

Egypt

Thursday December 20 2012

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Crisis stalls progress to democracy

The country is mired in a political process that has laid bare its deep divisions and underscored the inexperience of its elites, writes *Heba Saleh*

Pregnant and clutching a small child with each hand, Naglaa Mohamed, a housewife from a poor Cairo neighbourhood, explains why she voted "Yes" to Egypt's controversial new constitution.

"I want the country to move forward," she says outside a polling station. If this charter fails to pass, she adds, the whole constitutional drafting process will have to start all over again. "Are we going to spend the rest of our lives doing this?"

Ms Mohamed's attitude reflects the exasperation felt by many Egyptians as their country has lurched from crisis to crisis since last year's revolution ousted the regime of Hosni Mubarak.

The end of three decades of authoritarian rule catapulted the Arab world's most populous nation into an unfamiliar, chaotic and sometimes violent experiment in democracy,

unfolding amid ever-worsening economic conditions.

A country seen as a test case of Islamist-led democracy remains mired in a political process that has laid bare its deep divisions and underscored the damaging inexperience of its elites.

The economy is faltering and the government has had to postpone to January its request for a \$4.8bn loan from the International Monetary Fund as political tensions undermine attempts to implement the unpopular measures required. The deficit has widened to an unsustainable 11 per cent in the fiscal year to the end of June and foreign reserves have dropped from \$36bn before the revolution to \$15bn, or just over three months of imports cover.

The polarisation between Islamists and more secular-minded groups that appeared after Mr Mubarak's removal has become even more entrenched,



Behind the mask: Morsi damaged attempts to cast himself as a president for all, falling back on Islamists for support Reuters

making compromise difficult and preventing the forging of a consensual constitution to serve as the blueprint for a new democratic order.

Mohamed Morsi, the Islamist president, had won elections by a hair's breadth in June and quickly moved to consolidate his power by retiring top generals who had tried to impose army tutelage over state affairs. By establishing the primacy of elected civilians, he bolstered his image and raised hopes at home and abroad of a smooth advance towards democratic rule, free from the destabilising inter-

Morsi won international plaudits for brokering a ceasefire between Israel and the Palestinians

ference of the unaccountable generals.

He won international plaudits in November for brokering a ceasefire between Israel and the Palestinians. In the same week, the government signed an initial agreement with the IMF, easing the fears of a disorderly devaluation of the currency.

More recently, the president has stumbled, provoking the worst political crisis since the revolution. Indeed, this month's referendum on a hastily-finalised charter drafted by a disputed Islamist-majority panel, from which liberals, leftists and Christians had walked out, exemplified the worst flaws of the transition.

The document is only part of the problem. While it reduces the powers of the president, limits him to two terms in office and enhances the authority of parliament, critics charge that it provides weak guarantees of human rights and lacks safeguards ensuring the equality of women. The

charter, moreover, allows the military to maintain a high degree of autonomy over its affairs and to try civilians. It gives unelected clerics interpreting Islamic law greater influence over legislation.

It is the process by which the constitution was brought to a referendum, which is taking place in two stages (the final phase is on December 22), that makes the charter all the more problematic.

To protect the drafting assembly from legal challenge, Mr Morsi last month issued an edict awarding himself temporarily sweeping powers. A week later the assembly wrapped up the document in an all-night session so it could be presented to a plebiscite ahead of schedule.

The president's aides have defended his decisions as necessary to protect the transition (and the constitutional panel) from hostile judicial

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Egypt

Upheaval hits plans for reform and agreement with the IMF

Economy Prolonged turbulence could lead to increased pressure on Egyptian pound, thus forcing a devaluation, reports *Heba Saleh*

Two years after the revolt that overthrew Hosni Mubarak and led to the election of Mohamed Morsi, the Islamist president, political uncertainty continues to cast a pall over the Egyptian economy, delaying reform, depressing investment and damaging job creation.

The government's decision to "postpone" by a month its request for a \$4.8bn loan from the International Monetary Fund has come as a serious setback to hopes of a speedy recovery. The U-turn followed uproar after the president decreed new taxes – which he promptly suspended – underscoring the difficulty of implementing tough economic measures in a country wracked by divisions over fundamental issues such as the shape of its new constitution.

The request for a postponement – which observers say is likely to mean a renegotiation of the agreement – came just three weeks after an initial deal with the IMF was signed in Cairo, raising hopes that the first steps towards a recovery had been achieved. The loan would extend a crucial lifeline to an economy suffering from the impact of recurrent political instability, which has slashed investment and tourism revenue and seen the rate of absolute poverty rise from 20 to 25 per cent.

The agreement with the fund would unblock pledged external finance to the tune of \$14.5bn, including the IMF loan. Officials also hope that it would encourage a recovery of investment and help stem the haemorrhaging of

foreign reserves. These had fallen from \$36bn at the end of January 2011 to \$15bn at the end of November, just above the critical three months import cover.

"Political stability has been the missing driver," says Alia Moubayed, senior economist at Barclays Capital. "In the case of Egypt, it is important, given the nature of what is required to achieve macro stability. The economy requires flows from abroad, whether of tourists, remittances or capital. Tourism has slowed down and, although remittances have remained resilient, this may not be guaranteed if we look at the experience of other countries. Investors need clarity on the political outlook and this has not been provided."

A minimum of stability will be necessary for the implementation of any reform programme agreed with the IMF. The deferred agreement aimed to reduce the present 11 per cent deficit to 8.5 per cent in the fiscal year that starts in July 2013. Its twin pillars are a gradual reduction of fuel subsidies, which cost \$17bn last year – about a fifth of government spending – and increasing tax revenues through improved collection and the introduction of a value added tax.

Analysts described the 22-months programme as "backloaded", meaning the bulk of the difficult reforms would take place in its later period when, it was hoped, the country would have functioning and credible political institutions, including an elected parliament.

Such is the political sensitivity of



Christine Lagarde, IMF managing director, before the loan deal was postponed Reuters

'Reserves are low and political instability may mean accelerated capital flight'

the reforms that Mr Morsi decreed, and annulled within hours, sales tax rises on a range of goods, including cigarettes, oil, cement and fertilisers.

The timing of the increases, a few days before the scheduled referendum on a new constitution, had apparently raised fears that it would swell the ranks of those who planned to cast a No vote. The president's Freedom and Justice party objected to the rises. As Egypt heads for parliamentary elections in the coming months, it seems likely that Mr Morsi will hold off from any measures that would hurt the electoral chances of the FJP.

Rationalising and improving the targeting of energy subsidies is seen as crucial to any economic reform, with or without an IMF deal. At present, Egyptians of all social classes have access to subsidised fuel, including petrol and butane gas for domestic use. The system has long been criticised as wasteful, abused by black marketeers and benefiting the rich more than the poor.

Previous governments, however,

consistently deferred any attempt at reform for fear it would be inflationary, add to the burdens of the poor and trigger a social backlash. The Mubarak regime, with its rigged elections and legitimacy deficit, never felt confident enough to make changes.

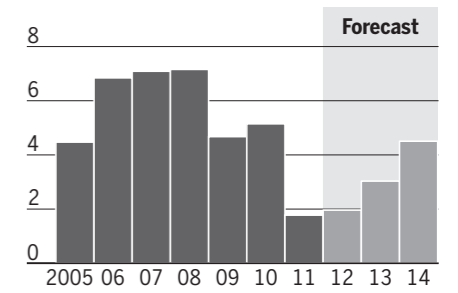
The current government, under the leadership of a democratically elected president, has committed itself to doing so through the introduction of a smart card system to ensure that only the poor have access to cheap fuel.

It has also started by raising the prices of the highest octane fuel on the market which is normally used by the well-off. The savings are tiny but the gesture is intended to signal a determination to press on. Analysts caution that it might prove difficult to proceed with the reforms, given current upheaval.

"The government programme looks quite ambitious," says William Jackson, emerging markets economist at Capital Economics, a research consultancy. "It is likely there will be some slippage with politically unpopular

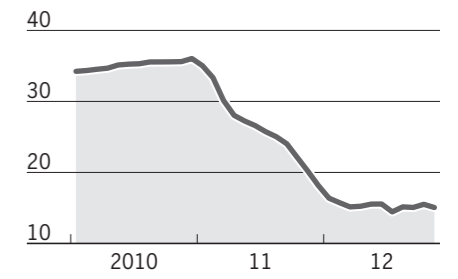
GDP growth

Annual % change



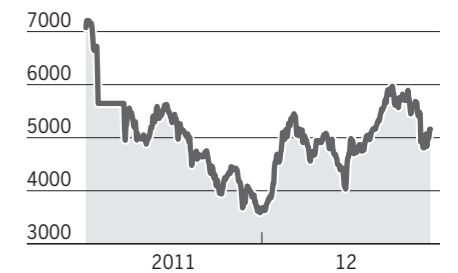
Foreign reserves

\$bn



Stock market

EGX 30 index



Sources: IMF; Thomson Reuters Datastream

polices such as subsidy reductions. If the political situation stabilised, we could see a return of capital investment and the economy might start to accelerate, which would increase government revenue, making fiscal consolidation an easier task."

A recent note by EFG-Hermes, the regional investment bank, described the government's deficit reduction target as ambitious.

"We see this target as quite difficult, given implementation challenges pertaining to intensive administrative work required [in putting in place a smart card system] and the tough political environment."

But, prolonged turbulence, analysts fear, could lead to increased pressures on the Egyptian pound, forcing a devaluation. "Reserves are low and political instability may mean accelerated capital flight," says Mr Jackson.

"The central bank will have to choose between allowing this flight to happen [and the value of the pound to drop] or propping up the currency and losing more reserves."

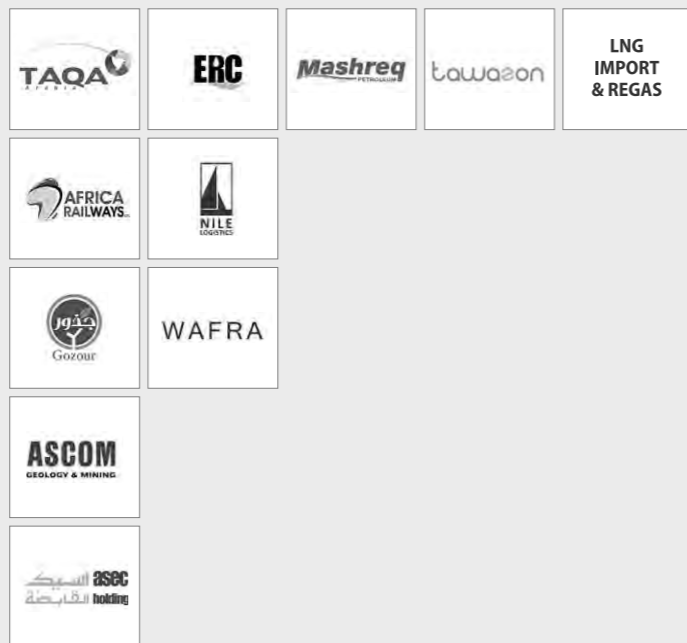


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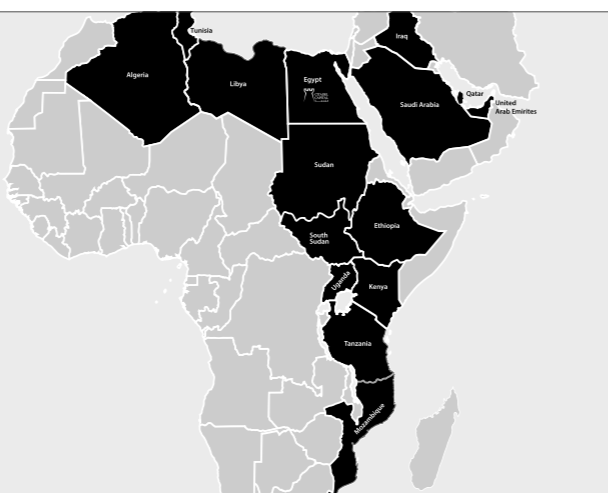
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CORE INDUSTRIES

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- Agriculture and consumer foods
- Mining
- Cement manufacturing

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Aspiration Entrepreneurs discover a new kind of comradeship

Surrounded by a welcoming audience of potential investors and young entrepreneurs sitting on colourful cushions, Ahmed Galal confidently pitches his ideas for Tasky, a proposed internet service matching services to customers, in a room at Flat6Labs, a tech incubator.

Aspiring entrepreneurs such as Mr Galal have turned to the Silicon Valley-inspired Flat6Labs for seed money, mentoring, workspace and logistical support to get their companies off the ground.

More than anything, it is a font of ideas, a rare environment allowing a blossoming of talent and entrepreneurial potential that seems a world apart from the gritty cash-and-carry economy outside its doors. In collaboration with the business school at the American University in Cairo, Flat6Labs was launched just

after the 2011 revolution and funded by Sawari Ventures, a venture capital firm. At the beginning of each accelerator cycle, start-ups such as Tasky are given between \$10,000 and \$15,000 in seed money in exchange for a 10 to 15 per cent stake in the company.

"The digital world is groundbreaking because it is cost-efficient, innovative and easily adaptable to different markets," says Flat6Labs chief Ramez Mohamed.

Since its establishment, the group has helped more than half of its 18 companies obtain second rounds of investment from angel investors and corporations. Five to seven start-ups are chosen for each cycle from more than 100 applicants. One of its most successful start-ups has received commitments of investments as high as \$350,000 in less than a year, says Yasmine



Ramez Mohamed, Flat6Labs

Kamar, a financial analyst at Flat6Labs. The company asked not to be named.

Venture capital money is tight in Egypt, with few willing to back entrepreneurs. Many small businesses struggle to overcome legal obstacles in an investment system that mainly benefits large companies. "Legal processes can be slow, bureaucratic and inefficient," says Ms Kamar.

The mostly young entrepreneurs at Flat6Labs

hail from all walks of life but are mostly anglophone college graduates. A former dentist, 31-year-old Mr Galal decided to dedicate his life to business.

He wants to help clients navigate the huge informal services sector, providing a marketplace for people to locate short-term services such as translating, paying phone bills, even fixing a lavatory. Tasky would take 15 per cent profit for each transaction. As Mr Galal tried to answer one critique of his project, another young guest in the audience suggested creating a profile for each user with a photograph, a rating and reviews system and background history.

Mr Galal welcomed the feedback and pondered a money transfer system that would ensure transactions are completed only when all users are fully satisfied.

Leyla Doss

Crisis stalls political progress

Continued from Page 1

institutions intent on sabotaging it.

Mr Morsi's moves enraged the judiciary, which launched a continuing nationwide strike. The opposition – similarly infuriated – mobilised hundreds of thousands of Egyptians in its largest ever rallies. These tapped into a seam of discontent and fear of the Islamists.

Perhaps most damaging, Mr Morsi undermined his attempts to cast himself as a president for all Egyptians, falling back for support on the Muslim Brotherhood and the more puritanical Salafis.

The discontent was apparent in the first round of the vote on the constitution. Initial results show that only 57 per cent of voters approved the constitution, while 43 per cent opposed it. Turnout was low at 32 per cent. In Cairo, Egypt's political, economic and cultural nerve centre, the charter was rejected by 57 per cent of voters.

Despite the stark divisions and the angry rhetoric, most analysts predict that the constitution will pass, with the second round

of voting in rural areas favouring the Islamists.

Although the opposition was effective in mobilising street support against Mr Morsi's moves, a newly-forged alliance headed by Mohamed El Baradei, the Nobel laureate, is seen as weak and disorganised.

It brings together former presidential candidates, new political parties and revolutionary activist groups with little campaigning experience.

It includes popularly discredited figures identified with the former regime – a weakness that has opened it to attack from Mr Morsi's supporters.

Analysts say the bruising ride for Mr Morsi has given the opposition an opportunity to test the extent of support it could muster if it managed to organise for the parliamentary election and offered political initiatives that went beyond rejection of the Islamists.

"They have to learn the lessons taught by their failures over the past two years," says Mirette Mabrouk, a non-resident fellow at the Brookings Institution.

"They also have to take the opportunities afforded by Morsi's actions and

translate them into a cohesive drive to compete with the Islamists."

The latest crisis over the constitution signals the potential for further instability, which is likely to hamper economic recovery. Footage of street fighting on television dissuades tourists from visiting the country and investors will continue to hold back until there is some certainty about the future.

Analysts say the pending parliamentary elections in which Islamist parties hope to secure a majority are likely to delay painful decisions. Some speculate that Egypt's strategic importance is likely to mean that the international community will push for a rescue package to prevent economic collapse.

"The brotherhood is winning power, but they are losing credibility," says Khalil al-Anani, a political analyst. "This will face them with a difficult situation when it comes to ruling. There are tough economic decisions ahead and people may trust them less. Their mistakes are damaging their image and that of Morsi. They are treating him as their man in the palace."

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Egypt

Distinct camps find little common ground

Politics *Borzou Daragahi* considers an atmosphere that is not conducive to the consensus needed to make tough choices about the nation's future

On streets and in marketplaces, in offices and factories, the much discussed great divide between the two Egypts – one secular and liberal, the other religious and conservative – is rarely clear-cut.

Though they may wear suits and ties, the self-described political liberals are often culturally conservative, pious and sometimes nationalistic to the point of xenophobia. Though they may advocate Islamic law, its newly surging Islamists often embrace globalisation and see their religion as an antidote to the stifling political culture enforced for decades by authoritarian regimes.

So it was perhaps not inevitable that, once it collapsed, the unlikely ideological coalition that brought down President Hosni Mubarak in last year's revolution would break down into two diametrically opposed camps rooted in cultural identities rather than more easily negotiated economic or political interests.

Yet, in the confrontation over the country's constitution, it did just that. Thanks in large part to the bumbling, opaque machinations of President Mohamed Morsi and in smaller part to the political inexperience and paranoia of his rivals, Egypt finds itself starkly divided between two distinct camps with little common ground, an atmosphere not conducive to the broad consensus needed to make tough choices about the future.

Politics has been made more poisonous by shrill rhetoric on both sides. Privately owned media linked to the liberal camp all too willingly propagate false rumours about the Islamists' intentions. Ultra-conservative Salafi Islamists contribute to a fear of a future in which freedoms are restricted by a regime similar to those in Saudi Arabia or Iran by preaching that girls should be allowed to marry at puberty and decry their opponents as corrupt infidels.

"Increasingly, you're seeing two worlds that don't intersect," says Shadi Hamid, an analyst at the Brookings Doha Centre. "They have their own politics, their own organisations, their own media outlets. They've become very insular. Their narratives about the world around them, about Egypt and what it is, have diverged



The scene has been made more poisonous by shrill rhetoric

considerably. That makes dialogue very difficult. The sides aren't beginning from the same starting point. They can't agree on what the reality is."

At the heart of the dispute are nation-defining questions about democracy, public space and the role of the state. The two sides are often described as political Islamists who wish to impose Islamic values on the broader society versus those who demand some measure of separation between religion and state. In reality, the debate is less about religious doctrine than how much the state should uphold traditional values. Mr Hamid,

writing for Foreign Policy magazine online, described two different visions – one that seeks to promote the virtuous society, family and individual and one that is ideologically neutral.

"In a public place, the greater public benefit is much more important than individual freedom," says Gehad Haddad, a spokesman and strategist for the Muslim Brotherhood. "If a girl wearing a bikini is offensive to 100 people who are not, then the 100 have the say; she should not wear it on the public beach. At the same time, she can wear it on the private beach. She has the right. At the end of the day, there has to be a rule toward the public benefit. We all wear seat belts."

Underlying the ideological battle is a competition between the emerging Islamist political and technocratic elite and the old intelligentsia it is seeking to replace. Islamists such as Mr Haddad say Egypt's corrupt, secular liberal nomenklatura have not only looted and mismanaged the country since the 19th century, but have repeatedly prevented reform by the Muslim Brotherhood and its antecedents. Liberals accuse the Brotherhood and its allies of instrumentalising religion in a quest for absolute political and social power.

"It's a polarisation between Islamist

Debate: panel meets to thrash out the draft constitution AP

forces who are after a highly defined identity-based project to see a more Islamised Egypt," says Lina Attalah, editor of the English-language Egypt Independent. "The other camp is a revolutionary camp that wants to see a democratic Egypt that allows multiple identities to exist."

The two sides scream past each other. Islamists accuse their rivals of being decadent loyalists of the former regime. Liberals accuse Islamists of fooling poor, illiterate masses into supporting them.

"It looks terrible but it's natural," says Mr Haddad. "After almost every revolution there's a lot of confrontation and bloodshed, or the most powerful element gets on top by killing everyone else. This type of peaceful revolution and transformation into a peaceful democratic process hasn't happened. We're all amateurs in the scene of politics. The only defining characteristic of the scene is a huge mistrust."

Mr Morsi has failed to address the mistrust by offering a more inclusive process, embracing some of the newer opposition groups which, during presidential elections, gave him the benefit of the doubt over a rival seen as embodying the ousted regime. His drive to push through a constitution, despite the opposition of many Egyptians, scuppered any chance of a broader political consensus.

With the ideological rift so stark the challenge for Egyptians is to channel the political differences so they are played out by politicians and jurists within institutions, such as the parliament or the courts, rather than stonethrowing and gun-toting surrogates on the streets.

Debate is still possible. On Tahrir Square recently, a smartly dressed man defended the constitution to a group of poorer looking young men and women opposed to it. The discussion was heated but amicable.

"The two sides do interact and there is still dialogue," says Said Sadek, a professor of political sociology at the American University in Cairo. "You can take a cab and argue about it with the driver. I have friends who are Islamists. We quarrel together. The problem is this constitution and the debate around it has divided Egypt. That makes it harder to find common ground."

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Egypt

Violent swings characterise trade on bourse

Stock exchange Turbulence mirrors lapses in political transition, says *Amira Salah-Ahmed*

The country is looking to introduce a capital gains tax, which is something unprecedented for the oldest stock exchange in the Middle East and north Africa. However, the tax's dependence on initial public offerings (IPOs) may mean paltry returns.

As part of an economic programme presented in November to the International Monetary Fund to secure a \$4.8bn loan, the government proposed, but is yet to draft, a law that would levy a 10 per cent tax on corporations' profits from flotations.

The tax will be on the first transaction of the listed securities in the secondary market, and mainly targets owners of shares rather than regular traders. In a bid to broaden the tax base and combat a widening budget deficit, there are also plans to tax profits from mergers and acquisitions and demergers.

Taxes will be imposed "on acquisitions if the deal exceeds 33 per cent of the company's capital or shareholder rights", says Momtaz al Said, finance minister. What is not calculated into the plan is the near non-existence of IPOs or M&As over the past two years, which calls into question the size of possible tax revenues the government is hoping to raise.

Mohamed Omran, executive chairman of the exchange, says: "The IPO market is related to political stability, which entails improving the investment climate, having trust in the economic system and creating clear economic policies. We're assuming that political stability will bring economic growth."

Though a far cry from a previously proposed 10 per cent tax on profits from normal trading or dividends, a decision that was swiftly and unceremoniously shot down in 2011, some say it also risks dousing investor appetite. Without the necessary envi-

ronment to make investment opportunities clear for companies, there is little to prompt them to seek access to finance for expansion or growth, the primary reason companies list in the first place.

While some argue that a tax of this kind has been long overdue, others are wary it may deter companies from going public to expand, in turn, hindering instead of encouraging investment in an already feeble IPO market.

A capital gains tax "is utterly non-conducive to investors in the real economy", says Hisham Tawfik, Arabeya Online Securities chairman. "It's depressing to investors and increases the unattractiveness of our market," he adds; "trading in secondary markets is not taxable but direct investment is".

Mr Omran disagrees: "I don't see any significant reason why companies would be deterred from listing." Companies list "to expand their ownership base, have a better exit strategy and valuation and implement better governance, disclosure and transparency systems," all factors that will remain attractive options for businesses.

He also foresees no harm being done to daily trading. "There were rumours of a capital gains tax on trading before, so at least this issue is closed," he says.

Since the uprising, trading on Egypt's market has been characterised by violent fluctuations. At the outset, it lost 16 per cent of its value in two days, leading to a two-month closure.

Upon reopening, performance was weak throughout a mismanaged transition to civilian rule extended by the ruling army council that came to power after Hosni Mubarak's removal.

Two days before the first anniversary of the uprising, and in the calmest month Egypt had seen in a year, an elected parliament was seated and

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Bad day at the office: trader reflects the mood as the market loses ££29.3bn of its capitalisation Getty

the pretext for a solid transition appeared to be in place. The market soared, recouping some of the losses and gaining its ranking as the best performing in the region.

Still, sharp crests and troughs continue to mirror lapses in Egypt's political transition. "I don't see this title of 'best performing market' as sustainable," Mr Tawfik says. "Yes, the performance this year has been great but that's because the previous year was so bad."

The market plunged most recently as a result of renewed clashes and fierce opposition to President Mohamed Morsi's November 22 constitutional declaration (later reversed), which gave him unprecedented sweeping powers.

On November 25, the market lost ££29.3bn of its capitalisation, its third largest single-day drop, which would have been higher if it had not been for the circuit breakers that halted trading for 30 minutes. It has since slightly recovered.

Hopes of the IMF deal ushering in the start of a recovery have been dashed with the developments of the past weeks. Mr Tawfik says: "There was no co-ordination [with stakeholders]. The 'revolution government' thinks it can do whatever it wants," and that priority should be given to introducing more sophisticated instruments.

Mr Omran says the government is doing just that, with plans to introduce exchange traded funds in 2013, as well as talks on issuing sharia-compliant sovereign bonds and finalising sukuk regulations.

Hopes of the IMF deal ushering in the start of a recovery have been dashed in the past weeks

Halawa maker takes product to new worlds

Profile
Ahmed el Rashidi

Low imports boost profits, writes Amira Salah-Ahmed

For more than a century, the El Rashidi family has been the leading name in Egypt in the business of making halawa and tahini, sesame-based staple items in any local kitchen.

Established in 1889, El Rashidi El Mizan (REM) is one of the oldest companies in the country. Ahmed el Rashidi is not only running the company his grandfather established, but he is also managing director of the food division at Gozour, an agribusiness company that acquired REM five years ago.

Gozour is a subsidiary of Citadel Capital, the Cairo-based private equity firm that operates in a range of sectors across the Middle East and Africa.

In line with Citadel Capital's regional expansion strategy, Mr el Rashidi says REM is eyeing Algeria and Saudi Arabia in the coming two years, either for acquisitions or for greenfield investment.

There are plans to inject ££100m into the company over the next five years. "We are looking to grow the company dramatically," he says. "Citadel Capital is keen on growing all of its investments."

In the five years since the acquisition, he says, the company has grown twofold as a result of investments of about ££100m in capital expenditure and machinery.

It also introduced new lines three years ago when it began producing jam



Sesame sweets: a factory worker checks the goods ILO

and tomato paste.

In 2009, REM acquired Sudan's Al-Musharraf for \$19m, its first step beyond Egypt outside of export operations.

"The company was in complete chaos but we rebuilt it and are fully present now with a decent market share in Sudan," says Mr el Rashidi.

REM's story is unusual in Egypt in that the company was never nationalised under late president Gamal Abdel Nasser. It remained a family-owned enterprise until the 1990s.

In the late 1990s, its holding company was acquired by Best Foods of the US, which later merged with Unilever. The goal was to gain a footing in the global market, attain knowledge and expertise and diversify the business.

In 2002, Actis, the UK equity fund, acquired 65 per cent. It was then sold to Citadel Capital in 2007.

Locally, REM has a vast distribution network that reaches 91 per cent of the consumer market. It also exports at least 50 per cent of production to about

50 markets, including big retail chains in the US and Japan.

Leveraging on exports has helped the company survive the past two years of political turmoil and even expand product lines. In 2011, it launched what Mr el Rashidi describes as a "breakthrough"

innovation: halawa in spreadable form. In July, it launched the chocolate flavoured version during the Islamic holy month of Ramadan. "Despite the economic situation, the [two products] have shown growth in numbers in national and export markets... exceeding our expectations," says Mr el Rashidi.

"As we always say, invest when no one is investing and you'll always get good results," he says.

Manufacturing products in-house means that the company's labour costs and raw materials are in Egyptian pounds, with no imported components, which works wonders for expanding profit margins. "You are converting 100 per cent purely Egyptian product with zero imports, to an exportable product. It's very strategic," he says.

Asked how the seemingly impending devaluation of the Egyptian pound will affect business, Mr el Rashidi comments that the fast-moving consumer goods market is less concerned about the pricing, and more concerned about the effect on purchasing power.

In 2011, the company garnered 52 per cent of the local market share in halawa and 70 per cent in tahini, according to Citadel Capital, and became the number two jam producer in Egypt.

"We have an aggressive model in our goal to be the largest sesame producer in the world."

Quick action sought to fix industry woes

Business environment Decision to defer IMF deal has come as a serious setback, writes *Heba Saleh*



Held up: port strikes are just one of the problems Reuters

When Mohamed Morsi, Egypt's Islamist president, travelled to China on one of his first official trips abroad after his inauguration, he took with him dozens of businessmen, including several known to have been close to the ousted regime of Hosni Mubarak.

Mr Morsi's liaison with the business community, Hassan Malek, an entrepreneur from the president's Muslim Brotherhood group, had assembled the delegation and news reports said he included those who already had ties with China.

It was a sign, analysts argue, that the ever-pragmatic Brotherhood, faced with the daunting task of reviving business confidence, had decided to build bridges with Mubarak-era entrepreneurs instead of launching a "purge", as some had feared.

"They are interested in reconciliation, even with businessmen accused after the revolution of misdeeds such as acquiring government assets cheaply under the previous regime," says Mohamed Abu Basha, Egypt economist at EFG-Hermes, the regional investment bank.

Indeed, with continuing political turmoil blighting the economy, the country's new masters can ill afford to alienate investors, old or new. What is needed, analysts and entrepreneurs say, is quick action to address the problems bedevilling the business community.

But the government's decision to defer for a month its request for a crucial \$4.8bn loan from the International Monetary Fund, has come as a serious setback.

The fear is that the loan may have to be renegoti-

ated, causing fresh delays. Political turmoil and impending elections, in which the president's Islamist allies want to secure a large share of the vote, are likely to make it difficult, observers say, to implement an IMF-prescribed programme of tough reforms, cutting subsidies and raising taxes.

Business had been pinning hopes on the loan because an agreement with the fund would unblock aid to Egypt from other external sources, helping to stabilise the economy and protect the currency from a disorderly devaluation.

Apart from uncertainty over the IMF deal, entrepre-

An agreement with the fund would unblock aid to Egypt from other external sources

neers list a litany of woes blighting the business climate. These range from officials afflicted with what Egyptians call shaky-hand syndrome - namely refusing to sign off on decisions - to labour unrest and energy shortages.

"Officials are terrified," says a prominent businessman.

"They know they may not be in their positions for long, so why take the risk of making decisions. It is holding up everything and it is on all levels from ministers all the way down."

Corruption cases brought against Mubarak-era ministers and bureaucrats in the early period after last year's revolution account for the

nervousness, analysts say. "There is a general caginess around signing off on big projects. Some large projects have been put on the back burner because government officials have become wary of putting their name on agreements," says Ania Thiemann, an economist with the Organisation for Economic Cooperation and Development, who has conducted a survey of the business community. She notes that investors are concerned about the reversal of government decisions and the renationalisation of privatised assets.

Last year, the courts ordered the return to the state of three companies sold to private investors during the Mubarak era. In October, a court voided a contract between Centamin Egypt and the state under which the London-listed company operated a gold mine in the eastern desert.

The company appealed but suspended operations briefly after it received what it described as an "illegitimate" official demand for \$65m for past supplies of diesel fuel.

It said the government was refusing to authorise fresh supplies until it paid up. The availability of energy is another problem that has emerged in the past two years. A mismatch between demand and power generation capacity has led to blackouts for households and industry.

The government has authorised the private sector to import liquefied natural gas. Citadel Capital, a private equity firm, said last month it had negotiated an agreement with Qatari investors to import liquefied natural gas. If

given a green light, the firm says, imports could start by next summer.

"The ministry of electricity is experiencing very tight liquidity conditions and has been having difficulty obtaining funding for the required investments to upgrade and build new power plants," says Mr Abu Basha.

"The increased pressure on the existing power stations has forced some shutdowns. Factories were forced to close for a day or two last summer and, most recently, fertiliser companies have been experiencing gas shortages."

Mostafa al Halwagy, chairman of the industry and trade committee at the American Chamber of Commerce, paints a bleak picture of the experience of manufacturers which, he says, face problems at every step of the production process, from tight credit conditions imposed by foreign suppliers to port strikes, labour unrest and rising crime on certain domestic transport routes.

"If you are exporting, you then have the challenge of going again through customs and ports and finding buyers because some of them have cancelled contracts due to unreliability and delays," he says.

The chamber continues to receive inquiries from potential investors who are "looking beyond the current turmoil".

"Every single month we ask our members and they say that they are still implementing expansion plans," he says.

"I know of no company that has said it has frozen or cancelled plans. It reflects a confident longer-term view of the potential of the country."



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Egypt

Pragmatism marks policies towards neighbours

Foreign relations Cairo cannot afford to make new enemies or lose old friends, writes *Borzou Daragahi*

For decades, Israeli-Palestinian conflicts tended to degrade Arab leaders, humiliate them before their own people and highlight their impotence on the world stage.

Within months of President Mohamed Morsi coming to office, he accomplished what has eluded many a world leader: he looked reliable, and more effective as a result of yet another armed conflict between the Israelis and Palestinians.

Exploiting ties between the Muslim Brotherhood movement from which it hailed and Hamas – the Palestinian militant group fighting Israel – Egypt's leadership managed to serve as guarantor for a tenuous truce that prevented Israel's Operation Pillar of Defence from escalating into a ground offensive in November.

In the months since Mr Morsi's ascent, Egypt's policies towards its neighbours, the region and world powers have been characterised above all by the cautious pragmatism of a economically weak nation that cannot afford to make new enemies or lose old friends.

That goes especially for the oil-rich nations of the Arabian Peninsula where millions of Egyptians work and send home remittances.

"You will see new nuance, new accents in the foreign policy but you will never see a radical change in Egyptian foreign policy," says Mustafa Labbad, director at the Sharq centre for strategic and international studies.

While not quite marking the re-emergence of Egypt as the important international operator many Egyptians had hoped for following President Hosni Mubarak's departure, the new Egypt's role in the Gaza war highlighted a significant shift: post-Mubarak Cairo will maintain a broader diplomatic portfolio that will be less obsequious to US and Israeli demands, be more willing to engage with the region's non-state groups and be a less reliable member of the western-backed Arab bloc countering the ambitions of Iran and its partners.

Those tendencies were highlighted by Mr Morsi's trip to Iran for the 2012 Non-Aligned Movement summit, as well as his warm embrace of the



Mohamed Kamel Amr, the foreign minister (left), with his Turkish and Palestinian counterparts

Post-Mubarak diplomatic policy will be broader and less obsequious to the US

Islamist-leaning Syrian opposition to Bashar al Assad.

Both moves were widely hailed by the Arab masses, suggesting that the Egypt's revamped foreign relations will be more responsive to popular demands.

Once taken for granted as a vassal of Washington, the new Egypt finds itself courted by more international operators, especially Turkey, which claims a leadership role in the Arab Spring revolutions sweeping away long-ruling dictators.

Recep Tayyip Erdogan, the Turkish prime minister, has actively courted Mr Morsi. Egypt's leader has visited Ankara and welcomed a huge Turkish diplomatic delegation to Cairo.

"In a way, [Cairo wants] to deal with anyone and extract anything from anyone whether it's the region or the countries of the Nile river basin or Russia or China," says Steven Cook, an Egypt expert at the US Council on Foreign Relations. "It's not going to be this kind of one dimensional relationship to the rest of the world."

"They want Egypt to be a regional

power again and not just in name." Still, analysts say, Egypt's basic geopolitical manoeuvring space remains tight. Despite the welcoming red carpets, Turkey, a non-Arab state with high ambitions in the Arab world, competes with Egypt for regional clout.

Mr Morsi's hardline Sunni Islamist supporters will prevent him from fully embracing Shia Iran, especially over its backing of Mr Assad's regime in Damascus. Dependent on US and western aid and loans to prop up its economy, Egypt may be hard-pressed to pay more than lip service to the Palestinian cause, even when the public is outraged over perceived Israeli transgressions.

Though Mr Morsi has embraced Turkey's moderate Islamist leadership, sought to expand ties with China and Europe and even dangled the prospect of better relations to the Iranians, within days of being crowned president, he boarded an aeroplane for Saudi Arabia, long the linchpin of foreign policy. There, and in public and private messages, Mr Morsi attempted to reassure the

oil-rich monarchy's sceptical leaders that Egypt would not try to export its revolution.

"We will not allow ourselves to interfere in the internal affairs of any country in the same way that we will not allow any interference in our affairs," Mr Morsi said in a speech last summer.

But even the contours of the relationship between Egypt's most important neighbour and economic partner have changed. Gone is the warmth that characterised ties between Mr Mubarak's Egypt and Saudi Arabia's rulers.

The relationship between Cairo and Riyadh might now become based more on mutual fear than on respect or genuine goodwill.

"Saudi is afraid that the Muslim Brotherhood would export its ideology and Mohamed Morsi and the Muslim Brotherhood are afraid that Saudi would cut off its financial lifeline," Mr Labbad says.

"Both sides are smiling alongside each other but both sides are only willing to keep a minimum of relations."

US finds itself with few choices and limited influence on Cairo

View from Washington

The administration is under pressure from all sides, says *Geoff Dyer*

The Obama administration had little real idea of what to expect when Mohamed Morsi was elected as Egypt's president in June. However, the US came to the conclusion there was little option but to try to engage fully with the country's new Islamist leader.

US officials took the view that if they wanted to encourage more moderate sections of the Muslim Brotherhood and to lock in support for the peace treaty with Israel, the administration needed to forge a strong working relationship with the new president.

After a hectic month in which Mr Morsi helped resolve the crisis in Gaza and then launched what looks to most observers like a power grab at home, the White House finds itself in exactly the same position – unclear about Mr Morsi's intentions, but with real few choices and limited influence.

Barack Obama got off to a difficult start with Mr Morsi when the US embassy in Cairo was attacked on September 11 by a mob protesting about an anti-Islam video. While Washington expected a swift denunciation of the invasion of its embassy, Mr Morsi was initially quiet, only voicing criticism a few days later. Mr Obama's irritation was evident when that same week he told Telemundo, the Spanish-language television channel: "I don't think that we would consider them [Egypt] an ally but we don't consider them an enemy."

Mr Morsi had his own pointed remarks for Washington when he attended the UN general assembly later that month. "Successive American administrations essentially purchased, with American taxpayer money, the dislike, if not



Hillary Clinton, secretary of state, with Mohamed Kamel Amr

the hatred, of the peoples of the region," he said in an interview with the New York Times before his trip.

The first sign that the two leaders might strike up a strong relationship came with the November crisis in Gaza, when Israel was threatening to launch an invasion in response to rocket attacks. Mr Obama talked with Mr Morsi three times in the course of one day and six times in the space of several days as they eventually hatched a ceasefire deal that the Egyptians sold to Hamas and the Americans presented to Israel. While the administration is not especially optimistic about the durability of the Gaza ceasefire, US officials were impressed with what they saw as Mr Morsi's capacity for "problem-solving".

It is easy to see why the US would be excited by the prospect of having a moderate Islamist leader in Cairo with which it could do business.

As well as securing the peace treaty with Israel, it

would restore Egypt's political centrality in the Arab world, helping to restrain Iranian influence in the region. Washington was delighted when Mr Morsi, while attending a conference in Tehran, called for the Syrian dictator Bashar al-Assad to step down.

However, the optimism lasted only a few days after

It is easy to see why the US would be excited by having a moderate Islamist leader in Cairo

Mr Morsi issued a presidential decree granting himself extraordinary powers, prompting a mass popular protests. While there are many potential explanations for the power grab, Mr Morsi's decrees and occasionally erratic behaviour have revived the always-present fear in the US that

Egypt could drift slowly into an Islamist dictatorship.

The Obama administration has so far been restrained in its criticism of Mr Morsi. According to Victoria Nuland, a state department spokeswoman, secretary of state Hillary Clinton told Mr Morsi that "we want to see the constitutional process move forward in a way that does not overly concentrate power in one set of hands".

In the face of such a complex and fast-moving situation, some analysts believe the US has limited ability to influence events. "I don't think it can do anything," says Marina Ottaway, an Egypt expert at the Carnegie Endowment for International Peace. "In terms of the domestic politics, the US does not have any influence. It's quite a change from the past."

However, the administration is coming under pressure from critics on all sides who believe it has not done nearly enough to help forge a smoother transition since the fall of Hosni Mubarak last year. Some Republicans are calling the Obama administration naive for getting too close to the new Egyptian government and are calling for the US to cancel the sale of fighter jets to Egypt. Indeed, their rhetoric about Mr Morsi's government is beginning to sound much harsher. "American tax dollars must not be used to aid and abet any dictatorial regime," Vern Buchanan, a Florida congressman, said in early December.

While the US provides about \$1.3bn military aid a year to Egypt, if it has any real leverage, it is the International Monetary Fund loan that Cairo has been negotiating and which it needs to shore up its foreign exchange reserves. A \$4.8bn loan had been negotiated in November but has been put on hold as a result of the political turmoil. The one real tool the international community has to try to influence events in Egypt is the parlous state of its economy and its need for external financing.



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FOREIGN DIRECT INVESTMENT: Egypt's golden opportunity?

CAIRO Egypt boasts one of the richest histories of any country in the world – its strategic position connecting trading flows between Africa, the Middle East and Mediterranean Europe has ensured Egypt's position as a key participant in international trade for the last 3,000 years. However, the challenges of the last 18 months have seen Egypt's position decline from the international stage – and nowhere is this more apparent than when looking at foreign direct investment (FDI) into the country.

Egypt's ability to attract FDI fell by US\$8bn between 2008 and 2011, according to its Central Bank. But why is FDI important to Egypt? Without it, the economy is unable to regenerate itself and deliver growth. Without it, technology transfer, job creation, and stimulation of growth industries will not happen fast enough to sustain the needs of a country which is seeing its population grow far faster than its economic development.

It is crucial for Egypt to send out the message that it is not only capable of attracting FDI for large projects of national importance, but also for developing new businesses and sectors which can stimulate new jobs, new industries and new opportunities for Egypt's young population. Centamin, the London-listed gold mining company, has done precisely this by establishing Egypt as one of the most recent countries to export gold, a precious metal which is becoming increasingly important and more valuable in a global economy which is faced with structural uncertainty.

Centamin has been investing in Egypt since 1995 and expects to invest around \$200m in 2012, accounting for a significant proportion of total FDI and making it one of the largest foreign investors in Egypt. Centamin has committed to an expansion program, which would bring our total investment in Egypt's fledgling gold industry to \$1bn by the end of next year. Prior to Centamin, there was no gold industry in Egypt. Prior to the investment to date there was no Sukari gold mine, employing 2,000 Egyptians directly, with a further 3,000 indirectly employed in services specific to the gold project. Without this investment, the State will not be receiving over 50% of every cent made in profit by the gold mine over the next 20 to 30 years, which is anticipated at the current gold price to substantially exceed over US\$4bn in revenues – with precisely zero dollars invested by the State.

Egypt needs to reconsider urgently how it approaches its FDI policy – the country needs more Centamins, not less, if it has any chance of competing in what is increasingly a global economy.



Josef El-Raghy, Centamin Chairman

Without FDI the opportunity of creating a new leading gold producing country will be lost.



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Egypt



Awaiting treatment: critics say health services are in severe need of reform

Reuters

Medical system in crisis after years of neglect

Healthcare Rich and poor pay the price for unclean hospital wards and services provided by people with little training, writes *Borzou Daragahi*

The well-regarded doctor at the plush private hospital assured Noha Barakat that removing a tumour near her stomach would be a "simple" operation.

Then the complications started. He performed surgery again, and, according to her, found he had botched the first operation, but never told her.

She says the doctor then botched the second operation, removing part of her intestines by mistake. Ms Barakat's weight dropped from 62kg to 35kg, and her family became concerned that she would die.

"We found out he was lying," recalls the 50-year-old banker. "He never informed me of the consequences. He was never talking to me truthfully. He was incompetent and a liar."

Whether in relatively expensive private clinics or severely underfunded public hospitals, the healthcare system is in crisis.

The problems begin with poorly trained and underpaid hospital staff and nurses who do not clean equipment properly or care for patients recovering from operations.

They continue with doctors who are not held accountable by their bosses or peers. They end with administrators and public health officials who fail to stock hospitals adequately with equipment or establish and then enforce proper hygiene.

Following the 2011 uprising, many healthcare workers have become galvanised, pushing for change in a long neglected system. In the final months of 2012, doctors took to the streets, attempting several times to surround the health ministry headquarters in central Cairo.

They staged partial strikes, not just for better wages, but also for more state funding for health to allow them to offer better care to their patients.

This month, they demanded a rise in the state budget allocated to healthcare from 5 per cent to 15 per cent and extra security for hospitals. They complained that the country's new authorities had failed to make

healthcare a priority, allowing "the state to offer the same deteriorating health services that are being provided now".

There are some bright spots, however.

Infant mortality and life expectancy rates have improved over the past few decades. But any visitor to one of the crowded, unkempt public hospitals can see the quality of healthcare is sorely lacking.

"The public hospitals are horrific," says Youssef Mohamed Yousri Erfan, a 23-year-old dentistry intern at a public hospital he asked not to be named. "You could go there with the flu and come out with typhoid."

Though he had been warned, Mr Erfan says nothing could have prepared him for what he encountered at his workplace.

He noticed that staff failed to disinfect equipment properly.

"The hospitals are horrific. You could go in with flu and come out with typhoid"

Some critics of the system say it could benefit from national standards. At present, there are medical centres under the purview of the ministry of health, the ministry of higher education and the ministries of interior and defence as well as networks of private hospitals which, though flawed, are generally considered of higher quality than the public sector institutions.

Manal el Sayed, a professor of paediatrics at Ain al Shams University in Cairo and a leading public health advocate, has proposed a national council for health that would draw all the disparate elements together.

The system could benefit from central planning, she says, for not only are doctors underpaid, they are often misplaced. "They're also not well-distributed in different hospitals," she says.

"You'll find masses of university staff working at single hospitals while

you have shortages at other hospitals. In both cases, the doctors are very, very angry."

The lack of skilled nursing and hospital staff is another big problem that has yet to be addressed. Though there are nursing colleges, most graduates head to private hospitals for better pay.

"This is one of the difficult, difficult problems we're having," says Dr el Sayed.

"You end up with lesser trained nurses who have no idea about basic practices. We've requested that they have at least three years of training. Instead, they're obliged to work for one year as interns and they're immediately assigned as nurses."

But the problems may run even deeper than a lack of training. Often there is a culture of negligence that pervades the medical profession.

After he was badly injured in a motorcycle accident, 22-year-old Youssef Hegazy was taken to an emergency ward at a private hospital which refused to operate on him until someone showed up with cash to pay up front, even though he produced an insurance card.

Instead of being cared for by staff, he was harangued by a police officer who demanded to know whether he was drunk or on drugs. When the doctor began sewing up his face, he awoke from the anaesthesia and screamed in fright until the doctor put him back under.

The next day, feeling intense pain, he visited another hospital, which discovered that he had an untreated broken collarbone as well as a potentially fatal 4cm piece of steel stuck in his throat.

As for Ms Barakat, she finally abandoned her Egyptian doctor.

After an expensive months-long trip to the UK, her weight has risen to 47kg, though she will suffer from short bowel syndrome her entire life. Ms Barakat is still struggling to get back to work.

She says she will never again trust Egypt's health services.

Activists step up campaign to beautify city

Environment

Government help is needed to reverse decades of decay in the capital, says *Borzou Daragahi*

One day last October, a couple of hundred volunteers of all ages began heading to neighbourhoods throughout Cairo. They were armed with little chunks of clay filled with native barley, pea and bitter lemon seeds. They began throwing these "seed bombs" into wilting gardens, dilapidated parks and alongside clumps of trees.

It was an initiative to launch a public dialogue about the environment, nutrition and urban life – as well as spruce up some of the capital's shoddy aspects.

"It's about reclaiming public spaces and having them be something useful rather than just a filler between roadways," says Betty Khoury, one of the organisers of the campaign. The seed-bombing was one element in what appears to be a movement by local activists and ecologists to redefine the urban environment following the 2011 revolutions in Egypt, Tunisia and Libya.

Just as revolutionaries in Cairo, Sana'a, Manama, Tunis and Tripoli, attempted to take control of symbolically potent urban spaces, so have small groups of Egyptians tried to reclaim a shared natural environment that has long been polluted, neglected and abused.

Some policy makers are beginning to take notice of the dire consequences of failing to address urban woes. A recent World Bank study suggested Cairo's traffic congestion – just one of myriad environmental concerns – costs the country about 4 per cent of gross domestic product, or about \$8bn annually. This is because of traffic delays, wasted fuel, air quality, accidents and lost productivity.

Each aspect of the environmental troubles costs money. Irrigation canals clogged with rubbish slow agricultural production. Lack of hygiene, because of inadequate sewage systems, increases healthcare costs.

While tourists may well visit once to see the pyramids and the sphinx, the thick smog they swallow during their stay means that they might not return. The problems have persisted for decades and were perhaps exacerbated

in the lawlessness that followed last year's revolution. Activists say there is the now the chance to talk about them and the possibility to conjure a different vision of the future.

Sara el Sayed, an environmentalist who leads ecological tours of the country, imagines a country where people grow their own vegetables and fruit in rooftop gardens and in small urban plots; where mass transit has largely replaced motor vehicles and water buses loaded with commuters criss-cross the Nile; where the well-off are coaxed from their cars to use buses equipped with wireless internet and where roads have bicycle lanes.

Dozens of non-profit organisations have been launched, involved in projects to encourage the use of public transport or to enliven grey urban spaces with colourful art.

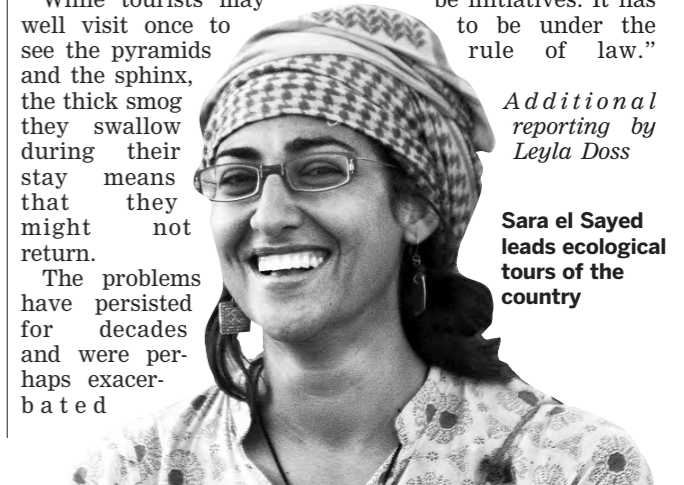
Eighteen months ago, brothers Sherif and Tarek Hosny launched Schaduf Urban Micro Farms, an organisation trying to move people out of poverty by helping them produce food for farmers' markets in wealthy parts of the city on small urban farms.

"It's a win-win situation because, after the urban micro farms are planted, we buy the crops from the farming families and then eventually sell them in farmer markets," says Sherif Hosny. "Our main initial aim is to help reduce poverty, but we also aim to beautify the city and spread organic farming."

Activists warn that the private initiatives are not enough to unravel decades of bad decisions. Volunteers cannot make up for the fact that the country lacks a waste management system. It will take government action to upgrade the poor sanitation and water treatment system.

Recently, Ms el Sayed's group, Nawaya, raised funds to clean out rubbish from irrigation canals in a rural district southwest of the capital. The waterways had not been cleaned for years.

Local people started to fight the activists, threatening to kill them for trying to remove a tree that prevented the team from bringing a bulldozer to the site. Ms el Sayed drew a bracing lesson. "It has to be institutions. It can't just be initiatives. It has to be under the rule of law."



Additional reporting by Leyla Doss

Sara el Sayed leads ecological tours of the country

Online learning aims to address failure of schools

Education

Independent projects offer alternatives to the state system, says *Amira Salah-Ahmed*

The stodgy state school curriculum is being made available online, courtesy of Nafham, a web-based start-up that features crowd-sourced video tutorials on a range of subjects.

For many students with internet access, it may prove a welcome resource to help address the shortcomings of an ill-financed education system long criticised for offering tedious teaching methods, which depend on rote learning, in dilapidated buildings.

Still in its beta version, the website's target audience is 3m students out of a total of 15m, from early learning through to the notorious *thanaweya amma* school-leaving exam.

With more than 1,000 videos uploaded so far, Nafham's goal is multipronged: make education simple and

accessible; serve as an alternative to the heavy dependence on private tutoring; tackle the lack of space in classrooms; and combat adult illiteracy.

"This is about crowd-teaching and crowd-learning," says Ahmed el Alfi, chairman of Sawari Ventures, which operates the start-up incubator that hosted Nafham in its infancy. He says this will also connect students with Egypt's vast pool of untapped expertise and talent in fields that lie outside the scope of formal education.

Fewer than 10 per cent of schools meet the national standards for quality education, according to Unicef, the UN children's agency, with one in five school buildings deemed unfit for use. Cramped classrooms, underpaid teachers, and the absence of innovative teaching methods mean students have come to rely on private tutoring to learn the bare minimum they need to pass the state's secondary school exams.

Graduates, employers say, often lack the skills

required for the changing labour market. For many young people, the thrill of graduation is all too often followed by the disappointment of joblessness, especially because the already-bloated public sector now has fewer vacant posts to fill every year.

With parents despairing of the public education system, private schools are booming, but their substantial costs make this an option for only a small percentage of people. About 40 per cent live under the poverty line.

By merging technology and education, Nafham hopes to offer an innovative alternative to a system with poor infrastructure and riddled with bureaucracy.

Numerous government reform programmes have attempted to address the system's shortcomings. "Huge amounts of money were spent on education reform but failed due to the lack of genuine stakeholder engagement to produce efficient resource allocation," says Motaz Atallah, whose work at the Egyptian Initiative for Personal Rights

(EIPR) focuses on this issue. "Do graduates have the skills set and specialisations to meet labour market needs? Are they suited to how the economy operates?" he asks and, in the same breath, answers in the negative.

Unicef makes a similar assessment: "The quality of education remains a major challenge that hinders the

"The quality of education hinders the capacity of children to develop to their full potential"

capacity of children to develop to their full potential." This applies to children who are able to enrol in school to begin with. It says 8.1 per cent of children have either never enrolled in school or have dropped out of basic education.

An independent, volunteer-based project, Educate-Me, aims to create

"an educational approach that would extract the hidden potential of children".

It started in 2010 as a way to fund the enrolment of underprivileged children into school, but halfway through the second year, the group also began working with the children on character development.

"Most education systems serve the needs of the global economy, and are not focused on individuals," says Mohamed Ramadan, director of innovations at Educate-Me.

The focus has shifted to creating a parallel kind of education that teaches children to think critically and learn basic skills by first finding a need to use them. The "Ask" programme, for example, encourages children to think of something they want to do or learn. They are then asked to list the resources needed to fulfil this dream, which, Mr Ramadan says, motivates them to read and write.

"A lot of the needs are financial... they start turning it up and, in turn, using their maths skills, which they now find useful

since it helps them achieve what they want," he says.

The children plan money-raisers called "Fund My Dream" where they sell handicrafts they have learnt to make. Educate-Me has held four such fundraisers where about 40 children from the underserved Cairo slum of Konayessa have raised E220,000 (£3,240).

The team is finishing its community centre in the neighbourhood where it plans to work with more than 500 children and parents in the coming year.

EIPR's Mr Atallah says the "content and culture" of the education system suffers from resource constraints, with "spending in the control of a handful of bureaucrats that are part of the ruling system".

He says the environment to foster growth of the education system does not exist. "There should be representative syndicates to push for [teachers'] rights, media that is aware of standards to monitor, parliamentary committees that are vibrant and diverse, as well as civil society that monitors the ministry's budget."

Egypt



Voting with their feet: protesters hit portraits of TV satellite show hosts with their shoes during a demonstration in support of Mohamed Morsi, the new president, following the drafting of a charter proposing new powers this month

Getty

Prosecutions for blasphemy raise the alarm

Human rights The nation has made big strides and is freer to express itself – however, there is a downside, writes *Abeer Allam*

When Nabil Ibrahim, a Coptic Christian, had a disagreement with a co-worker and decided to complain to their supervisor, his colleague told him he would claim that Mr Ibrahim had insulted both Islam and Mohamed Morsi, the Islamist president.

Fearing escalation and possible prosecution, Mr Ibrahim backed off. "I have a family and I thought I might get arrested for nothing," says Mr Ibrahim, a 44-year-old maintenance worker. "It was never that bad. I can't even tell a joke in public now."

Despite substantial gains in freedom of expression since last year's revolution, Mr Ibrahim's concern highlights a new mistrust seen as a worrying consequence of the political changes in Egypt.

Blasphemy and "insult" cases have been on the rise since the ousting of

Hosni Mubarak in February 2011 and the political empowerment of the previously marginalised Islamists.

Human rights groups have voiced concern even if they acknowledge that, overall, the nation is freer to express itself since the demise of the Mubarak regime. New television channels and newspapers often speak out against previously sacrosanct institutions, such as the army and the president. New political parties that reflect the spectrum of views in society have also been formed. Protests, banned before the revolution, have become, for the most part, an accepted means of political activism.

Even so, the proliferation of prosecutions for blasphemy and insult has raised alarm. Amr Gharbeia, civil liberties director at the Egyptian Initiative for Personal Rights, says the number of such cases has risen from one or two a year before the

revolution, to 35 since the ousting of Mr Mubarak.

"The revolution made everyone feel empowered and capable of imposing his will. But when it comes to blasphemy cases, popular pressure on judges is very dangerous," says Mr Gharbeia. "The state is biased and adopts a polarised political discourse. Only a rich, male, Sunni Muslim may have a fair chance [in court]. If you are Christian, female, poor or from the south, the prosecutor will treat you according to his personal views and [his reading of] the public mood."

Blasphemy cases are filed under a penal code that includes a law that criminalises contempt of religion. Civil rights activists are alarmed by a potential wider abuse of the law because the new constitution has a clause that prohibits insulting "the prophets". Lawyers were previously able to overturn blasphemy rulings at

higher courts on the grounds that they were unconstitutional.

In addition, under Mr Mubarak's rule, only state security prosecutors, not regular criminal prosecutors, could proceed with complaints or reject them.

The Mubarak government often used these cases for political posturing. It sometimes allowed them to turn into high-profile events to outbid its Islamist opposition when needed. At other times, it would step in to convey the message that it shielded its citizens from religious extremists.

Adel Imam, one of the country's top film stars, was acquitted by a court this year after a lengthy "contempt of religions" case brought against him by Islamists citing his films. In September, a Sohag family court sentenced Bishop Kamel, a Christian teacher, to six years jail after convicting him of blasphemy and of insulting

both Mr Morsi and the plaintiff, a lawyer. It was claimed Mr Kamel had posted insults to the president and caricatures of the Prophet Mohamed on his Facebook page.

Activists warn that judges are no longer able to use their discretion to dismiss such cases because court attendees often threaten them and apply pressure for a particular verdict.

Heba Morayef, Egypt researcher for Human Rights Watch, says several journalists are also facing police interrogation and potential trial for insulting the judiciary or Mr Morsi.

"New articles in the constitution ban insulting prophets and individuals. But 'insulting' is an extremely broad concept. It can be used to criminalise political criticism," says Ms Morayef. She says that, while one article of the constitution protects freedom of expression, it is undermined

by other vaguely worded provisions that prohibit insulting "the prophets" or individuals.

Earlier this month Alber Sabera, a 27-year-old computer engineer who comes from a Christian family, was sentenced to three years in prison for "defamation of religion" because he made a video in which he criticised organised religion.

Mr Sabera was arrested in September because of controversy over the anti-Islam film, *Innocence of Muslims*. An angry mob gathered outside his house and accused him of editing a Facebook page for atheists and sharing a link to the offending film. When his family called the police for protection, they arrived the following day and arrested Mr Sabera as the mob threatened to burn down his house.

"What is happening now is a worrying sign that the worst is yet to come," says Ms Morayef.

Provisions of constitution seen as a threat to hard-won gains

Women

Activists fear a setback to advances earned after years of campaigning, reports *Abeer Allam*

Egyptian women and men fought police brutality side by side during the 18-day revolution that brought down President Hosni Mubarak. The engagement of women in the revolt had raised hopes in liberal circles that the post-revolution constitution would usher in a new era of equal rights.

But the Islamist drafters of the constitution document were careful to drop language banning discrimination on the basis of sex, along with religion and origin – an omission critics say breaches international conventions ratified by Egypt. In addition, a phrase prohibiting trafficking in women in a previous draft was excluded from the final document. The charter also insists that "no international treaty that contradicts the provisions of this constitution shall be signed".

Advocates of women's rights say they fear a setback to gains earned after years of campaigning, particularly in family law, which granted women the right to no fault divorce and gave them custody of children until the age of 15. "The draft constitution does not place an obligation on the state towards guaranteeing equality," says Hania Sholkamy, a women's rights advocate. "It considers whatever is happening inside the family a private affair and does not define childhood, opening a back door for underage marriage."

Neither Freedom and Justice (FJP), the political arm of the Muslim Brotherhood, nor its allies in the Salafi Nour party have complained. Mohamed Saad al-Azhari, a Salafi cleric on the panel that drafted the constitution, has argued for

the abolition of legislation setting the minimum age of marriage at 18.

When asked about the state ban on female genital mutilation during his presidential campaign, President Mohamed Morsi, in an apparent bid to avoid shocking his more conservative supporters, said it was a private affair between mother and daughter.

But his remarks drew criticism in liberal circles and among women activists who battled for decades to criminalise the widespread practice. Brotherhood officials say there are no plans to lift the ban.

Some also fear that new provisions in the constitution enshrining Islamic jurisprudence as the main source of legislation could undermine the status of women. They argue that ultraconservative legislators in the coming parliament might be tempted to seek out restrictive texts to impose their particular social vision.

But Omaima Kamel, a professor of medicine and adviser to Mr Morsi, says the Brotherhood has "no

intention to abolish women's gains or laws", adding there is a plan to encourage female participation in political life. She did not, however, rule out a review of existing laws.

"We have a vision and we have the right cadres to implement it," she says. "We might review the laws to give women more choices

A phrase prohibiting trafficking in women has been excluded

and freedom. If she wants to work or not to work, it will be up to her to decide. The goal is a strong family and a strong woman free to make her own decisions without state interference."

To the relief of liberals, the final draft constitution did not include a controversial clause that stipulated that equality for women would be subject to

conformity with rulings of Islamic law.

Islamist women insist that their leaders are committed to women's economic and political empowerment and point to the fact that the FJP ran more women on its electoral list than liberal parties. They see women's freedom, as understood by liberals, as alien to Egyptian society and say attempts to protect women's role in the household do not contradict their objective of expanding their role in the economy and society.

Activists, meanwhile, argue that extreme rhetoric over the past two years has forced the debate on equality out into the open.

Ms Sholkamy says the FJP has felt obliged to put forward more women to support its position. "The good thing is that all political parties recognised that female politicians are important and that they have to be visible," she says.

The perceived threat to women's public role has helped move the issue from the realm of state-sponsored feminism, which imposes change from the top, to the grassroots, some activists say.

Since the revolution, young women from both rural and urban areas have used social media to raise awareness about issues such as sexual harassment.

Older women, appalled by the attack on visitation and custody rights, have joined rallies and sit-ins against changes to the personal status law. Activists argue that, when the pressure comes from the people, it will be difficult for any government to impose its own vision on the whole society. "When there was harassment in the street 17 years ago, I just stopped walking in the street. But young women [now] defy harassment and keep on showing up [at protests]," says Iman Bibers, who runs awareness campaigns.

"Girls died for this revolution and others are not ready to be told to 'go home we will decide for you'."



Azza el-Garf (right) of the FJP at talks on constitution

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Egypt

Moment may have arrived for Islamic finance

Sukuk There is a new-found will to expand the sector, says *Amira Salah-Ahmed*

Deliberately marginalised in Egypt for decades, Islamic finance is finally receiving attention, partly because of the changing political landscape and a new-found will to expand the sector.

Most recently, draft legislation for an Islamic bond, or sukuk, was finalised and presented to the prime minister as well as the president, Mohamed Morsi. There are also plans to introduce sovereign sukuk. Broader regulations are being

drawn up for the overall Islamic finance industry, as well as supporting amendments to the central banking law. Officials say they plan to expand the share of Islamic finance from the current 5 per cent of the market to 35 per cent.

Experts have for years lamented Egypt's sluggishness in creating the proper environment to foster Islamic finance. Despite being home to some of the oldest financial institutions in the region, the Arab world's most populous nation can hardly be



Cairo's financial district: experts have for years lamented slow progress

under the former regime," says Prof Hassan, who is also the head of the United Supreme Sharia Board for Banks and Islamic Finance Institutions.

He says that, before the revolution, he "tried several times to engage with the related entities and numerous banks, but then there was no desire to promote Islamic finance".

The politics have changed, however, and the Muslim Brotherhood's Freedom and Justice party, as well as the Salafi Nour party, are leading the push for more focus on the sector.

"We discussed these laws with FJP and Nour and took their proposed legislation into consideration. The result was presented to President Morsi and the prime minister," says Prof Hassan, who is also chairman of the sharia board of Ridge Islamic Capital (see story below).

He says planned changes to the central banking law will allow "Islamic finance to operate freely, lifting restrictions on banks", thus opening Islamic banking opportunities, and bank branches. Mechanisms will also be introduced to allow traditional banks to transform themselves into Islamic financial institutions.

Previously, Islamic banks were only allowed to provide personal finance products, even though they were investment and development banks, says Prof Hassan. The goal of the sukuk law is to attract sharia-compliant investment in the country's infrastructure projects. Prof Hassan says that, through sukuk, investors can put their money into a project that grants them ownership rights for a set term and gives them a percentage of the profits. At the end of this time,

ownership rights return fully to the government or company, he says, so it is quite unlike taking a loan that carries interest.

In this way, he says, Islamic finance functions as a risk-sharing mechanism, while traditional finance is risk-shifting. Islamic finance, Mr al-Beltagy says, is about investing in products, commodities, construction and infrastructure, "not financing debt", he adds, citing this as one of the main reasons the industry gained prominence after the global economic crisis. "We are trying to pass these laws to promote Islamic finance and combat the funding deficit facing Egypt," he adds.

Since the 2011 uprising, Egypt has suffered dwindling foreign reserves, a widening budget deficit and a funding crisis. Protracted negotiations with the International Monetary Fund for a \$4.8bn loan have hit another snag after a staff-level agreement was finally reached in November.

Egypt requested a month-long delay on the IMF's final approval after a bevy of tax laws passed by a presidential decree faced almost instant opposition and were suspended until further notice.

The delay threatens to derail prospects of economic recovery because, analysts say, failure to secure the loan imperils another \$10bn of external funding that is conditional on a deal with the IMF.

Prof Hassan, however, argues that if a sukuk law were in place Egypt could get the financing it needs. He says a significant number of institutions would want to invest in projects if the instruments of Islamic finance were quickly adopted.

Operator puts faith in sharia

Company profile
Ridge Islamic Capital

Director tells *Amira Salah-Ahmed* why specialised market needs to grow



Experience: Ahmed Rizkallah

After years of lagging behind other markets in the region, Islamic finance is gaining traction in Egypt. The latest addition to the scene is a company aiming to lure investors to the country's capital market.

Ridge Islamic Capital is offering sharia-compliant investment banking, asset management and wealth management services.

Launched in September, through the acquisition of El Rashad Holding, an asset management group, the company plans to invest \$100m over the next two years and is making moves to acquire a local brokerage firm.

"We should soon sign a MOU [memorandum of understanding] with one of the companies after agreeing on the final details of the deal," says Ahmed Rizkallah, Ridge's Egypt director.

Without disclosing the name of the company, he adds that it is "one of the big players in the market".

Egyptian officials have repeatedly emphasised the importance of expanding

'We see large potential in the market, especially in healthcare, real estate and agriculture'

Islamic finance as the government attempts to increase its investment offerings and invigorate a sluggish economy as well as a widening budget deficit.

It recently finalised legislation for sukuk, enabling trading in Islamic bonds, and is working on drafting a law for sovereign sukuk as well.

Hussain H Hassan, Ridge's sharia board chairman, is an important contributor in the drafting of Egypt's sukuk law. He helped draw up the regulatory framework for Islamic banking and revised central bank legislation to make it sharia compatible.

He was a member of the constituent assembly with responsibility for drafting Egypt's constitution.

Companies such as Ridge Islamic Capital have much to gain from broadening Islamic finance, but development of its ideas rely on a change in legislation.

The company already offers sharia-compliant capital protected portfolios, and it is in talks to create

the first property fund in Egypt.

"The idea has been [well] received and we trust we'll get the support required from the regulatory side," Mr Rizkallah says.

In the first quarter of 2013, Ridge plans to introduce a savings vehicle that will allow clients exposure to an "array of investments with a high downside protection". He adds: "We will also be announcing the launch of one of the first ever global Islamic fund of funds."

Ridge is the Islamic financial arm of Dubai-based regional investment company Ridge Solutions International Holdings, which is part of the Angola-based Ridge Solutions Group.

As the economic crisis was denting financial markets worldwide, many analysts began seeing Islamic finance as a method of distancing themselves from speculation and derivatives.

Sharing this vision, Ridge officials decided to move beyond their experience in agriculture, industry and property.

Egypt was selected in 2011 as a market with untapped potential and prospects for growth, lagging far behind Gulf nations with significantly smaller consumer markets.

"We see large potential in the market, especially in some of the defensive sectors such as healthcare, real estate and agriculture," Mr Rizkallah says.

He adds that the company will draw on its experience of more than 10 years in property, with the Angola company being one of the biggest developers in the country.

Ridge has E£50m worth of assets under management, with E£30m in the Misr Iran fund of funds.

It aims to return the company to profitability in 2013-14 which, given political instability, may prove more difficult than anticipated.

"We might need to have minor adjustments in our plans but we maintain our long-term positive view on Egypt," Mr Rizkallah says. "We are keeping a close eye on the legal and tax structural changes that the country is undergoing to balance our risk/return equation."



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