



 KCS Group Europe

**Country Risk & Threat Advisory Briefing  
Egypt**

November 2021

## Political Risk Advisory Briefing: Arab Republic of Egypt

Grey Area Dynamics Risk Rating of **79.06% (HIGH)**

Score	Colour	Rating	Description
< 100%		Very High	The assorted threats described are certain to have a derogatory effect.
< 83%		High	The threats are extremely likely to negatively affect the business.
< 66%		Very Possible	There is a strong likelihood of problems arising in this country.
< 49%		Possible	There is a fair chance of problems arising in this country.
< 33%		Low	There is a low likelihood of any threats impacting business.
< 16%		Very Low	There are virtually no impediments to successful business in this country.

Grey Area Dynamics (GADs) are all the risks, weaknesses and threats that have direct and measurable impact on businesses. They are a collective description of behaviours and factors that can at best, disrupt a firm, and at worst, close it down. Relevant to this market, the key division of Grey Area Dynamics is as follows:

	Legal	Illegal
<b>Active</b>	<ul style="list-style-type: none"> <li>Government policy and nationalism</li> <li>Overt and disguised ownership</li> <li>Bureaucracy and local government</li> </ul>	<ul style="list-style-type: none"> <li>Religious extremism</li> <li>Terrorism</li> <li>Civil unrest</li> </ul>
<b>Passive</b>	<ul style="list-style-type: none"> <li>Language &amp; dialects</li> <li>Media relations</li> <li>Pressure groups</li> </ul>	<ul style="list-style-type: none"> <li>Bribery &amp; corruption</li> <li>Vested interests and cronyism</li> <li>Patronage and nepotism</li> </ul>

*The GADs methodology makes the invisible risks, visible, and serves to differentiate between alternative variables in each climate.*

*For each Grey Area Dynamic, we calculate separate IMPACT, FREQUENCY and LIKELIHOOD grades from 1 – 100%. These scores are based on a combination of over forty years of expert analysis and opinion on the severity of a GAD and its direct/indirect effect on personnel and business operating in a given country. These impacts are reviewed and updated quarterly so as to maintain their relevance.*

*The formula of  $RISK = IMPACT + FREQUENCY \times LIKELIHOOD$  is then applied, and Standard Deviation employed across all 35 variants, to calculate the mean average GAD risk score (expressed as a percentage).*

*Not only does this allow decision-makers to get an immediate idea of the threat level, but also a deeper breakdown of which specific Grey Area Dynamics are in play, their severity and frequency, and how the divisions of legal/illegal, passive/active are weighted. This kind of information offers a substantial degree of clarity over how the GADs can independently affect a client, and how they may intersect with each other to create the threat profile in a given business environment – thereby allowing a client to better refine or prepare their business plan to take account of where the threats are understood to lie.*

## **Overview**

Egypt has had its share of problems at home. The Arab Spring of 2011 left Egypt in a tumultuous state for several years. Since the 2011 revolution, the military has become the governing body of the country, despite there being several elections since the initial revolution. Years of political instability, including revolutions, coup d'états, consecutive authoritarianism regimes, and the strong arm of its current president, has blighted Egypt's progress towards democracy.

The descent into authoritarianism could make it that much more difficult for foreign businesses wishing to enter the market. The power that el-Sisi has acquired could prove to be an additional barrier to those wishing to do business in his country. His absolute authority strongly indicates that the level of corruption, and the openness of it in his government, and in the nation, are very high. Such a level of corruption in states usually prove to be a major obstacle to successfully penetrate and operate in the market. While it is possible to navigate through these grey areas, firms need to be as well prepared and cautious as possible.

## **Politics**

President Abdel Fattah el-Sisi's iron grip in Egypt continues to elicit uprising and revolution among Egyptian citizens. In September 2020, several regions of Egypt saw thousands of people flood the streets calling for el-Sisi's resignation. Looking back on Egypt's 2014 constitution, which focused on guaranteeing freedom of speech, of thought and of expression to its citizens, clearly does not represent the Egypt of today. Under el-Sisi's rule, news and media are heavily censored, and government opposition and critics silenced by way of censorship, imprisonment and even state sanctioned killings. All of the above have been persistently denied by the el-Sisi government, although the evidence is stacked against them.

El-Sisi perceives himself as the almighty ruler of Egypt. His megalomania exudes through his oppression. The el-Sisi government took over the judiciary in 2017, and in 2019, el-Sisi installed compliant top judges to help pave the way for his proposed change in the constitution. Additionally, to add the cherry on top of the authoritarian cake, el-Sisi intends to block presidential term elections, giving himself presidential rule over Egypt until 2034. It looks as if el-Sisi is paving the way to join his fellow contemporaries and hall of famers, in authoritarian leadership. He is certainly following a similar path to President Putin and President Xi, both of which have amended the constitution to prolong their reign.

It seems that Egypt is descending into a military junta instead of a classic democratic government, and we have seen this become more of a reality over the past decade. Since the Arab Spring, the military has become the 'last line of defence' against authoritarianism and totalitarianism. Since then, more power has gone to the President and the military. The military took power after the revolution, removed the previous government, and now have a former top military official, who was the defence minister and Commander-in-Chief of the military, as the current President.

While many thought that the relaxation of the four-year-long state of emergency was a step in the right direction, the new proposed expansion of powers given to the executive and the military, has swiftly reversed this thought. The new expansion of national security powers will give the military, and the government, the same powers they had during the state of emergency, but without the actual emergency. Remember, this strengthening of the already egregious authoritarian government is all in the name of combatting terrorism.

Businesses should not be fooled by the relaxing of the state of emergency in Egypt. As shown, this does not mean the government is going to relinquish all of the powers they have acquired in the last four years. History has proven time and again that whenever a system of governance gains power, they do not easily give it up. This will be the same with Egypt today as it was forty years ago. The country is becoming more authoritarian than ever, and it will be worse this time around as the government is, more than ever, a virtual military dictatorship.

## **Economy**

Egypt has the second largest economy in the Middle East after Saudi Arabia. The country has undergone considerable diversification over the years and, since the 2000s, has made great strides to become a more market-focused one. Historically, Egypt has been one of the focal points for the global economy. The Suez Canal, arguably, transformed international trade when it was opened in 1869. Still to this day, Egypt is at the forefront of the minds of the USA, China, Russia, and others.

Over the last few years, Egypt has planned and started to transform the nation, and raise the living standards of everyone through Vision 2030 (a national agenda which aims to greatly increase the development of Egypt). Part of Vision 2030 will see many mega-projects come into fruition, which means there are very lucrative projects in Egypt's construction industry.

Already, huge construction projects such as the nation's first nuclear power plant in Dabaa, which has been funded by Rosatom (Russian state nuclear firm), and the construction of a \$23bn high-speed electric train (snatched up by Siemens), are some of the projects that have been awarded. However, there are apparently no shortages of projects to go around. Other mega-projects such as the construction of the Iconic Tower, the Octagon (new HQ for the Ministry of Defence) and the Oblisco Capitale, as well as general construction of new housing and buildings all over Egypt, are all part of the Vision 2030. There is great deal of opportunity for construction and general investment in Egypt and luckily, the government are open to all nations who have the funds. However, the competition will be a challenge.

Additionally, Egypt's emerging technology industry is also something that Western business should look out for in the coming years. At the moment, the tech industry contributes very little to Egypt's GDP (an estimated 2.6% for 2020/21). However, the government has plans to invest a considerable amount into the communications and technology industry to drive up the sector's GDP contribution to 5% by 2025. The lack of a technical infrastructure has always held a country like Egypt back, and has held many other African nations back, economically speaking. Again, the boost for the tech industry also supports the main economic goal of Vision 2030. Building a 'digital Egypt' through the development of not only the technological infrastructure, but also enhancing digital and financial inclusion, and ensuring information security. Naturally, this will not be a short-term policy as there is always room for growth and improvement in tech. Companies wishing to invest or be a part of the tech boom that is happening, and will continue to happen in Egypt, should get in now if they have not done so already.

The US, China and Russia all have vested interests in the Egyptian economy. They all invest a considerable amount into the nation and although China lags behind the West, in terms of investment, they are slowly, but surely, catching up. Early this month (at the time of writing this paper), Egypt and China signed an economic agreement to enhance their joint cooperation. This new agreement will make available several development financing grants benefiting Egypt's priority sectors, which will ultimately push forward Egypt's Vision 2030. China is already Egypt's largest trading partner, with a \$11bn USD trade deficit with Beijing. This new economic deal will undoubtedly increase this deficit, as well as the economic ties of the nations. This is something Western businesses need to consider if they wish to enter or expand in this market. China has invested an insurmountable amount of capital into not only in Egypt but the

entire continent. Africa has been China's focus economically for some time now, and Egypt is a key priority. So, there will be a considerable amount of competition from China, and they will unlikely be willing to share the market with Western firms. Therefore, firms should be very cautious when it comes to penetrating this market - especially careful when competing for government contracts - as they may gain the attention of their Chinese competitors.

### **Corruption**

Egypt's country corruption rank jumped from 106<sup>th</sup> place out of 180 countries, to 117 between 2019-2020. The latest figures from the Corruption Perception Index (CPI) show Egypt's corruption score to be 33/100 (the lower the number, the higher the corruption). Egypt's Penal Code, criminalising corruption and bribery, is all smoke and mirrors and country-collaborative lip service. The el-Sisi regime pulls these codes out of the hat and uses them as a baton and surgical removal tool.

In 2016, el-Sisi fired the country's top accountant, Hesham Geneina, for publicly exposing endemic corruption within the Egyptian government. In October 2021, Egyptian news had cited el-Sisi on the new reforms of the Judiciary at the annual Judicial Ceremony in June. He had stated he "will never interfere in judicial decisions". Except where the judicial system is still politicised: his brother is a top judge within the courts. He had issued a new decree coup in 2020, appointing three judges of his choice without consultation, and with the firing (and replacement) of 41 judges back in 2015. The heavily corrupt judiciary puts all businesses in Egypt at risk of unfair court outcomes, such as in decisions based on bias and favouritism.

Western businesses entering the Egyptian market are at high risk of becoming vulnerable to corruption. Businesses report payments and bribes are a frequent problem when dealing with import/export procedures, and within public procurement, much of the same. Bribery, expectant gifts, and unfair trade due to favouritism and patronage, are all serious problems.

Unsurprisingly, corruption within Egypt's police forces and military is high, with reports from firms citing more than two out of five businesses have had to give bribes when they had come into contact with the police. In July 2021, the Egyptian government put 600 police officers under investigation for corruption. Some officers had been found guilty and 'dismissed', whilst others had been suspended pending criminal investigation. Investigatory principles and ethics are deficient. Businesses relying on the police in matters of crime against their business

property/assets may either not result in investigation or will result in acquittals of perpetrators – leaving businesses at further risk.

While the above may make Egypt seem an undesirable market, proper and effective due diligence practices will mitigate as many of the issues as possible. Finding a ‘clean’ and ‘transparent’ partner in Egypt should always be a priority for a new firm entering the market. Thus, ensuring that businesses are not partnering up with entities that have a history of corruption or have disguised/politically exposed owners. Companies like KCS, can navigate firms through these grey areas, like corruption and bribery, to find suitable partners and mitigate the risks outlined above.

### **Social**

As mentioned earlier, in September 2020, people from Cairo, Giza, Suez, Alexandria, as well as other parts of Egypt, erupted into the streets calling for el-Sisi to be removed from power. These protests started on the anniversary of the 2019 protests, in which the demands for el-Sisi’s removal were the same. In 2019, thousands of mostly young people, went to the streets to show their disdain for their increasingly authoritarian leader. This was sparked by a video that detailed some of the mass corruption in el-Sisi’s government, which mentioned the sheer waste of public funds and how el-Sisi took “corruption to a new level”. Over 4000 people were arrested, including prominent lawyers and journalists. The 2020 protests can be seen as a continuation of the 2019 protests, although the reaction from the authorities were much harsher. Live bullets and tear gas were used on the protestors and at least five people were killed during the three-month long upheaval.

It is hard to say how likely another revolution is to occur in Egypt. The discontent among the people is certainly high and as we all know by now, the Egyptian people are a powerful force that has enacted a change in leadership. However, the difference between now and pre-Arab Spring is that el-Sisi has the backing of the military. He has, and will continue to use them, as the counterforce to these protests for as long as he can. Firms wishing to do business in Egypt will most likely have to deal with more protests to come, most likely in the major cities such as Cairo and Alexandria. The opposition to these protests will be harsh and will likely cause some disruption in those cities. However, at the moment, the likelihood of a revolution that mirrors 2011, is unlikely. El-Sisi and the military make it an increasingly distant reality.

## **Terrorism and security**

Terrorism remains a constant problem in Egypt, especially in the Sinai Peninsula. There are frequent reports of terrorist attacks in North Sinai. Most attacks are in the northeast corner of the governorate between Al-Arish city and the border with Gaza, but the whole of the North Sinai governorate is at risk. Most of the attacks in North Sinai are against the Egyptian government and military installations and personnel. However, attacks have been carried out against civilians suspected of working with the authorities and local religious minority groups. Daesh-Sinai (ISIS) is the most active terrorist group in Egypt. Most Daesh-Sinai attacks have targeted government, security forces and Coptic Christians, but foreigners have also been attacked. Their main area of operations is North Sinai, but the group has claimed responsibility for strikes in other areas including South Sinai and Cairo.

While most attacks in the last few years have been in the Sinai Peninsula, one of the most recent publicised attack was a bombing in Cairo in 2019, where twenty people lost their lives and over forty people were injured. The incendiary device was meant for a specific target but had detonated prematurely. There have also been attacks on Coptic Christians, although this has received minimal attention by the media in Egypt. Such attacks have included a 2018 attack when gunmen opened fire on a bus carrying Coptic Christians in Minya province, upper Egypt, killing seven people. Daesh claimed responsibility for the attack. Political and religious terrorism have plagued Egypt for centuries. Religious terrorism has survived throughout the centuries, albeit disguised in political robes. This is further exacerbated by propaganda and through the facilitation by governments – including state sanctioned discrimination and killings.

Despite the country recently coming out of a state of emergency, el-Sisi has made it very clear that combatting terrorism, and the security of his nation, remain a top priority for him. There is always going to be a risk of moving into any market, especially where sects of Daesh are active in regions of the nation. The last few attacks have not specifically targeted Westerners or Western businesses, although entering a market like Egypt would be taking a risk. In terms of reducing that risk, staying within the main cities like Cairo, and avoiding the Sinai Peninsula, should greatly mitigate the risks of terrorism.

### **The Coptic Christian Minority**

The Copts are deeply rooted in Egypt's ancient history and are the oldest Christian religion in the Middle East, dating back 42 CE. Their present-day plight is that of their historical one: Endemic persecution.

Copts are hardly represented in government affairs and are overtly discriminated against. There have been reports of Copts finding it difficult to access jobs, and have barriers to premium healthcare, housing, and access to a decent education. Coptic Christians have had to endure forced conversion to Islam, and women and girls are kidnapped never to be seen or heard of again. They are systematically forced into exile from their lands and homes, beaten, murdered, and their churches' building size, placement and gatherings are restricted by government.

The Coptic Christians suffer a double-edged sword. That of the persecution by the government directly (limits on churches, their structures, their placement, denial of permits, no appeal process, where they can worship, no conversions to Christianity and the dominating religion are that of Islam). They are dictated to about where they can live, and the el-Sisi government implements harsh blasphemy laws which keep the Copts subjugated. Moreover, their representatives in government, human rights, and media news, have been targeted, tortured, and murdered by the Egyptian police and military.

The Egyptian government does not (and without transnational intervention), will not, protect the Coptic Christian community. Genocide Watch considers Egypt at stage 8/10 of genocide – persecution. Stage 9 represents extermination and stage 10 is denial. This should rightly be a huge red flag to any business wishing to enter Egypt. Firms really need to consider doing business in a country, and with a government, that are happily watching a genocide unfolding on its own citizens. Not only are there severe ethical and moral issues to contend with, but also reputational ones too. No company wants to be seen essentially being complicit when it comes to genocide. Companies seeking to do business with Egyptian firms should do well to find ones who are, in no way shape or form, associated with the government, or at least ones untainted by the worst excesses of corruption or scandal.

## Summary

Civil unrest in Egypt rages on, from protests demanding the removal of corrupt government regimes. The el-Sisi regime controls the media and the news. It creates, and uses laws, to infringe upon, control and outright violate, human rights on all levels. Any opposition, activism and critics, are subjugated, imprisoned, exiled, or killed.

Not only does the el-Sisi Regime intend to control the media and its citizens from within Egypt; he has severely restricted external aid to Egypt. NGO's, human rights, and other organisations fighting for the rights of those living in (or working in) Egypt, receive little help.

In terms of the opportunities, the projects relating to Vision 2030 are too lucrative to ignore. Egypt is certainly open to any, and all, who wish to invest, and or compete, for contracts. Egypt plans on greatly developing and increasing the country's infrastructure and as a result, the living standards of its citizens. This is one of el-Sisi's economic priorities, of which already countries like China, have taken advantage.

Any business wishing to enter the Egyptian market, must do so with caution and expert due diligence. From sourcing the right partners and markets, and selecting the best regions, to navigating security issues like the threat of terrorism and civil unrest, and other issues such as corruption, bureaucracy, favouritism, nepotism, bias, and governmental intervention.