Public opinion is "split down the middle", according to a September survey by the US-based Zogby Research Services: 51 per cent of those polled considered the military's action wrong, and 50 per cent want the

Brotherhood banned from politics. But if Egyptians are divided, their neighbours in the Gulf have been quick to show which side they support. Saudi Arabia, the United Arab Emirates and Kuwait greeted the toppling of the Islamists with \$16bn in grants, loans and petroleum products. The lifeline has helped depleted foreign reserves which have risen to \$18bn, or about three-and-a-half months' worth of imports. It has

Continued on Page 4

Inside »

Fragile recovery

Business presses case for structural reform with signs of stability evident

Page 2

Fuel subsidies top reform list

Hazem al-Biblawi, prime minister, on plans for change

Page 2

Too soon to write off Brotherhood

History shows group has habit of rising again

Page 3

Security state tightens hold

Mother's story highlights return to authoritarianism

Page 8

Immigrants flee xenophobia

Conspiracy theories increase anger towards foreigners

Page 10

3.5% OF EGYPT'S LAND IS UTILIZED, LEAVING 96.5% FOR POTENTIAL DREAMS

At CIB, we fully understand the challenges entailed in modernizing Egypt and gladly accept sharing such a responsibility. As Egypt's leading financial institution, we depend on our agility and ability to adapt to take part in crafting tomorrow's chapter in Egypt's vast history.

www.cibeg.com

Egypt Economy

State of play Despite signs of stability, business urges structural reform, reports *Heba Saleh*

Fragile recovery remains a hostage to political events

After three years of turmoil that have pummelled Egypt's economy, stalling growth and reducing currency reserves to dangerously low levels, officials and analysts say the worst may be over.

They caution that improvement remains fragile and a hostage to political developments in a country going through yet another tumultuous transition against a background of sharp divisions and often lethal suppression of Muslim Brotherhood supporters.

Another concern, voiced by business and economists, is that the recent easing of Egypt's economic predicament, thanks to largesse from oil-rich Gulf countries, may result in an indefinite deferral of painful but much-needed structural reforms regarded as crucial to economic sustainability, including the reduction of energy subsidies.

Mohamed Abu Basha, an Egypt

economist at EFG Hermes, the Cairo-based regional investment bank, says it is "still too early to make an unequivocal macro call on Egypt, given the persistent uncertainties on the political side". However, he added that the bank believed the economy "was finally finding a floor".

When Mohamed Morsi, the former president, was ousted on July 3, Egypt's foreign reserves had dropped to just below the critical level of three months' import cover and the deficit in the fiscal year that ended on June 30 had widened to 14 per cent.

But over the past months, a generous package of about \$16bn in loans, grants and free fuel products from the United Arab Emirates, Saudi Arabia and Kuwait has averted economic collapse and given the government breathing space at a time of meagre tourism receipts and near-absent foreign investment. The package is also



Filling up: drivers enjoy fuel subsidies, which many say are unsustainable

enabling the government to repay \$3bn to Qatar, a supporter of the Morsi regime, with whom relations have now worsened.

"We have managed to stabilise the situation: you could say we stopped the haemorrhage," says Ziad Bahaa-Eldin, the deputy prime minister for economic affairs. "I believe that as soon as the constitutional referendum has been completed [in January] – the first step in the transition –, and if it unfolds in a calm and satisfactory way, then we could say we are really starting to take off."

Foreign reserves have risen to a safer level at some \$18bn and the government's cost of borrowing has fallen from 14 per cent in June to about 10.6 per cent in December for 90-day treasury bills. EFG Hermes expects a narrowing of the deficit to 11 per cent in the fiscal year to the end of June 2014. Officials say it will be nearer 10 per cent and they predict growth in the current fiscal year of up to 3 per cent.

The support from the Gulf has let the government adopt an expansionary fiscal policy to stimulate the economy and create jobs while meeting some social needs. In addition to the implementation of a minimum wage for public sector employees to start in January, the government has launched an infrastructure-dominated stimulus package worth \$3.2bn.

Most of the money is being spent on schools, health units, electrification of villages, wastewater projects, upgrading railway signalling and building rural roads.

Angus Blair, chairman of the Signet Institute, a Cairo-based regional think-tank, says: "The impact of the stimulus is not yet apparent, but it is important that the government is trying to do something to help improve business sentiment. We would have suggested cutting corporate or personal tax to boost sentiment further."

He points out that the fuel subsidy, which swallows about a fifth of the budget, has not been addressed. "It benefits the rich rather than the poor and the government could have won that argument easily through state media," he says.

Other observers say it could have scored an easy win by increasing

some energy prices when it first took power, because shortages had already resulted in a more expensive black market for products such as diesel.

Successive Egyptian governments have held back from subsidy reforms for fear of a backlash. Twice in the past three years, the authorities have signed loan agreements with the International Monetary Fund, then balked at the required reforms.

Gabriel Sterne, an economist at Exotix investment bank, says: "I think there is a reasonable possibility they can continue down the line of not addressing key fiscal reforms and being able to access financing from friendly governments. That prevarication and procrastination is bad news for the Egyptian economy."

But EFG Hermes says it believes Gulf Cooperation Council countries are "urging and pressing" the Egyptian government to deliver on reforms. It says support from Gulf states is increasingly likely to take the form of investment financing rather than direct cash support.

'Prevarication and procrastination are bad news for Egypt's economy'

Egyptian officials say the priority is to complete a programme, started under the previous government, to use smart cards to monitor fuel usage in preparation for staggered subsidy cuts over five to seven years.

Mr Bahaa-Eldin argues that price increases need to come within the context of government policies that convince the poor that the purpose is to "protect rather than harm them".

He cites plans to provide free meals to all schoolchildren and to use direct cash transfers to poor families as ways to improve social protection and create acceptance for subsidy reform.

"These programmes do not need to be executed in full during the life of this [interim] government, but we are reorienting economic policy in this direction and leaving behind plans that can be implemented," he says.

BAVARIA®
Fire Fighting Solutions

QUALITY IS A LASTING PERFECTION

WHEN IT COMES TO FIRE, ONLY THE BEST IS GOOD ENOUGH

BAVARIA Fields of Activity:

- Fixed Self Actuated Fire Extinguishing Solutions
- Car Fire Extinguishers
- Portable Fire Extinguishers
- Mobile Fire Extinguishers
- Fire Fighting Trailers
- Fire Cabinets with a Big Variety of Models & Accessories

- Rescue Equipment
- Detection Systems
- Total Suppression Systems
- Fire Fighting Equipment
- Fire Fighting Training center
- ISO/IEC 17025 Accredited Laboratories According to EN3 Norms

BAVARIA Accreditations

Egypt

Germany

Lebanon

U.A.E.

Sudan

www.bavaria-firefighting.com

www.bavaria-firefighting.de

Fuel subsidy question demands an answer

Interview
Hazem al-Biblawi
Prime minister

Heba Saleh hears interim leader set out reform plans

Hazem al-Biblawi, 77, became prime minister in July after the army coup that ousted Mohamed Morsi as president.

The liberal French-trained economist heads an interim government that includes ministers from liberal and leftwing groups, although real power lies in the hands of Abdel-Fattah al-Sisi, the defence minister.

Mr Biblawi's government is charged with stabilising Egypt's flailing economy and overseeing the process leading up to elections next year.

Aided by \$16bn from Gulf Arab states delighted at the downfall of the Islamists, the government has adopted an expansionary policy with the aim of stimulating the economy and creating jobs.

You have inherited economic problems. When will Egyptians see an improvement?

The perception of the market is improving. This is reflected in the performance of the stock exchange, in the upgrading [by] rating institutions, not only of the country but even of some banks, and the stability of foreign exchange. We have added a supplementary budget for investments and started to draw upon it. And we have another package [of loans and grants] from the Emirates.

When will Egypt address the structural problems and fuel subsidy which accounts for almost a quarter of the budget?

There is no way to avoid tackling this problem, and we are committed to doing so. We are not going to abolish the subsidy but we are going to rationalise it, because the percentage in Egypt is just crazy.

What do you mean by rationalise?

The end result will be some subsidy, [and we will] reduce the subsidy from, say, 24-25 per cent of the budget to something like 10 or 8 per cent. It cannot be done in one shot. We have to have a plan for five to seven years. This needs a lot of support and understanding from the people, so we have to launch an information campaign. We intend to have the first phase before the end of this transitional government and we would like to make it a success.

Will there be price increases before the interim government leaves?

Of course, but it is not simple. It might be that we have a quota [of recipients] with a high subsidy and then the rest will receive less. We are thinking of replacing it with monetary compensation. But the problem is not theoretical, it is practical. How can we find a reliable database to identify all those people who merit a subsidy?

How worried is the government about the threat of terrorism derailing tourism and investment?

We are sorry that we see very nasty events, particularly in Sinai. On the other hand, we are fully confident in the power of the police and the ministry of the interior to control the situation.

Can Egypt be stable with the Muslim Brotherhood, a large force, marginalised and its leaders in prison?

They have a strong organisation, extremely well managed. But they were building their political influence on a dream. When they took power, they failed miserably [and] they disappointed a lot of their [voters].

Is it fair for the media to brand them as terrorists? There are no evident links between the Brotherhood and armed groups.

If you look at what is happening in Sinai, something unprecedented, using heavy weapons, attacking police officers, attacking soldiers, kidnapping people. I am not saying that the Brotherhood per se [is doing this]. All the leaders deny it. But what we see is that all the attacks are done by people associated with them. I am rather surprised I haven't seen any condemnation on their part of the acts of terrorism.

Could the Brotherhood return to politics?

We are open to anyone who believes in the principles of democracy, a country that does not discriminate. There is no mixing of religion in politics. Politics is human. So anyone who believes this is most welcome.

How long can you rely on Gulf money?

After the constitution and finalising all the road map [to elections] with parliament and the new president, things will be totally different politically. Tourism is picking up in Sharm el-Sheikh and in Hurghada. Within eight months the situation will be much clearer and this will be inviting to Egyptians as well as to foreign investors. A lot of investors from the Gulf are showing high appetite.

'There is no mixing of religion in politics. Anyone who believes this is most welcome'

Hazem al-Biblawi,
Prime minister

Egypt Politics

History suggests the Brotherhood may rise again

Domestic affairs

The organisation has a habit of reviving, says *Borzou Daragahi*

Political Islamists tend to rise from the dead. Iran's Ayatollah Ruhollah Khomeini returned in 1979 from nearly 15 years in exile to establish an Islamic regime that has survived for almost 35 years. Turkey's Recep Tayyip Erdogan emerged from prison to win elections in 2002 and has ruled for more than a decade. Tunisia's Nahda movement was erased from view only to become the country's greatest political force once free and fair elections were held in 2011.

Egypt's Muslim Brotherhood, too, has been repeatedly crushed over its nine decades, only to reinvent itself. Following the overthrow of President Mohamed Morsi, its leader, in July, the group and the movement of political Islam are again at a historic crossroads.

"I don't buy the whole 'death of political Islam' narrative," says Shadi Hamid, a Brookings Doha Center scholar who is writing a book on political Islam in the Middle East. "You will see political Islam morphing in different directions, even if the Brotherhood is not allowed to reconstitute itself in the near future."

"The Brotherhood isn't just an organisation. It's an idea. It's a school of thought and world view. It's very difficult to kill an idea."

Some will try. The secular-minded, military-installed government and its oil-rich Gulf state patrons are enemies of the fusion of populist and Islamist politics perfected by the Brotherhood. Security forces have swept up Mr Morsi, his confidantes and hundreds of mid-ranking Brotherhood leaders and tossed them into prison.

A pliable judiciary has moved to outlaw the Brotherhood and its Freedom and Justice party (FJP), an electoral powerhouse that won two legislative elections and the presidency last year.

True believers are unbowed. "It's not the first time that political Islam has been under fierce attack and we always manage to come back," says Ahmad Hosni, spokesman for the Gamaa Islamiya group, allied to the Brotherhood. "So this attack, like any



Returning: university students protest in Tahrir Square in support of Mohamed Morsi and the Muslim Brotherhood

Reuters

other, will pass and we will arise stronger than before."

Facing enormous pressure, the Brotherhood and its Islamist allies have gone underground, utilising social media and flash protests to keep up the movement's spirits and maintain a presence on the streets.

"It's a new generation that is open to the world, and social media," says Islam Abdel-Rahman, a London-based official of the Brotherhood's political party. "Youth were the future, are the future and will be the future. The vast majority of the Brotherhood's membership is under 30. They have grown up [with] the internet and opened their minds politically through the pages of social media."

Mr Abdel-Rahman insisted it was too early to begin writing a political obituary for the Brotherhood or even discuss how it might transform itself. "No one talks about the future evolution of a movement while it's in the middle of a heated battle," he said. "Maybe after the finish, there will be talk about what is to be done."

Observers outlined several routes for the Brotherhood's intermediate future, including the possibility that it will be allowed to function as a legal party and re-enter politics in parliamentary elections expected in the first few months of 2014.

If it is not allowed to run, some Islamist Egyptians may vote for the Salafist Nour party, which supported

the coup that ousted Mr Morsi and remains a political force. "We see that others don't have the ability to pull the country from this catastrophic situation," says Nader Bakkar, a spokesman for the Nour party.

"The most organised people on the ground are the Islamists," he adds. "We want stability. We will remain on the political scene. Sooner or later, we will regain people's trust to achieve the right formula for regulating the country, like the Turkish experience."

Many Islamists have become disillusioned with Nour after it sided with the Brotherhood's enemies.

"The beneficiaries of the Brotherhood's demise will be moderate Islamist parties," says Magdy Karkar,

secretary-general of the New Labour party, a tiny Islamist group.

Renegade ex-Brotherhood leader Abdel Moneim Aboul Fotouh's Strong Egypt party managed to keep its distance from the coup and the Morsi government and could serve as a channel for political Islam. But Mr Aboul Fotouh has redefined himself as a liberal and may have alienated too many Brotherhood supporters.

Few believe any of the Islamist alternatives in Egypt's political spectrum have the credibility or the ideology to draw the Brotherhood's rank and file. A September poll conducted by Zogby International showed confidence in the Brotherhood's FJP had shot up from 24 to 34 per cent since

Political Islam

Religious parties

● **Freedom and Justice party** Political party allied to the Muslim Brotherhood, Egypt's largest Islamist group. The party is committed to creating an Islamic state and won nearly half the seats in the people's assembly in elections in 2011-12. It believes sharia principles should be at the heart of legislation and economic affairs.

● **Nour party** The second-largest Islamist party was founded in the weeks after the 2011 revolution. It went on to secure a quarter of seats in 2011-12 parliamentary elections.

● **Gamaa Islamiya** Hardline party allied to the Brotherhood and critical of the military coup that removed Mr Morsi from power. It opposes what it regards as western standards and the secularisation of government.

● **New Labour party** A moderate Islamist party and member of the national coalition to support legitimacy, a pro-Morsi grouping whose members include the FJP and Gamaa Islamiya. Magdy Karkar, its leader, has called for a non-violent, democratic approach to early elections and dialogue with non-Islamists.

● **Strong Egypt** A moderate and economically progressive party that lists social justice and tackling poverty as its priorities. The party advocates independence from US influence in foreign policy.

Justin Cash

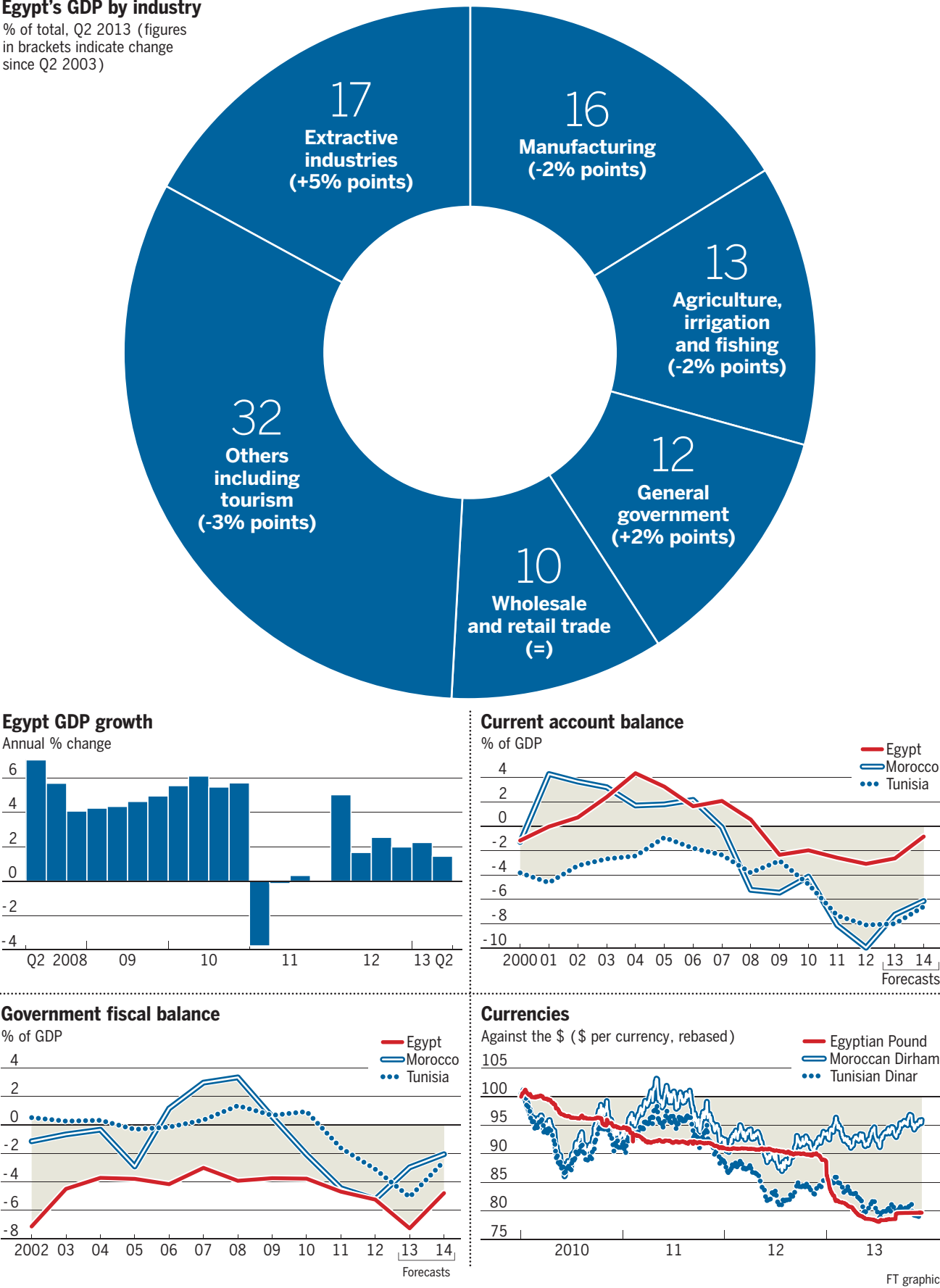
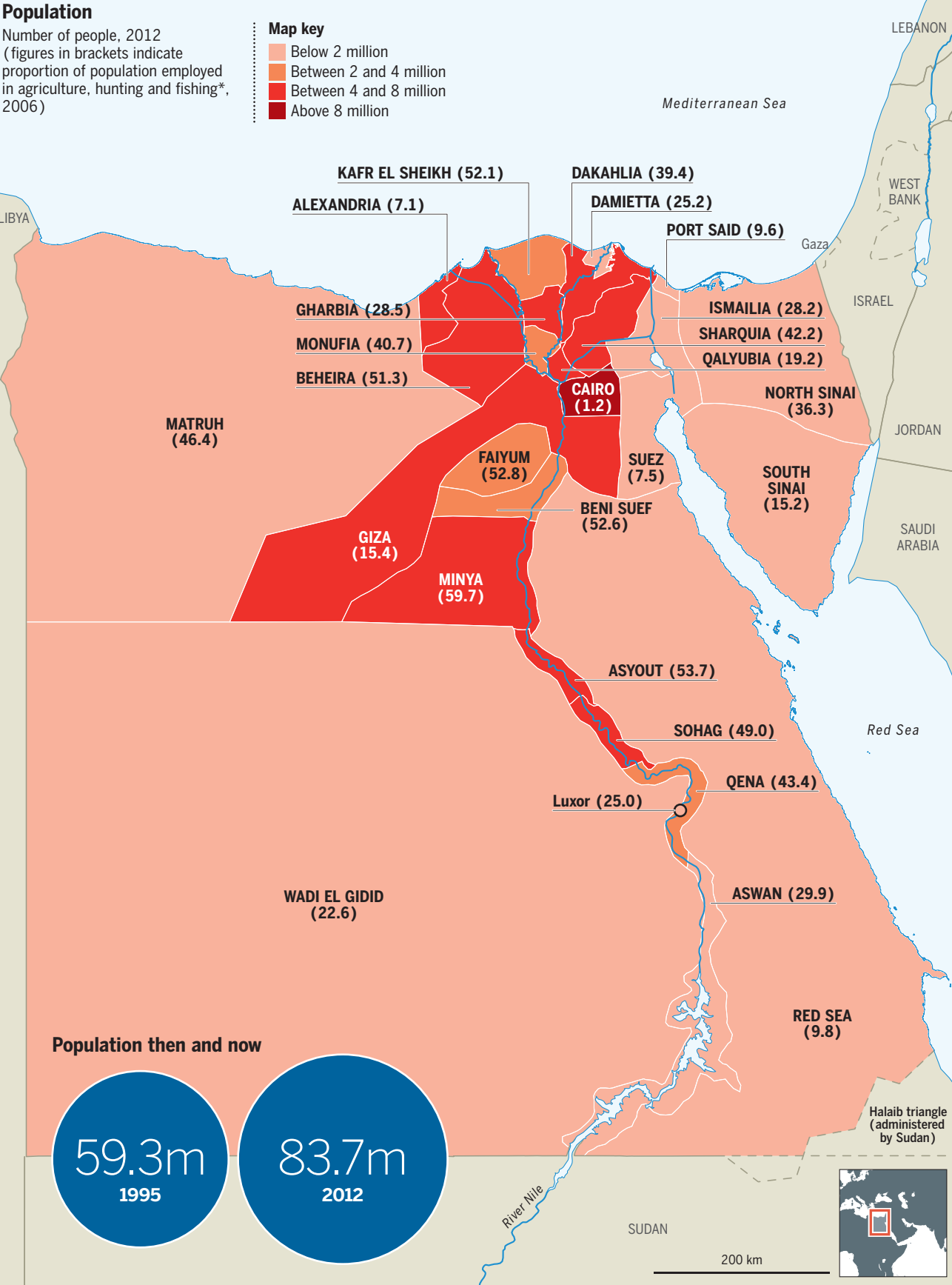
IF th€\$€ AṚ€ th€ OṂ£¥ ĆhAṚAĆt€Ṛ\$ ¥OUṚ ḐAṂK U\$€\$,
th€Ṃ ¥OU Ṃ€€ḏ OṂ€ Ṃith ḐOṚ€ character.

Seeing only money could be a fast track to financial growth, but it is by no means a sustainable one. For the past decade, we at Arab African International Bank have lived up to a moral mission towards society and the environment. This has made us a forerunner in sustainable finance, social and environmental risk in Egypt. Being Egypt's fastest growing financial institution for a decade proved that abiding by values and creating value do go hand in hand.

For Arab African International Bank, this is what defines our character.

Egypt Politics and economy

Egypt in numbers



The Flagship of Egyptian Banking



Since 1898, The National Bank Of Egypt has been the cornerstone of the Egyptian banking sector, and a main supporter of the national economy. It is what makes NBE the trusted bank for more than 5 million clients; from individuals and start-ups to top tier corporations.

NBE is the leading syndicated loans bookrunner and arranger in the Middle East and North Africa NBE is the major lender for the infrastructure projects and the SMEs sector all over Egypt.



Fears for future as military returns to political centre stage

Continued from Page 1

improved business sentiment and engendered hopes of a turnaround.

But business and observers fear the mix of instability, political fragmentation and weak government will preclude speedy adoption of painful reforms, including energy subsidy cuts, considered necessary to reduce wide budget deficits.

“Political developments will continue to shape the country’s macro dynamic in the coming year,” says EFG Hermes, the Cairo-based regional investment bank. A report cited “increased polarisation and the absence of visibility on reconciliation” with the Brotherhood as adding to the unpredictability.

On July 3, the Brotherhood group changed from the country’s foremost political force to a pariah organisation. Its senior leaders are detained and its structures smashed. Egyptian media calls it a “terrorist” organisation and blames the group – without evidence – for a recent surge in deadly attacks in the Sinai peninsula by Islamic jihadist targeting security forces.

Mr Morsi is on trial for incitement to murder and there are mutterings about a treason case. More than 1,000 of his supporters have been killed, most on August 14 when police stormed two Islamist protest camps leading to what Human Rights Watch called “the biggest mass killing” in Egypt’s modern history.

Despite suppression, Brotherhood supporters hold near-daily demonstrations on streets and in uni-

versities calling for the return of “legitimacy”. Police respond with teargas, arrests and sometimes bird-shot and live ammunition.

“What we see now are confidence-destruction measures,” says Amr Darag, one of few senior leaders of the Brotherhood and its Freedom and Justice party not in prison. “Islamist broadcasters are still shut down, detentions continue and hate campaigns in the media are ongoing.”

In disarray and with its leaders in prison, the Brotherhood does not have a short-term strategy other than keeping up momentum with its protests in the hope that repression and economic hardship will increase the numbers of opponents to the regime, according to analysts.

Khalil Anani, a senior fellow at the Middle East Institute in Washington, believes the authorities want to cripple the organisation before they offer to talk. He is concerned, however, that bloodshed and lack of contact with leaders could push young Brotherhood members to violence.

He says: “The Brotherhood know the use of violence would backfire and hurt them, but the heavy crackdown has alienated many younger brothers. I can tell from comments on their social networking websites that some are turning to a more hardline ideology.”

As the authorities press on with plans for new elections, the smart bet is that Gen Sisi will become the next president.

If not, diplomats and observers believe he will be the real power behind the throne.

Millions of Egyptians may have protested against Mr Morsi on June 30, but it was pressure from state institutions – the military, the judiciary, police and bureaucracy – that brought him down.

So far Gen Sisi has not ruled out running for president. He can count on the support of business and traditional pre-revolution elites, in addition to millions of ordinary citizens fed up with political upheaval and yearning for a strong leader.

‘Detentions continue and hate campaigns in the media are ongoing’

Challenges await whoever emerges as president. Chief among them is providing the necessary stability for tourism and investment to take off, reversing the economic decline of the past three years.

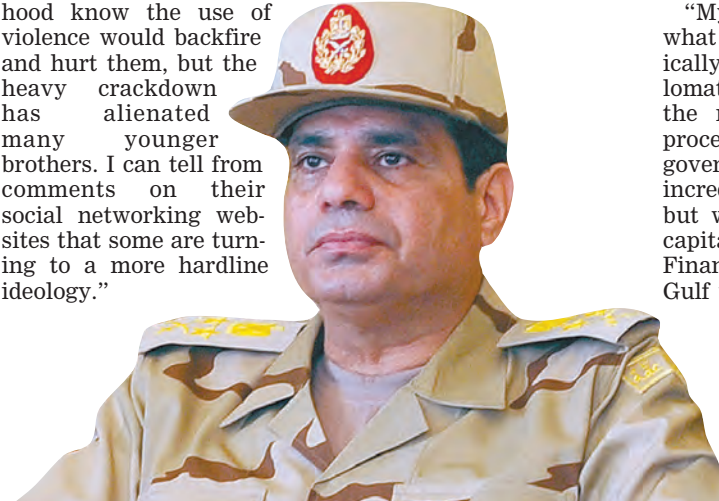
A quarter of Egyptians live in absolute poverty and growth has fallen to about 2 per cent.

Increased repression could backfire, analysts warn. Tactics resulting in the death of a student during protests in November at Cairo university have inflamed feelings. Small campus rallies have since gained momentum and support. Stability hinges on improvements in living standards, which require substantive reforms to the economy.

In the current political vacuum with weak parties and a rift in society, no single group is seen as able to lead.

Some fear reforms, such as phasing out fuel subsidies – discussed by the prime minister in an interview on page 2 – scaling down bureaucracy or imposing VAT, will prove difficult.

“My concern is about what happens next economically,” says a western diplomat. “Even if you have the most perfect political process, you will have a government facing the most incredible set of problems, but without much political capital to manage them. Financial support from the Gulf will not be unlimited.”



Real power: Abdel Fattah al-Sisi

Contributors

Heba Saleh
Cairo correspondent

Borzou Daragahi
Middle East correspondent

Siona Jenkins
Middle East news editor

Valentina Romei
Statistical journalist

Amira Ahmed, Amina Ashraf, Justin Cash, Nadine Marroushi
Freelance journalists

Helen Barrett
Commissioning editor

Andy Mears
Picture editor

Steven Bird
Designer

For advertising, contact **Mark Carwardine**, +44 (0)20 7873 4880, email: mark.carwardine@ft.com.

All FT Reports are available on FT.com at ft.com/reports Follow us on Twitter at: @ftreports

WHY INVEST IN



NOW!!!

- A new spirit towards an enlightened democracy.
- A bonding vow by Gulf countries to pour more than \$ 12 Billion in the Egyptian Market.
- Exploiting the momentum after the revolution to move forward by investing in various fields where valuations today are at lowest levels.
- Progressive pro-investment government of high calibers serious in enhancing investments and offering stimulus packages and attractive facilities.
- Dry market for three years awaiting new investments during the next phase.

“ *Egypt is the key player in the Middle East with the largest market approaching 100 Million Citizens.* ”

Egypt

Struggle to find a new order in global relations

Foreign policy Government uses strategic position to flex muscles, says *Borzou Daragahi*

Convulsed by domestic political troubles, foreign policy has been sidelined by Egyptian governments since Hosni Mubarak's downfall in 2011. On big regional issues of the day such as the Israeli-Palestinian conflict or the allocation of Nile River resources, successive administrations paid lip service to continuity while perhaps tweaking longstanding positions.

Which is why the international community was so startled when Egypt's unelected military-backed government began making bold gestures that risked alienating the US, its longtime patron, and Europe, its most important trading partner.

Within days of the coup in July that ousted the elected government of Mohamed Morsi, the military-installed government criticised the Barack Obama administration and European leaders for their criticism of its harsh tactics against opponents and the Muslim Brotherhood.

And when Washington withheld military aid over the violence, the government signalled an embrace of Russia, suggesting it would buy weapons from Moscow instead of US contractors.

In some ways it appeared the authorities were trying to recall Gamal Abdel Nasser's foreign policy strategy of the 1950s, when Egypt played the cold war powers against each other. "I have the feeling that what they are trying to do is what Nasser tried to do," says Koert Debeuf, a former adviser to the Belgian prime minister, now serving as the representative of the EU's liberal parliamentary faction in Egypt.

"It's like, we're independent and the Muslim Brotherhood was friends with the US and we should be less friends with them," he says, caricaturing

official Egyptian attitudes toward the west.

In the end, Egypt appeared to test the boundaries of its geopolitical alliances without breaking off relations many consider vital. Western diplomats in Cairo eye the political gestures with scepticism, saying Egypt's longstanding military ties with the US would make retrofitting its military with Russian equipment an expensive and lengthy process, though Moscow announced in December it would sell \$2bn worth of military equipment to Cairo.

Egypt's new government enjoys the wholehearted financial and diplomatic backing of Saudi Arabia and the United Arab Emirates. Any Egyptian embrace of Moscow, a patron of both Syria and Iran, would upset Riyadh.

Saudi Arabia and other Gulf partners are crucial to the regime's economic survival, having rushed in with billions of dollars of support after the coup, and forced a regional realignment.

Cairo's relations with Turkey and Qatar, both rising regional powers seen as allies of the Brotherhood, have soured dramatically.

Western governments, meanwhile, are trying to keep a distance from the government until elections are held. "This is an interim government, so we're not investing a lot in it," says one western diplomat, reflecting a sentiment heard repeatedly among international officials representing governments and aid agencies.

Egyptian officials acknowledge some tensions with the west, but insist they have made headway in improving relations. Recently John Kerry, the US secretary of state, accused the Brotherhood of stealing Egypt's 2011 revolution in words that pleased the interim government.

"What happened [with the Obama



Egypt's control of the Suez canal gives foreign powers a vested interest

Reuters

administration] is something that we are not happy with," says Badr Abdelatty, an aide to Nabil Fahmy, the foreign minister. "But for the US to shift and to change it takes time. You have a lot of stakeholders playing an important role in the decision making in the foreign policy of the US."

Mr Abdelatty describes "a major shift" in Egyptian foreign policy, but calls it a course correction from the ideological direction of the Brotherhood government, which he said was overly sympathetic to Islamist movements in the region.

"For instance, the Morsi regime criticised and opposed the French intervention in Mali just to defend the jihadist violent people," he says. "Also look at the relationship with other Islamists such as Hamas. They allowed oil and gas to be smuggled into Gaza in a systematic way while Egyptians here can't find fuel. This is ideology. After June 30 [Mr Morsi's

ousting], the only criterion guiding the principle of Egyptian foreign policy is the national interest of Egypt – no more ideology."

Others regard Egypt as trying to exploit its regional importance at a time of declining US influence. No one can afford the collapse of Egypt, which straddles two continents and controls the vital Suez Canal.

Melani Cammett, a professor of political science and Middle East specialist at Brown University in the US, says: "There's a history of Egypt getting away with human rights violations, violations of political freedom and postponing economic change because of its strategic international position. I think [its leaders] know they have leverage."

Mr Abdelatty predicts Egypt's foreign policy will appear less subservient to world powers, even bending its position on Iran to conform to the wishes of its Saudi allies.

Bathroom ware sales prove resilient

Company profile
Lecico

Manufacturer chased new customers to stay afloat, writes *Nadine Marroushi*

Despite more than two years of political and economic turmoil in its main markets in Egypt and Libya, Lecico, a listed tile and sanitary ware producer, has reported a double-digit increase in sales.

The Alexandria-based company enjoyed an 18 per cent year-on-year rise in revenues for the first nine months of 2013 to reach ££1.1bn (\$160m).

Increases in sales volumes were driven by Egypt and Libya, a trend that management expects to continue. In 2012, Egypt accounted for 44.8 per cent of group sales, and Libya 14 per cent.

"Despite economic and political uncertainty in Egypt, I think consumption continues, especially in the mass market," says Taher Gargour, Lecico's managing director.

The weakening of the Egyptian state since 2011 has led to a surge in unlicensed housing, which has benefited manufacturers of sanitary ware, home furnishings and building materials. The Egyptian pound has lost about 16 per cent of its value, prompting many to invest in real estate, regarded as a safe asset.

Established in Lebanon in 1959 by Palestinian and Lebanese families, Lecico began operating in Egypt in 1975, when the country opened up to foreign investment under then-president Anwar Sadat.

The civil war in Lebanon began in the same year and lasted for 15 years, while Egypt became Lecico's biggest market. The size of Egypt's population – at 83.7m, the Arab world's largest – helped fuel sales.

"We consider ourselves now an Egyptian company with a Lebanese subsidiary, whereas we began the other way," says Mr Gargour.

Lecico's sales volumes were up 25 per cent for sanitary ware in Egypt in the first nine months of 2013, and tile sales climbed 10 per cent. The company has been chasing market share by offering new, upmarket products as well as supplying its traditional working-class customer

base, Mr Gargour says.

In Libya, the company has staged a comeback after it lost almost all business there in 2011 following the ousting of Muammer Gaddafi and subsequent unrest. Sales in Libya were up 590 per cent in 2012, and Mr Gargour is expecting another record year in 2013.

"[In Libya,] it's a demographic push first and foremost. Similarly, after years of underdevelopment, now you have a free market for development, probably unregulated," he says.

As well as grappling with turmoil in the Middle East, Lecico has had to face the challenge of weaker European markets since the financial crisis began in 2008. It has shut down its French arm, which accounted for 15.2 per cent of sanitary ware and tile sales in 2007 but by 2012 had fallen to 4.4 per cent as the euro weakened.

Analysts and the company regard the closure of the French division as a positive move that will improve the balance sheet in the long term,

'Sales must grow by double digits every year to maintain profit margins'

even if it means a short-term hit: a write-off of ££130m and an expected overall loss this year.

They say the company's challenge in the next few years will be to boost sales and maintain profit margins as input costs rise.

"They have to grow their sales by double digits every year to maintain their profit margins," says Loic Pelichet at NBK Capital in Dubai.

In Egypt, the company is budgeting for a 30 per cent rise in energy costs every year for the next three years, as the government plans to remove subsidies to industry. Labour costs have gone up, as workers demand better pay following the 2011 revolution.

To improve its balance sheet, Lecico is limiting capital expenditure and focusing on efficiency gains for better returns on existing assets.

"The exception is tile expansion, and we still have scope for this in the next year or two," says Mr Gargour.

Proposed minimum wage adds to factory owners' list of troubles

Textiles

Unskilled workers would be entitled to salary rises if pay law is extended, says *Amina Ashraf*

Alaa Arafa, chief executive of Arafa Holding, Egypt's largest textile exporter, is anxious about his industry's prospects for 2014.

He is not convinced that a government plan to introduce a minimum wage in January is going to help workers or the textile industry in the long run. "Any increase in the minimum wage is just going to cause inflation," he says.

The textile industry is one of the country's biggest employers, providing a quarter of all industrial jobs. But despite proximity to European markets, trade agreements and comparatively low labour and utility costs, manufacturers say one of Egypt's vital industries is at risk because of rising costs and what exporters consider to be an overvalued exchange rate.

To add to Mr Arafa's and the industry's woes, a draft law, which is likely to be implemented in January, will introduce a minimum wage to public sector workers of ££1,200 (\$174) a month. Many in the private sector believe the new law will pave the way for the minimum wage to be extended to private sector workers as a solution to the rising cost of living.

Although some of the textile industry's skilled workers earn more than the minimum wage already, the bulk of the labour force earns less. Textile manufacturers say the latest move is an indication of a lack of nuance in economic policy making and a short-term solution to poverty.

They fear competition from low-cost exporters such as Bangladesh will destroy their industries if they have to increase workers' salaries.

There are about 7,200 textile-related companies



Industry under pressure: workers at Arafa Holding

according to the General Authority for Investment. A collapse of the industry would damage the wider economy because textiles are an important export.

According to the country's General Organisation for Export and Import Control, textile exports have slid more than 8 per cent since the ousting of Hosni Mubarak, from \$2.4bn in 2011 to \$2.2bn in 2012.

More than 600 textile factories have closed in recent months in Shubra el Khayma, an industrial district of Cairo, and several hundred have closed in Mahala, a textile manufacturing centre in the Nile Delta, according to Mahmoud Sayem, director of the Spinning and Weaving Syndicate, a union of textile workers.

Mr Arafa, whose company is Egypt's largest exporter of ready-made garments, pays some workers less than the proposed minimum wage, although he says he provides for transport to factories and workers' childcare and schooling costs.

Shereen Kouko comes from a family of factory owners. He still works in the business, but his cousins recently left the industry. Eight months after Mr

Mubarak was overthrown they handed over their factory keys to the bank and moved to the US.

Mr Kouko is considering following them.

"Every month I get by with difficulty," he says. "Expenses for workers are becoming so high and I know that if things continue this way and the market doesn't pick up, I will

'If the market doesn't pick up, I will have to close the business'

Shereen Kouko, company owner

have to close the business and sell the factory."

Mr Kouko says that Egyptian textile products are less appealing to importers every year, as instability, strikes and port closures jeopardise supply chains.

Mohamed Adel, head of the export department at Union Textiles, says he pays skilled workers above the proposed minimum wage because qualified employees are scarce.

If a minimum wage were introduced he would have

to raise the wages of unskilled staff, which he says would be difficult.

"The profit margin of the factory has been low... [it would] not allow us to give a woman making ££400 a raise of ££800," he says.

Mr Arafa says the overvalued Egyptian pound holds back exports. Indecisive government policy, he says, has resulted in high costs and an overvalued currency.

Allowing the currency to float would lead to price increases for the general population, because most consumer goods and refined fuel come from abroad.

Other inflationary pressure comes from a subsidy regime on imported wheat and fuel, which makes up more than a quarter of the state budget and many say is unsustainable.

Despite the government's interim nature, Mr Arafa believes that the political aspirations of ministers are causing them to hold back on reforms.

Dalia Rady, executive director of the Textile Export Council, says that industrialists have been asking for years for a freer exchange rate even if it means the cost of living will rise for the general population.

"You have to think of the best interests of the country," she says. "We have an export subsidy to help that," referring to the exchange rate.

High interest rates put pressure on cash flow, and some factories have not paid salaries for three months. Dozens of striking workers ended up in hospital last month after police forced them off railway lines which they had blocked in protest over late salaries.

Ms Rady says the implementation of the minimum wage law is likely to lead to more unrest and strikes, unless companies adjust their entire pay scales upwards.

She says: "If you give somebody at entry level the same as someone who has been working for you for 10 years, you'll have a riot. It has to be finessed."

Concord International Investments

Management of Private Portfolios

Management of Institutional Portfolios

Management of Mutual Funds

Corporate Finance Advisory

Real Estate Investments

Private Equity

New York
725 Fifth Avenue,
New York, NY 10022
U.S.A.
Tel: (1 212) 759-2375
Fax: (1 212) 759-2553

Cairo
9 Hod El Laban Street
Garden City, Cairo
11451, Egypt
Tel: (202) 2792-3652
Fax: (202) 2792-3658

Tokyo
Toranomom Chuo Building,
1-1-16, Toranomom, Minato-Ku
Tokyo 105-0001, Japan
Tel: (81 3) 5511 6633
Fax: (81 3) 5511 6600

Egypt Economy

Natural gas is in abundance but every day the lights go out

Energy As international producers wait to be paid, households’ fuel subsidies are crippling the economy, writes *Nadine Marroushi*

During the summer in Cairo, as air conditioners were switched on and demand for electricity peaked, daily power cuts left whole districts without supply for hours. The blackouts have become a regular feature for many Egyptians, a consequence of overburdened power stations and natural gas shortages. The impact has extended beyond domestic consumers to energy-intensive industries, whose supplies of natural gas have been reduced after the government prioritised households over industry. Though Egypt has an abundance of natural gas reserves, analysts and business people say that not enough have been developed to meet surging local demand and export commitments. At two local subsidiaries of Titan Cement, a Greek-owned company, gas shortages have caused a 20 per cent production capacity loss. “We’re stuck between a rock and a

hard place,” says Mike Sigalas, a board member. “Titan would like to use coal to make up for the shortfall, but Egypt’s environmental concerns are putting this on hold.” According to Mr Sigalas, officers from the environment ministry visited Titan’s factories to prevent the company from adopting the coal plan. Ahmed Heikal, chairman of Citadel Capital, an investment company, faces a similar problem to Titan’s, although he is looking for a different solution. At Asec Minya, a cement producer and subsidiary of Citadel, capacity was cut by 50 per cent this summer. Mr Heikal wants Egypt to begin importing natural gas. “Egyptian domestic gas consumption grew at about 10 per cent a year over the past three years and reached 55bn cubic metres in 2012, while production stood at about 60bn cu m,” says Ahmad Shams El Din, research director at EFG-Hermes, the regional investment bank. Egypt’s export

commitments stood at about 16bn cu m before 2011. Since the 2011 revolution the government has slashed exports and prioritised local needs. Egypt has long subsidised a range of energy products to its population. Subsidies cost the government E£129bn in 2012 and the figure may rise to E£150bn (\$22bn) in 2013. They eat up 20 per cent of its budget revenues and amount to more than health-care and education spending combined. Many, including Mr Heikal, say the country cannot afford them. The budget is running at a deficit, which widened to almost 14 per cent of gross domestic product during 2012-13, the year in which Mohamed Morsi, Egypt’s deposed president, was in power. The government says it is aiming to reduce this to about 10 per cent this fiscal year. As a result of the widening deficit and a foreign currency crunch, Egypt has fallen behind in payments to international oil companies. The

government says it has agreed a timetable to pay \$3bn of the \$6.3bn it owes to foreign oil companies. International oil companies have found it uneconomical to continue developing Egypt’s mainly offshore gasfields. At issue, industry insiders say, is the price paid by the government for supplies pumped into the domestic grid. In October, the UK’s BG Group, one of Egypt’s largest natural gas producers, said: “Further assurances regarding future domestic offtake levels and a material improvement in the outstanding debt position are required before releasing funds for the next phase of development.”

BG is owed \$1.4bn from the state-owned Egyptian General Petroleum Corporation. BP, another of Egypt’s largest producers, declined to say how much it is owed. It has reserves of more than 28bn cu m of gas offshore, which it has yet to develop because of delays in resiting an onshore processing terminal. As well as making repayments, the government is in the process of renegotiating a “fair price” for gas with international oil companies, says Taher Abdel Rahim, chairman of the state-owned Egyptian Natural Gas Holding Company. Egypt pays offshore gas producers on average \$2-\$3 per million British thermal units. Egypt produces 93m cubic metres of gas a day and needs to reach 165m-170m to meet demand, he says. The target for 2014 is 160m cu m a day. The government expects to make a decision on building a floating regasification terminal by the end of this

year, he says, which will pave the way for natural gas imports before next summer. Saudi Arabia, Kuwait and the United Arab Emirates have promised Egypt aid packages worth more than \$12bn, including fuel supplies, since Mr Morsi’s overthrow. But, some are asking, how long can the lifeline last? “Egypt can’t afford to live on Gulf aid for ever,” says Mr Heikal. “It has to face its issues, and energy is one.” Successive governments have long talked about reforming the costly energy subsidy programme, but little has been done, because officials feared that price increases would risk further social unrest. The current government accepts price rises are inevitable. “[We are] serious about dealing with the subsidies issues,” Sherif Ismail, petroleum minister, said in an interview with a state newspaper last month. “We don’t want to raise prices to the international level, just the cost price.”



Left in the dark: a student studies by candlelight for his morning exams during a power cut in the northern city of Toukh

Reuters

Trading picks up but real returns will come with political stability

Stock market

The EGX 30 index has shown resilience despite a turbulent year, reports *Amira Salah-Ahmed*

Egypt’s stock market has rebounded significantly in the past six months, defying a period of political turmoil following the ousting of Mohamed Morsi as president in July and the subsequent suppression of his Muslim Brotherhood group. The market reached a peak in November after bottoming out in late June. While trading volumes have remained low amid waning interest from foreign investors, local retail investors have helped sustain the market’s positive performance.

The main EGX 30 index broke a resistance level of 6,000 points on October 20. One month later, the benchmark index jumped another 500 points. “Trading volume was quite low throughout this year until September,” says Wael Ziada, head of research at EFG-Hermes, a regional investment bank.

In the third quarter, however, average daily turnover surged to \$80m from \$37m in the previous quarter, he adds. But those volumes remain low: in 2010 average daily turnover was \$180m.

The latest movement was driven mostly by local retail investors, who have seen “an increase in liquidity on the back of an expansionary monetary policy from the central bank”, Mr Ziada says.

An influx of aid from Gulf countries this summer to the tune of \$12bn offered some relief to the Central Bank of Egypt, which had been struggling with depleted foreign reserves.

It led to an upgrade in ratings from agencies after successive downgrades since the January 2011 uprising.

“Options outside Egypt for local [investors] are limited due to capital

controls and the fragile economic situation,” Mr Ziada says. “While real estate is a good investment, it’s not as liquid.” Capital controls may have steered local retail investors towards Egypt’s bourse, but they also created a persistent repatriation problem that has made the market less attractive to foreign investors.

Easing these capital controls can happen only when the central bank replenishes foreign reserves in a more sustainable manner. Gulf aid money is seen as a short-term relief.

Investors outside Egypt will be looking for more political stability and clarity around the transitional process, which would in turn lead to improved economic conditions.

“Foreign investors continue to be on the sidelines,” says Tarek Shahin, frontier and emerging

market specialist at UK-based Investec Asset Management. “The relief to the dollar crunch that followed the aid from the Gulf is seen as finite – it kicks the can that is pound depreciation risk down the road. “Once there are some

‘Egypt’s financial markets are under-owned by foreign investors’

milestones, such as a strongly mandated government that begins making bold fiscal decisions, foreign investors are likely to return,” he says.

Local institutional investors have also played a role in moving the market in recent months, says Tariq

Hussein, co-head of sales trading at CI Capital, a regional investment bank. Mr Hussein explains that the increased activity of retail investors should not be viewed negatively and that it is important to diversify and expand the investors’ mix. “Institutions balance out volatility,” he says. Three of the bourse’s main blue-chip companies – Orascom Construction Industries (OCI), Mobinil and National Société Générale Bank – have recently moved out of the market, leaving only residual shares.

They left for different reasons, including changes of ownership and, in the case of OCI, a multinational that derives most of its revenue from outside the country, a desire to improve access to credit by avoiding Egypt risk.

Under Mr Morsi, OCI agreed to pay a disputed \$1bn tax claim from the sale of a subsidiary five years earlier, in what was seen by the business community as an illegitimate demand.

But while “the departure of these names reduces the current breadth and depth of the market, it shouldn’t affect the decisions by active investors too much”, says Mr Shahin.

“Active investors largely make stock-by-stock decisions and there are still good companies on the exchange,” he adds.

Looking ahead, he says: “Foreign markets will be happy to see a newly elected government, even if it includes some of the people in the interim government.”

Analysts say investors will be looking to the referendum on the constitution, expected to take place in January and to be followed by parliamentary and presidential elections, and also to a healthier economic climate with more transparency and efficiency.

“Egypt’s financial markets are under-owned by foreign investors, relative to other comparable emerging markets, so it will not take much to lure [them],” says Mr Shahin.



In the future, it will take many imports to make an export.

Is the supply chain of your business in Egypt equipped to handle the challenges and opportunities of this competitive world?

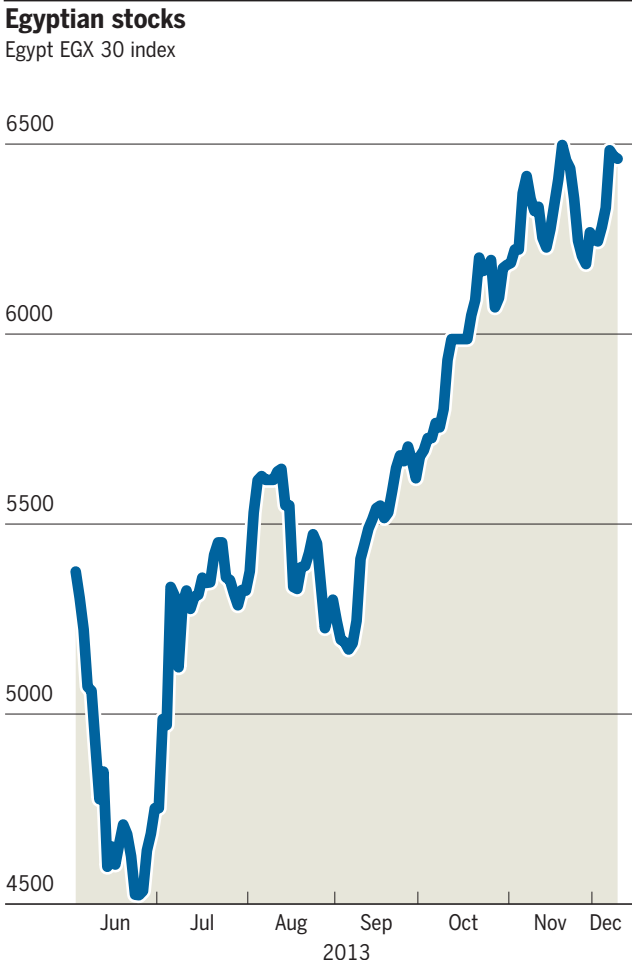
At HSBC, we have trade teams in over 60 countries to help you navigate local markets while staying focused on the bigger picture.

Connect to the latest international business insight at: globalconnections.hsbc.com/mena

HSBC 
Commercial Banking

© Copyright. HSBC Bank Egypt S.A.E. 2013 ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Egypt S.A.E. Issued by HSBC Bank Egypt S.A.E. / CMP 013033

Source: Thomson Reuters Datastream



Egypt

Security state tightens its grip

Human rights A mother’s story highlights a return to authoritarianism, writes *Siona Jenkins*

When Wael Hamdy took his 16 year-old brother to pick up groceries on June 24, he promised his mother he would be back in a couple of hours.

The next time she saw him was the following day in a police station bathroom, where the 27 year-old’s bruised body hung from a window after what the police claimed was a suicide.

Swathed in black and choking on her tears, Um Wael describes how her sons were accused of trying to steal a handbag. Although no charges were pressed, they were taken to a police station in eastern Cairo, where they were beaten to get them to confess.

“They killed him,” she says. “It was clear he hadn’t died from hanging. He had bruises and blood on him. He looked like he was asleep.”

Police brutality has been the norm in Egypt for decades and was one of the main drivers of the 2011 revolution that overthrew Hosni Mubarak. But hopes that a new political order would bring justice for ordinary citizens have yet to be realised and, nearly three years on, many rights activists say police impunity has increased as the security state has tightened its grip on power.

The overthrow of Islamist president Mohamed Morsi last summer was followed by a violent campaign against his Muslim Brotherhood, as the military-backed interim government vowed to end what it called “terrorism”. Mr Morsi and the Brotherhood leadership, along with thousands of its followers, remain in custody.

Since the coup, an estimated 1,300 people have been killed by the security forces – several hundred of them during the bloody clearance of anti-coup protest camps in August. There have been no investigations into allegations of excessive use of force, despite widespread witness reports that live ammunition was used against unarmed protesters.

Rights advocates point out that the return to business as usual for the police began under Mr Morsi, who vowed to restore law and order to the country when he appointed his first cabinet in August 2012. Deaths in detention and fatal police shootings slowly began to climb. “By November 2012 we were back to the Mubarak



Strong arm: police detain a man protesting against curbs on gatherings Reuters

rates,” says Hossam Bahgat, executive director of the Egyptian Initiative for Personal Rights, a campaign group.

In 2013, the sense of police impunity has intensified, with an increasing intolerance of dissent. “There is a perception that the police are now back in power,” says Mr Bahgat. He added that the lack of any legal consequence for the deaths has emboldened the police. “The normalisation of killing has a deep impact.”

After three years of turmoil and increasingly dire economic problems, many Egyptians want to get on with their lives and public criticism of the police and the military-backed interim government has been muted.

Islamist television stations have been closed down and increasingly nationalistic media vilify the Brotherhood as terrorists.

Those in the middle who oppose both political groups and campaign

for police and state accountability do not get airtime or find themselves condemned in the state media as a “fifth column”.

Rasha Abdulla of No to Military Trials, a group campaigning to end the trials of civilians in military courts, says that her group has found it “very difficult to find a voice in the press” in recent months.

A new draft constitution offers some rights protection, particularly for women and minorities, but makes no changes to the institutions charged with implementing the articles, which some say undermines the document.

Zaid Al-Ali, senior adviser on constitution building at the International Institute for Democracy and Electoral Assistance, says: “It is very disappointing to see that the new constitution makes very little effort to make the state’s main institutions [the judiciary, local government, the security sector] more accountable.”

A new law on public assembly has led to fears that the government and its military backers are reinstituting authoritarianism. The law allows the interior ministry to ban gatherings of more than 10 people and the police to use lethal force in self-defence.

Despite criticism from local and international rights groups and some foreign governments, the ministry has defended the law as a necessary response to the near daily protests staged by Mr Morsi’s supporters.

When secular activists held two peaceful protests in defiance of the law on November 26, the response by the security forces was swift. Arrest warrants were issued for a number of high-profile secular activists.

Most activists remain optimistic that Egyptians will eventually win their basic rights. “I don’t think you can underestimate the change in people since 2011,” says Mr Abdulla. “It may take longer than we hoped for change, but I’m optimistic.”

But for Um Wael any change will be too late. Her attempts to hold the police accountable for her son’s death have met with repeated stonewalling by prosecutors and police officials.

“We poor have no rights,” she says. “I know I’m not going to get justice for my son.”

Additional reporting by Amina Ashraf

Diversification helps car company survive

Company profile

GB Auto

Good performance in other sectors makes up for poor sales, writes *Siona Jenkins*

Buying a new car is not a priority for most people during a political crisis. Yet Egypt’s leading auto supplier has not only weathered the turmoil of the past three years, it is expected to emerge stronger when calm is restored.

Ghabbour, or GB Auto, is a household name in Egypt. Founded by two brothers in the 1940s, it went public in 2007 and is now the largest automotive company in the Middle East and north Africa, assembling and manufacturing passenger cars, motorbikes, commercial vehicles and construction equipment and offering financing and aftersales service.

Diversification, including regional expansion, has insulated GB from the battering its home economy has taken in the past three years. In 2010, it began a joint venture in Iraq that now accounts for 30 per cent of car sales, and has begun operations in Algeria and Libya as well as Jordan. It is also developing export markets to sub-Saharan Africa.

But the majority of GB’s business remains in Egypt. “If you look at our business, you get the economy in a nutshell,” says says Menatalla Sadek, director of corporate finance and investments. It has been a variable picture, particularly in the third quarter of 2013 when, as Raouf Ghabbour, chief executive, wrote in the Q3 earnings release, “consumer confidence hit its nadir”.

Net income in the third quarter fell 89 per cent from E£65.4m to E£7.5m year on year. The second quarter was only marginally better, with a 72 per cent drop on Q2 2012.

Despite the economic gloom, the company is seeing an increase in sales. “September through to November have been phenomenal,” says Ms Sadek.

Passenger car sales, about 70 per cent of GB’s business, are a main indicator of middle class consumer sentiment and have followed the vagaries of the political situation.

They have dropped in Egypt by about a third since 2010, staying

broadly flat year on year, although the company has kept 30 per cent market share.

But Ms Sadek is confident that car sales will improve. “Egypt is an underpenetrated market, with only 32 cars to every 1,000 people,” she points out. “In comparable regional countries, it is far higher: Iraq is 77 per thousand and Algeria is 114.”

Despite uncertainty, GB has stuck to its pre-2011 plans to move into other sectors of the home market to strengthen its business. It spotted an opportunity in the lack of consumer financing options for people wanting to buy cars in Egypt – 70 per cent are paid for in cash, making them unaffordable for many.

“We decided to launch our own consumer finance in the second quarter of 2012 and it’s going very well,” Ms Sadek says.

The company has embarked on a micro-financing venture to boost sales of the Bajaj brand auto-rickshaws it assembles. Known locally as “tuk-tuks”, sales have been resilient in the past three years. GB sold nearly 70,000 in 2012, up from 40,000 before the revolution.

Although it may seem risky to lend money to the poorest part of the population, Ms Sadek points out the microfinancing project, called Mashroey, has been successful. “We have had no non-performing loans for our tuk-tuks. Zero,” she says.

Despite these successes, she admits 2013 has been challenging. “The third quarter was a perfect storm,” she says. Unrest after the coup that overthrew Mohamed Morsi in July shook consumer confidence, affecting passenger vehicle sales. Violence also hit the company’s supply chain.

“Usually good performance in other sectors makes up for poor car sales, particularly three-wheelers,” says Ms Sadek. Although demand for tuk-tuks was strong, GB could not maintain supply after unrest in Sinai prompted the army to close a bridge linking the mainland to the port where parts are imported.

The gloom seems to be dissipating, reflecting a general improvement in business sentiment. Sales of passenger cars and commercial vehicles have jumped in the fourth quarter. “Only time will tell if this is pent-up demand or a sustainable improvement,” she says. “We’re not seeing signs of a slowdown, but the next few months are critical.”

FT SPECIAL REPORTS

African Farming

21 January 2014

Reach the world’s business and government decision-makers in print and online.

With more than 60 per cent of the world’s uncultivated land, Africa’s potential cannot be ignored.

Productivity would increase dramatically with access to good seed and fertiliser, which would mean the continent could not only feed itself but also become a major exporter to the world.

The FT African Farming special report will look in depth at the issues affecting the continent, drawing in comment from domestic and international business and experts, as well offering access to the FT’s influential global audience.

To advertise, contact:

Mark Carwardine

UK: +44 (0) 207 873 4880

mark.carwardine@ft.com

David Applefield

FT Special Representative for Africa

Africa/US: +33 6 60 69 48 57

or +1 855 707-2747

FT.davidapplefield@gmail.com or

africa4444@gmail.com

We live in FINANCIAL TIMES®

Optimists look to arrival of Ikea and return of European tourists

Investment

Relief at the ousting of Morsi is tempered by realism, writes *Amira Salah-Ahmed*

Egypt’s business circles have been buzzing with positive sentiment in the past few months, but the turbulence of yet another transition period is taking its toll on economic recovery.

The optimism is born out of relief after the ousting of Mohamed Morsi as president in July. But it is tempered by the realities of Egypt’s economic conditions as well as much-needed structural reforms that have yet to be tackled.

The Muslim Brotherhood group, which Mr Morsi led, was regarded as attempting to create an alternative business elite during its brief time in power.

Egyptian business might now be returning to normal, but investors are worried that the authorities may yet again shy away from long-needed reforms that would make the economy sustainable.

Hisham El-Khazindar, co-founder and managing director of Citadel Capital, a regional investment company, says: “People are more optimistic, but this is tempered by caution and the realisation that things need to fall in the right place, both on the political and economic fronts.”

The sensitive issue of restructuring costly energy subsidies which eat up a fifth of the budget, for example, has been pushed from one cabinet to another, without implementation.

Even so, analysts and entrepreneurs are reporting an increase in business activity, reflecting improved sentiment, though most note that a significant rise in investment will not materialise until political stability returns.

Figures published this month by HSBC that track non-oil private sector activity show an increase in the purchasing managers’ index



Open for business: Egypt’s first branch of Ikea in the Cairo Festival City development

from 49.5 in October to 52.5 in November. Figures above 50 indicate an expansion, and HSBC notes that this is the first positive reading since September 2012. It underlines, however, that output is still below 2012 levels.

Mr El-Khazindar points to Citadel Capital’s recently approved capital increase as evidence of improvement in the business climate.

The company had applied to the regulator for approval last year, but its request languished for nine months until the change of regime.

Mr El-Khazindar says Citadel received approval within weeks and the capital raising will be the largest in Egypt since the 2011 uprising, when it is completed in January.

He and others would like to see the government move faster to tackle the fuel subsidy system that lies at the core of Egypt’s persistent large deficit and weakness in balance of payments. Heavy industries continue to suffer from disruptions to power as the country’s insufficient gas supplies are directed to power plants, which are given priority to combat the electricity cuts that peaked last summer.

The gas shortages are now a brake to investment in industry.

The difficulty of acquiring land for industrial plants is also holding up investment,

says Alaa Ezz, secretary-general of the Federation of Egyptian Chambers of Commerce. Twelve industrial zones are under construction, but will take at least two years to complete.

“Egypt is facing the highest unemployment in its history. Real estate and tourism have declined, both of which employ 10m directly and indirectly,” he says. Still, he adds: “Businessmen see problems as opportunities.”

Industries that have

‘Real estate and tourism have gone down. Both employ 10m directly and indirectly’

proved resilient by continuing to draw new investment are those targeting Egyptian consumers, such as retail or food processing.

In late November, the first phase of Cairo Festival City, the latest commercial centre, opened in the New Cairo district. The project, which boasts Egypt’s first branch of Ikea, was developed by the United Arab Emirates’ Al-Futtaim Group with investments that will total E£17bn on completion.

Angus Blair, president of the Signet Institute, a

Cairo-based economic think-tank, says: “We see a very significant expansion in the overall retailing sector. A number of companies we know are planning significant investment... more than they have invested over the past decade.”

Business people and analysts agree that an improvement in economic conditions hinges on better security and a smooth transitional process through the constitutional referendum and parliamentary and presidential elections.

Security is regarded as a prerequisite for the recovery of tourism, a sector that has been one of the biggest revenue earners.

Before Hosni Mubarak was ousted from power it was worth \$12.5bn per year; by 2011, it was worth 30 per cent less.

Visitor numbers plummeted this year following the ousting of Mohamed Morsi’s Muslim Brotherhood. But travel operators and the tourism ministry are reporting signs of a tentative recovery.

Elhamy Elzayat, chairman of the Egyptian Tourism Federation and chief executive of Emeco Group, says: “The plan for the time being for investment in tourism is to complete existing projects.

“There is no talk of new investments in big projects. This will not happen until tourism recovers.”

Egypt

Bedouin tribes caught in the crossfire in war against jihadis

Sinai Army raids have wreaked devastation on impoverished area, writes *Nadine Marroushi*

The village of al-Muqataa bears the evidence of the army's heavy handed tactics. A shelled-out mosque, concrete houses pockmarked with bullet holes, and burnt animal huts huddle among sand dunes and olive farms a few kilometres from the borders of Gaza and Israel in the north of Egypt's Sinai peninsula. The army carried out a recent "raid and combing" operation here against Islamic militants. On November 26, Mohamed Hussein Mohareb – also know as Abou Munir – was killed by the military with his son and one other during a shootout. He was one of the most wanted militants and the religious guide of extremist Takfiri groups in North Sinai, responsible for attacks against security forces, according to the military. The mosque in Muqataa, where he preached to hardline Islamists, had been reduced to rubble by the army several months earlier. His death came soon after a car bomb killed 10 soldiers on a bus travelling in North Sinai towards Cairo. But the military suppression has brought death and ruin to people other than its intended targets, say many of Sinai's Bedouins, particularly those living in the villages that have been subjected to the army's campaign, and in Arish, North Sinai's main coastal city and capital. Resentment is rising, they say, because of mass arrests, indiscriminate destruction of homes and the killing of innocent locals. "Sinai's tribes are squeezed between terrorism and those fighting it," says Mosaad Abu Fajr, a Bedouin novelist and blogger who represented Sinai on the 50-member committee that drafted Egypt's new constitution. "They are terrified by terrorists, who have killed more than 20 of Sinai's people with bullets and knives, and they're frightened of the army that is conducting its campaign mindlessly." A Salafi jihadist group has threatened to kill anyone found aiding Egyptian security forces. Attacks by armed militants against police and military targets in Sinai increased sharply over the summer after the coup in July that ousted Mohamed Morsi, the Islamist president, and the subsequent killing of hundreds of his supporters. The army began its Sinai campaign in September, when it increased efforts to root out armed militants from the restive peninsula, a mountainous region and a haven for jihadis in recent years. Most are homegrown militants, but some are alleged to have links with extremists in Gaza. The impoverished area, long neglected by central government, is a crossroads for weapons, drugs and people smuggling, and its economy has been based for several years on the flow of contraband through underground tunnels linking it to Gaza. "We are determined to do whatever it takes to create security and stability for the people of Sinai," says Colonel Ahmed Ali, a military spokesman. "It's never been the army's job to deal with terrorism, but we are doing it for the country's security, and for the international community's security." More worrying for officials is that Sinai's militants have claimed responsibility for attacks outside the



Burnt ground: boys in Sinai survey damage after army raids

Reuters

peninsula with offensives launched against the Suez Canal, Cairo and the Nile Delta. The attacks have become more sophisticated, analysts say. One of the groups, Ansar Beit al-Maqdis, claimed responsibility for the November 17 shooting of Lieutenant Colonel Mohammed Mabrouk, a senior national security officer, in Cairo. It said in a statement that the attack was in response to the arrest and interrogation of Islamist women by Egyptian security forces. Lt Col Mabrouk had been involved in the arrest of senior Muslim Brotherhood members in recent months, according to state media. The same group carried out an assassination attempt against Mohamed Ibrahim, the interior minister, in Cairo in September. David Barnett, a research associate at the Washington-DC based Foundation for Defence of Democracies, a policy institute focusing on terrorism, says: "The increasing use of bombings over shootings, including remote improvised explosive devices, suicide bombers, and car bombings suggests an increased level of sophistication." He says security forces seem to lack a holding strategy for the villages they attack, which allows the militants to slip through their fingers. "[The security forces] show up at the village in the morning, carry out the operation and leave at night," he says. "If militants know in advance what villages will be targeted, they just leave and don't get arrested." The unrest in Sinai has already claimed the lives of more than 120 army and police personnel and 168 militants since July, according to Col Ali. He would not speculate on an end date, only saying: "Terrorist activity cannot be eliminated in a few days." A western official, speaking on condition of anonymity, says a long-term strategy is needed. "Without addressing Sinai's developmental shortages and historical grievances, even if Egyptian security forces' tactics are successful in suppressing the current wave of violence, it won't in the long-run resolve Sinai's challenges."

Violence keeps visitors away

Tourism
Dwindling numbers have hit the economy, writes *Siona Jenkins*

Cairo's Egyptian Museum is a world-famous collection of artefacts. Containing the treasures of Tutankhamun's tomb and a cache of royal mummies, it is a leading tourist attraction. But on a sunny November morning, most of the museum's rooms are empty, a vivid indication of the crisis facing Egypt's tourism sector. Nearly three years of political unrest have scared visitors away and left the industry reeling. Tourism provides 14.4 per cent of the country's foreign currency and accounts for about 4m jobs, according to the ministry of tourism. Before the 2011 revolution that overthrew Hosni Mubarak, it was worth \$12.5bn a year; by 2011, it was worth 30 per cent less.

Visitors have stayed away following 2013's political turmoil – particularly after the coup at the end of June. The bloody suppression of Mr Morsi's Muslim Brotherhood group and a wave of anti-western sentiment led many governments to issue warnings to their citizens against travel to Egypt. Amani el-Torgoman, chief operating officer of Travco, Egypt's biggest tour operator, says: "We have seen a 50 per cent drop in business since 2010. For three years, we've been living on savings." The interim government has tried to mitigate the damage. It lobbied hard to improve Egypt's image abroad and get international travel bans lifted. At least 23 countries have lifted or eased their warnings. Visitors from northern Europe, particularly Russia, are returning. Amr el-Ezaby, an adviser to the minister of tourism, is confident the winter season will see a jump in numbers. "Tourists are resilient and are searching for an easy destination," he says. Egyptian tourism has often been fickle. In the 1990s, a violent anti-government campaign by Islamists led to falls in visitor numbers, particularly after the 1997 attack on Hatshepsut temple in which 58 tourists were killed. Then, tourism bounced back relatively quickly in contrast to the past three years, the longest sustained decline the sector has seen. All tourism-related businesses have suffered. Karim Nabhan, president of 5 Continents Travel, a family-owned travel company based in Cairo, has switched the focus of his business from foreign tourists to domestic travel; three years ago 75-80 per cent of his business came from tourists to Egypt; now, he says, about 80 per cent of it is "outbound". Small businesses are at the sharp end of the crisis. Mohamed Hosni, who works in a bookbinding shop behind al-Azhar mosque in the capital's medieval souk, says that in July his sales dropped sharply and staff numbers have since been halved. "We have seen a 99 per cent fall in sales," he sighs. Back in the Egyptian Museum, two lone tourists wander through the animal mummy room, marvelling over a mummified baboon. Kirrily and Aaron Moyler live in London and have always wanted to come to Egypt. But in their three days in the capital they have not left their hotel without a guide. "It's the first time we've visited a city and not gone out on our own," says Ms Moyler. "We're feeling scared."

Centamin leads new sustainable gold mining industry in Egypt

Centamin is proud to have developed and brought into production one of the biggest gold mines in the world, located in the Eastern Desert of Egypt – the Sukari Gold Project. Having invested almost US\$1 billion over the last 15 years, Centamin has discovered over 15 million ounces of gold, and is currently producing over 320,000 ounces per annum, which will increase to around 500,000 ounces (16 tons) of gold per annum from 2015 for the next 20 years.

Why is it important to Egypt for a foreign company, such as Centamin, to commit to such an investment? The benefits are as follows:

- **Investing in Egypt** – With 100% of the project risk assumed by international shareholders, the Sukari mine has been built with zero dollars invested by the Egyptian State. In addition, over \$650m of total expenditure to date has been spent with Egyptian suppliers.
- **Taxes** – at current gold prices, Centamin expects to contribute around US\$3 billion to the Egyptian economy over the next 20 years through profit sharing and royalty payments.
- **Employment** – Out of 1,500 people employed directly by Centamin, over 1,350 are Egyptian, with an additional 3,000 local jobs created indirectly. This has generated significant wealth in an industry that did not exist in Egypt until Centamin began investing in the country, and which will sustain local economies for decades to come. Direct and indirect employees have been trained in skills which will put them at the forefront of the country's future mining industry.



- **Safety and environment** – Despite the often recorded issues facing the mining industry, Centamin has a model safety record, which is reflected in the level of training and adherence to the most modern available techniques in bulk mining technology – our safety record matches the very highest of international standards.
- **Commitment** – Sukari is on the threshold of producing its millionth ounce of gold having invested \$1bn into the operations. Centamin has delivered on all of its commitments not just to the Government of Egypt but also to the people of Egypt.

Not only has Centamin re-energised an industry in which the nation of Egypt has historically been a world leader, it has also developed a safe, sustainable and competitive operation during a period of significant change and upheaval. Egypt is one of the world's last great under-developed gold mining districts, with numerous known deposits awaiting investment. Sukari is just one out of around 120 historic gold mines in Egypt and Centamin is proud to be at the forefront of a successful and sustainable new gold mining industry.



For more information on Centamin please go to

www.centamin.com

Energy Security



To keep pace with projected economic growth and provide much needed energy capacity in the region, Citadel Capital has invested in energy as one of its five core industries. Our integrated energy investments include refining, energy distribution, power generation and alternative fuels.

The Egyptian Refining Company, Citadel Capital's US\$ 3.7 billion greenfield oil refinery in Greater Cairo, which will

reduce Egypt's present day diesel imports by more than half, is a key component of Egypt's energy security and a direct solution to one of Egypt's most pressing economic problems.

Citadel Capital is the leading investment company in Africa and the Middle East with investments of US\$ 9.5 billion in 5 core industries: Energy, Transportation, Agrifoods, Mining and Cement.

Learn more today at citadelcapital.com



Citadel Capital S.A.E. is not affiliated with Citadel LLC of Chicago, Illinois, U.S.A

The Leading Investment Company in Africa and the Middle East

citadelcapital.com

Egypt Public opinion

Salafis risk credibility with backing for new regime

Islamists Nour party has alienated many of its core supporters, writes *Heba Saleh*

The rows of worshippers spilling on to the street outside the al Aziz Billah mosque in Cairo broke into chants against Egypt's ruling military as soon as Friday prayers ended. "Down, down with the rule of the soldiers," they shouted, flashing the four-fingered salute promoted by the Muslim Brotherhood as a sign of solidarity with the hundreds of its supporters who were killed when the military-backed government sent police to break up a massive Islamist sit-in in August. Al Aziz Billah, in the poor district of Zeitoun, is a Salafi mosque frequented by ultraconservative Islamists who aspire to a more purist implementation of Islam than that espoused by the pragmatic Brotherhood. But many of the worshippers here are furious with Nour, the main Salafi party, because it sided with the popular coup in July which ousted Mohamed Morsi, the elected president who hails from the Brotherhood. The party's political stance appears to

have alienated a portion of its former supporters. "Nour betrayed the whole Islamic current," says Salah Abu Abdel Rahman, a worshipper at the mosque. Almost two years ago, Nour stunned observers by its success in the first post-revolution election for a shortlived parliament which was later dissolved by court order. It garnered a quarter of the vote, coming second after the Brotherhood's Freedom and Justice party. But in contrast to Brotherhood cadres who have been fighting elections for decades, Nour's electoral achievement was all the more surprising because it came barely months after it was established as a party by an Alexandria-based informal religious organisation called the Salafi Da'wa – or the Salafi Call. This summer, in lending its backing to the ousting of an elected Islamist president and by, implicitly at least, acquiescing to the often brutal suppression of the Muslim Brotherhood, it appears to have taken a huge gamble with its support base. "I voted for Nour in the past, but never again," says Mohsen Nabhan, a businessman among the worshippers at the mosque. "I come from an Islamist family. There are about 300 of us, but not a single one will now cast his vote for Nour." Mohamed al Sayed, a teacher, says Nour has lost his support because



Power balance: Salafis hold a copy of the Koran during a religious protest Reuters

"it opted for a path opposed to that which the people chose". A poll by the US-based Zogby Research Services in September 2013 found that public confidence in Nour had dropped to 10 per cent from 29 per cent in May and 22 per cent in July. But Younes Makhayoun, the head of Nour, disagrees with those who argue his party has damaged its electoral chances. He says Nour has placed the "public interest" above its own narrow partisan benefit and that the people appreciate its actions. "We did not flatter Morsi because he belongs to the Islamist current," he

says. "The Brotherhood... are the reason the army stepped into politics. We advised them repeatedly and said we feared that the army would intervene, but they gave them the opportunity [through their mismanagement]." The party, which has cast itself as an implacable defender of Egypt's Islamic identity, insisted on imparting a heavily religious hue to the 2012 constitution written during the Brotherhood's brief rule and intended to pave the way for a stricter implementation of religious law. But, bowing to new realities after the ousting of Mr Morsi, it accepted a seat on a constitution-writing panel. Its leaders say they will urge supporters to vote "yes" in next year's referendum on the new charter, in which Islamist provisions have been watered down compared with last year's document. "The charter preserves Islamic identity and sharia," says Mr Makhayoun. "There is nothing in it which contradicts Islamic law and it does not allow legislation to be issued which conflicts with religious law." With the Brotherhood sidelined, there is little certainty about how Egypt's Islamist constituency will vote when parliamentary elections are held next year. Some observers fear that increased repression of the Brotherhood could backfire, destroying the credibility of the forthcoming election. Analysts, however, caution that Nour should not be written off. "I think they can get back on their feet," says Stéphane Lacroix, a professor at the Institut d'Etudes Politiques in Paris and an expert on Salafis. Mr Lacroix notes that the Salafi Call society has an infrastructure of branches that can still mobilise the vote. Keeping Nour on board has been an important objective for Egypt's military-backed authorities. The Salafis' endorsement of the new political order is regarded as necessary to an inclusive image after the suppression of the Brotherhood. Efforts were made to accommodate some of Nour's demands and last-minute changes to the constitution were made, with terms to which it had objected struck out. "The strategy of the Salafis is much more compatible with the state," says Mr Lacroix. "They don't want to govern but to have a religious presence in parliament. They want to have the religious field in exchange for some political quietism."

Immigrants flee as xenophobia rears its head

Nationalism Conspiracy theories fuel popular anger at foreigners, writes *Borzou Daragahi*

A fashion designer from Latin America visited Cairo eight years ago. She fell in love with Egypt and moved to the country, becoming enamoured with its textures and colours, and the easy familiarity of the vendors who sold her fabric. She joined a cosmopolitan scene of artists and models, designers and writers, Egyptian and foreign, Christian and Muslim. She rallied behind her Egyptian friends as they threw off the rule of Hosni Mubarak. And she sympathised with them as the country's economy and security slid in the revolution's aftermath. But after the July 3 coup against the elected government of Mohamed Morsi and his allies in the Muslim Brotherhood, she describes how a fiercely intolerant side of Egyptian society emerged. She has asked not to be named in order to avoid more trouble. **Mahmoud Salem, an influential blogger, is alarmed by rising hatred**

another for the educated wife of a diplomat," the American says. "Nationalism is used as the solution for Islamism," says Mahmoud Salem, also known as the blogger Sand-monkey, who has written about Egyptians' new xenophobia. He describes the xenophobes as self-serving. "It's the easiest way to point to a foreigner as the problem. Using xenophobia to expedite short-term political gains at the price of long-term political catastrophe is short-sighted." Under Mr Mubarak's 30-year rule, Egyptians complained their country's policy was subservient to US, western and Israeli regional aims. Part of the goal of the country's 2011 revolution was to restore what was felt to be a balance lacking in Egypt's relations with more powerful nations. "Unfortunately, that has morphed into anger at foreigners as well as conspiracy theories about western countries," Mr Salem says. The xenophobia this time extends to other Arabs, especially Syrians and Palestinians, some of whom are viewed as sympathetic to Mr Morsi and his Muslim Brotherhood group. After Syrians were reported to have joined pro-Brotherhood demonstrations, the public mood turned against Syrian refugees. The government introduced restrictive visa and security clearance requirements for Syrians, reversing a longstanding policy of visa-free entry. Talk-show hosts on private television channels whipped up anti-Syrian sentiment. "Syrians, if you meddle in our affairs, our boots will kick you in the streets," Youssef Hosseini, a talk-show host, told viewers on channel ONTV. The channel later apologised for his comments. One Syrian was stabbed more than a dozen times on a bus by youths who detected his Levantine accent. Thousands of Syrians have boarded rickety boats to escape hostility and difficult economic conditions in Egypt. Hundreds of those arrested while trying to leave have been detained and some have been deported. Syrian opposition leaders who had in Egypt carved out a space for political activity against Bashar al-Assad, the Syrian president, have been harassed or barred from entry. Under pressure, the opposition Syrian National Coalition has moved its offices from Cairo to Istanbul. "It's an absolute insane shame," says Koert Debeuf, a representative of the European parliament in Egypt. "There's nothing rational about this. It's a wave of 'everyone connected with the Brotherhood is bad'."



BUILDING FOR A BRIGHTER FUTURE



The OCI N.V. Construction Group ranks among the world's top global engineering and construction companies and operates under four distinct and separate business units. Orascom Construction targets large industrial and infrastructure projects principally in North Africa and the Middle East. We also have other subsidiaries that add influence in the US.

To complement our construction businesses, we have investments in manufacturers of fabricated steel products, glass curtain walling, paints and concrete pipes. We have the ability to invest in infrastructure and concession, as well as investments in two property management companies.

OCI N.V. is also a leading global fertilizer producer with nitrogen fertilizer plants in the Netherlands, the United States, Egypt, and Algeria and an international distribution platform spanning from the Americas to Asia.

OCI NV employs more than 75,000 people in 35 countries around the globe and is listed on the NYSE Euronext in Amsterdam.

www.orascomci.com