



Transition toward a difficult new dawn

Politics has become deeply polarised as Islamists and liberals try to shape the future.
Heba Saleh reports

The lines in front of polling stations extended for hundreds of metres and the waiting lasted for hours but Egyptian voters, most of them casting ballots for the first time, were undaunted.

The elderly came prepared with chairs, the well-off ordered deliveries of lattes over their mobile phones and neighbours chatted excitedly as they queued up to vote in the country's much-awaited "Arab spring" election – the first parliamentary poll since the revolt that toppled Hosni Mubarak as president in February.

"I am staying here for as long as it takes," said 78-year old Enayat Nassef, sitting on a camping chair in a Cairo street. "This is important for our country and for democracy, so we can place our foot on the first rung of the ladder. I don't care who the election brings, Islamists or others. I have to do my part. I am very happy but also very worried for Egypt."

Final results will be known only in January. But already it is clear that Islamists from the

Freedom and Justice Party – affiliated to the Muslim Brotherhood – and from the ultraconservative Nour party are heading for a majority.

After decades of a stifling dictatorship and countless rigged elections, there was no mistaking the enthusiasm as Egyptians finally went to the polls hoping it would hasten the end of a chaotic and often violent transition under the interim leadership of the Supreme Council of the Armed Forces (SCAF).

By the time of the multi-stage election – which started on November 28 – the euphoria that had followed the toppling of Mr Mubarak had long evaporated. Over the year, Egyptians' hard-won confidence in their ability to influence their destiny has given way to frustration as the country has lurched from crisis to crisis.

Political drift, demonstrations, labour strikes and frequent eruptions of sectarian violence between Muslims and Coptic Christians have driven away tourists and investors, causing the economy to sputter and aggravating the hardship of daily life for millions of poor people.

Most dispiriting has been the fracturing of the unity of purpose that prevailed during the protests. Within weeks of the revolution, the political



Poll position: the elderly came prepared with chairs and neighbours chatted excitedly as they queued to vote in the 'Arab spring' election AP

scene became deeply polarised as Islamists and liberals traded invective and manoeuvred to shape the emerging order.

A widening rift between the young revolutionaries who led the uprising against Mr Mubarak and the army generals who pushed him out has also contributed to the sour public mood. Activists have accused the ruling generals of trying to

"confiscate the revolution" by reviving the much-hated emergency law and stalling on reform. The military has intimidated and arrested critics, sometimes accusing them of working for foreign powers.

"We have absolutely no confidence in the military council," says Ahmed Maher, a leader of the April 6 group of youth activists. "They have tricked us, they

have been trying to circumvent [the revolution] and they are tarnishing our reputation. How can we trust them?"

Headed by Mohamed Hussein Tantawi, defence minister since 1991, the SCAF groups 24 military commanders who are all Mubarak appointees. Their main concern, critics charge, has been to preserve as much as possible of the

Mubarak state in an apparent bid to confine the impact of the revolt to a change of personnel at the top.

The SCAF's management of the political transition has been erratic. In the beginning, the generals appeared to favour the Muslim Brotherhood, perhaps judging that, as the biggest and

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The New Egypt

Mideast darling now in doldrums

Stock exchange

Devaluation fear is foreign investors' deterrent, says Robin Wigglesworth

Egypt's stock exchange, once one of the Arab world's most vibrant and a darling of the international investment community, is in the doldrums. The benchmark EGX 30 index slumped precipitously when the revolution broke out this year. Despite campaigns to encourage patriotic locals to invest, it has continued to drift inexorably downwards since.

The EGX has now shed almost half its value, erasing the gains it made after the financial-crisis induced slump in 2008 and making it the world's third worst performing exchange this year after Greece and Cyprus. Overall, Arab stock markets have fallen about 20 per cent in 2011.

"It's all about the political and economic outlook. The macroeconomic picture is facing plenty of challenges, and the political outlook is still uncertain," says Mohamed Ebeid, head of brokerage at EFG-Hermes, a large investment bank.

Indonesia's stock market suffered similar trading patterns during its revolution: A deep slump caused by a financial crisis was exacerbated when unrest mounted, followed by a recovery soon after President Suharto was forced out in May 1998, but then another two years of declines. Overall, it took almost six years from hitting the bottom in early 1998 before the Jakarta Composite Index returned to its pre-Asian financial crisis and revolutionary peak.

Egyptian trading volumes have slumped to about

\$20m-\$30m a day, compared with average daily turnover of \$150m in 2010.

Foreign investors in particular have abandoned the country. Although plenty say they are keeping a close eye on developments and like the long-term fundamentals, overseas shareholdings in Egyptian companies have almost vanished. The market trades at a price-to-earnings ratio of 13.7 times, compared with 17.6 times at the start of the year, and a price-to-book value of less than 1.1 times.

The depressed valuations become even starker when next year's earnings estimates are factored in. The EGX30 trades at only 5.6 times 2012 forecasted earnings, and 0.5 times book

'Either the currency gets devalued, or Egypt gets external aid. Either would probably trigger a rally'

value. This indicates that the sell-off has been overdone, some analysts argue. "The operational performance of companies has held up well despite the political and economic storm," argues Emad Mostaque, a strategist at Religare, the financial services group.

In the short term, the main deterrent for foreign investors is not necessarily the murky political outlook, nor the possibility of occasional bouts of further unrest, but the mounting likelihood that the authorities will be forced to devalue the Egyptian pound.

The outflow of foreign money has forced the central bank to fight hard to keep the Egyptian pound relatively steady against the US dollar to contain inflation, as Egypt still

imports most of its food.

However, the central bank's reserves of "hard" foreign currencies have been depleted by \$13.9bn so far this year, mainly due to heavy intervention in the foreign exchange market, and are approaching dangerously low levels – given the country's need for cash to pay for food imports.

"In the absence of fresh capital flows, either official or private, the current average depletion rate could bring foreign exchange reserves to less than three months of goods' imports by February 2012," Alia Moubayed, an economist at Barclays Capital, says in a recent note.

Despite an emergency rate increase to support the currency, the pound has traded above the informal six to the dollar mark most days since late November, and 12-month forward rates indicate that investors expect the currency to go to E£7 to the dollar next year.

Mr Mostaque argues that the authorities would probably like a gradual, managed 10 per cent depreciation of the pound, but any signs of a policy shift would cause market pressures to mount for a swift 20 per cent rout.

"For institutional investors, if you're expecting a 10 to 20 per cent devaluation it doesn't encourage them to dive in," says Mr Ebeid. On the other hand, once the devaluation occurs – or Egypt accepts the aid on offer from international institutions such as the World Bank or oil-rich Gulf states that would replenish the central bank's reserves and therefore avoid a devaluation – it could mark a turning point for the stock market, some argue. "Either the currency gets devalued, or they get external aid. Either of those events will probably trigger a rally," argues Mr Mostaque.



Grim indicators: Egypt's main stock exchange index has fallen 40 per cent since the start of the year and the budget deficit is widening

Bloomberg

Political uncertainty and unrest scare off investors

Economic overview

Post-revolution stability seems a long way off, writes Borzou Daragahi

There was a time, shortly after the February 11 revolution, when some analysts pondered a rosy economic outlook for Egypt.

It seemed the spirit of solidarity generated by the uprising against Hosni Mubarak, the former president, would bring a political consensus and calm the streets, the thinking went. Tourists and foreign investors might return, perhaps in greater droves, with the corruption of the Mubarak era giving way to transparency and accountability.

While that could prove true in the long term, unfortunately the reality is very different. The months following the revolution have been clouded by political uncertainty, with bouts of violence and chaos that further damaged an already fragile economy. The indicators are grim. Egypt's main stock exchange index has fallen by 40 per cent since the start of the year.

Foreign investment inflows have dropped by two-thirds from about \$6.7bn to \$2bn in the past year. Foreign currency reserves continue to hit record lows, down from \$36bn in January to \$20bn at the end of November.

The emptying of public coffers has been accompanied by an increase in spending on subsidies, interest payments and

wages, widening a deficit that was estimated at 8.6 per cent for the fiscal year to the end of June 2012, but now expected to be higher.

Despite efforts by the central bank to support the currency, pressure on the Egyptian pound has already caused it to depreciate by 4 per cent this year against the dollar.

Egypt's military rulers decided against a \$3bn loan from the International Monetary Fund in June, preferring to focus borrowing on the domestic market. But as the appetite of banks for government debt has waned, so bond auctions

Problems have been exacerbated by a decline in remittances from workers in the Gulf

have been failing to meet their targets, and borrowing costs have risen from about 12 per cent before the revolution to 14-16 per cent. "We are approaching very critical levels for the reserves, there is pressure on the currency and there is a very little chance that the pound will not devalue," says Wael Ziada, head of research at EFG Hermes, a Cairo-based investment bank.

A brief post-revolution rise in tourism evaporated, with visitors in September

down 28 per cent compared with a year ago. That was before droves of foreigners cancelled Christmas pyramid visits after riots between police and Coptic Christians were broadcast worldwide in October. The problems have been exacerbated by the decline of remittances from Egyptians working in oil-rich Gulf countries and in Europe amid the global downturn.

The weakening world economy has also softened the growth of receipts from Suez Canal passages and exports, according to a report by Barclays Capital. Egypt's economy, which had grown by 6 per cent annually in recent years, has grown an estimated 1.8 per cent in the fiscal year to the end of June.

Coupled with a rapidly growing population, all this means a revolution that arguably has given Egyptians more freedom has, for now, made them poorer. Unlike Tunisia, where a post-revolutionary election for a constituent assembly led to a road map toward stability, each step in Egypt's transition to dictatorship to a potentially more democratic future seems to reveal more possibilities for instability.

"The Egyptian revolution has been messy," says Alia Moubayed, an analyst at Barclays Capital.

"There is no grand plan or road map for the transition. Factions are reacting

to each others' reactions. Many people are convinced this is an unfinished revolution and that nothing much has changed. For them, it is absurd to realise that their losses have not yielded results."

The chaotic political landscape, with untested actors engaged in unpredictable behaviour and possible outcomes ranging from a peaceful coalition government to fresh street violence, is frightening both foreign companies and native investors, analysts say.

Most are keeping their money elsewhere. Few of the political actors appear to be talking concretely about the economy, how to save it by creating jobs for the millions of unemployed young or at least shelter key parts of it, such as tourism, from unrest.

The appointment by the military of Kamal Ganzouri as interim prime minister has failed to restore confidence, as young political activists who led the revolution and a large section of the public question the abilities of a 78-year-old who performed the same function in one of the worst periods under Mr Mubarak.

"We tell our investors to stay on the sidelines until the political volatility is over," says Mr Ziada. "But even if things stabilise, it will not be long lived. It will not bring us to previous levels of growth."

Transition toward difficult new dawn

Continued from Page 1

most organised political force, they needed to pacify it to ensure peace on the streets. The council opted for a political course favoured by the Islamists to hold elections first and then entrust the new parliament with overseeing the drafting of a constitution.

But over the summer the generals seem to have realised that Islamists would dominate both the assembly and the drafting process, and they would have little control over the shape of the state that emerged. They then changed tack and tried (without success) to get political forces to agree in advance to certain constitutional principles that shield the military from civilian scrutiny and gives it a permanent political role.

"The military are part of the old structure and they have been fighting to preserve their status under the new structure," says Khalil Anani, a political analyst who expects the coming months to bring tensions between parliament and SCAF. "There is [still] a deferred battle over the shape of the new political order," he says.

But whatever emerges in the short term, there is little doubt that Islamists constitute the rising political force. The Brotherhood has

said it will not run a candidate in June's presidential election, but it wants a constitution that empowers parliament and reduces the vast authority of the head of state. Despite leading in the election, the group is proceeding cautiously, anxious to minimise confrontations with the military and fearful of unerving crucial foreign partners such as the US.

It insists it wants to share power with a spectrum of political forces, and does not plan to monopolise drafting the constitution. It is also deeply cognisant of the difficult tests ahead – from a parlous economic situation to the electoral gains of the hardline Salafis in the Nour party who speak of a radical Islamisation of society and politics. "The country has many problems that no one party can address alone," says Saad al-Katratny, a senior official of the Brotherhood's Freedom and Justice party, insisting the party has no plans to ally itself with the Salafis in an Islamist bloc.

The ultraconservatives, he says, still need "experience in political practice ... training and flexibility" and their rise has come "at an inopportune time".

The Salafi presence in parliament, however, will put pressure on the FJP, especially if the ultraconservatives decide to press

ahead quickly with bans on alcohol, or the mixing of the sexes on beaches – measures that would damage the crucial tourism industry.

The biggest test, though, will be turning around the country's ailing economy. Egyptians, 40 per cent of whom live in poverty, have been expecting a swift economic dividend from their revolution. Many believe that sweeping away the corrupt regime should free up

'The Brotherhood have been waiting for 80 years. They are prepared to wait longer to get it right'

quickly huge resources to invest in social justice.

But businessmen and analysts say the problems are enormous and any new government is bound to disappoint in the short term: growth in the fiscal year to end in June is predicted to be a slight 1.3 per cent, nowhere near the 7 per cent needed just to absorb 700,000 entrants to the job market. The country has lost more than a third of its foreign currency reserves this year, hastening the prospect of a devaluation.

"Whoever comes in will find that his margin of error is very narrow," says Ahmed Heikal, head of Citadel Capital, a private equity firm. "Unemployment is rampant and increasing, there is high inflation coming from plenty of different sources, and a devaluation of the currency is unavoidable. Economic management over the transition has been zero."

Any incoming government, he argues, will have to cut unaffordable energy subsidies that cost about \$15.5bn a year.

He points out that the budget deficit has been estimated at 8.6 per cent by the finance ministry, or about \$22bn, but will probably come in higher. Pledges by Gulf Arab neighbours to extend billions in aid and investment have mostly failed to materialise with the exception of \$500m from Saudi Arabia and the same from Qatar.

"The Brotherhood have been waiting for 80 years," says a western diplomat. "They are prepared to wait longer to get it right. I don't think they want to govern alone now because the economy is worse than it has been. They want to be able to show voters there has been a benefit in voting for them, so they need to deliver some short-term gains to be assured of a second term."



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Ups and downs: the wall built to protect the Israeli embassy after the killing of five Egyptian soldiers during a border gun battle between Israeli forces and Palestinian militants. It was pulled down by protesters within days of being erected

Getty

Everything has been thrown into question

Foreign relations

The break with the past is likely to be gradual and complicated, writes

Roula Khalaf

A senior Israeli official called in journalists for an unusual briefing this month. Arab societies were simply not mature enough to hold free and fair elections, declared Moshe Yaalon; they needed a long period of "education".

Mr Yaalon, a close aide to Benjamin Netanyahu, the prime minister, did not specifically refer to Egypt. But it could not have been far from his mind, since the country had just voted for Islamist parties in the first round of its staggered parliamentary elections.

For Israel, no neighbouring country matters as much as Egypt, the Arab

world's most populous nation and the first (of only two) to have signed a peace treaty with the Jewish state. When it agreed to the 1979 Camp David accords, Egypt neutralised the prospect of another Arab-Israeli war. That Egypt is going through a historic transformation, shedding the authoritarianism with which Israel had been comfortable and embracing a new political system in which Islamists are dominant, is a source of anxiety for many western governments, but most of all for Israel.

Everything from the fate of the peace treaty, to the relationship between Egypt and the Palestinians and Cairo's future diplomacy in the region has now been thrown into question. Since the toppling of Hosni Mubarak in February, tensions between Egypt and Israel have escalated. Egyptians were infuriated by the August killing of five soldiers during a border gun battle between Israeli forces and Palestinian militants and many were disappointed by

the ruling military council's failure to take any retaliatory measures, such as withdrawing the Egyptian ambassador.

The frustrations led to a series of protests at the Israeli embassy in Cairo, which were cheered by the public. A young man who had reached the top of the embassy and taken down the Israeli flag was celebrated as a hero and even awarded an apartment by the government. The protests eventually took a nasty turn, however, as crowds stormed the building in September, forcing the diplomatic staff to evacuate, and further straining relations between the two countries.

The revolution was primarily about Mr Mubarak's 30 years of repression and mismanagement rather than his diplomacy. There was no burning of the Israeli flag in Tahrir Square. But the revolution's message was also that Mr Mubarak had belittled Egypt and sapped its dignity, and part of the popular frustration was over the erosion of the country's regional influ-

ence and the perception that it bowed too often to US and Israeli wishes.

The demise of the Mubarak regime unshackles Egypt from long-held unpopular policies. But the break with the past is likely to be gradual and it will be complicated by a clumsy and protracted political transition.

The country will be looking inward for the foreseeable future, with the domestic political transition ... taking priority

Cairo can be expected to become more assertive and independent-minded in its foreign policy. Within weeks of the revolution, a new interim foreign minister, Nabil el-Arabi, said Egypt was seeking to open a new page with Iran, departing from the Mubarak regime's line that eschewed dialogue with the Islamic

republic. Mr Elarabi has since become the Arab League secretary-general.

Signs of a changing attitude were also in evidence in Egypt's successful mediation of a reconciliation plan between Palestinian factions. The agreement struck between the secular Fatah and Islamist Hamas in April was made possible partly by the more even-handed role played by Egypt, which had in the past sought to manipulate Hamas.

Senior Arab diplomats say Cairo has been increasingly active in the efforts to ratchet up pressure on the Syrian regime, which now faces Arab League sanctions. But while the reclaiming of Egypt's traditional leadership role would appear inevitable in the long term, the country will be looking inward for the foreseeable future, with the domestic political transition and the economic crisis provoked by the revolution taking priority.

The Muslim Brotherhood, which is set to be the largest party in parliament, has said it will not abrogate

Egypt's peace treaty with Israel but could seek to review it. Its policies, however, remain vague, and are likely to shift if it is charged with the job of governing the country.

Whatever new government takes over, however, it will have to be far more sensitive to public opinion on foreign policy, which means a greater distance from Israel and acting on policies that are sympathetic to Palestinians. But the extent to which civilians in government will be able to influence foreign policy will also depend on whether the army, which receives funding from the US, manages to carve out an oversight role for itself, something it has been seeking.

Moreover, Egypt's economy will require assistance from foreign and regional partners and this could limit a government's room for manoeuvre on the foreign policy front. Cairo's new government will have to strike a delicate balance between satisfying popular sentiment and keeping wealthy neighbours and generous allies on its side.

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The New Egypt

Movement puts emphasis on pursuit of social justice

Muslim Brotherhood

Group seems set to be torn between populism and the need for fiscal discipline, says **Borzou Daragahi**

Ask a typical Egyptian politician what he plans to do to create jobs, and he will give a murky answer about creating more opportunities for aimless young people.

But ask a Muslim Brotherhood official and he will give a 45-minute lecture on the movement's vision for reforming Egypt's economy and society, including restructuring the tax code to increase the burden on the rich and expanding loans for the kind of small business owners who are a pillar of the organisation's support.

Given the severe blow dealt to the economy after the revolution and the massive gap between people's expectations and what the state can practically deliver, any elected government, whether Islamist or liberal, is certain to disappoint.

The Brotherhood in particular puts the emphasis on the pursuit of social justice and so will find itself torn between the temptation of populism and the requirement for fiscal discipline.

The Brotherhood's Freedom and Justice party, which emerged victorious in the first round of parliamentary elections, issued a detailed 160-page platform designed to improve the economy, reform the security services and fight corruption.

The programme highlights fiscal discipline, reducing the deficit, restructuring wasteful subsidies and encouraging Islamic finance. How this would be achieved in practice remains to be seen. But, for now, diplomats and bankers who have met economic experts from the Brotherhood profess

to have been impressed by the detailed presentations and, in particular, their recognition of the need to reform a subsidies system that is a huge burden on the budget.

"The Muslim Brotherhood's ideas are real," says Ahmad Elsayed Elngar, an economist at the Ahran Centre for Strategic Studies, a Cairo think-tank. "Some of the others talk in very vague terms."

One leading businessman says that while in the short term the Brotherhood's economic agenda is not different from his own, his concern is over the organisation's social priorities in the longer term. If Islamists push for stricter social norms, they would drive local and foreign investors away and undermine a vital tourism industry.

Businesses form an important pillar of the Brotherhood's political base, and the organisation is a strong advocate of the free market. Khairat al-Shater, the deputy leader, told the Financial Times that an "Islamic system" gives "a lot of freedom" to the private sector but within "social constraints".

His take on Egypt's future economy is that it needs direction through a broader plan for investment and the government should support business organisations more by helping promote their products abroad.

In the Brotherhood's economic platform, there is also a role for Islamic charities as a source of "permanent and continuous financing" for communities, a concept that has yet to be spelt out but that has failed to curb corruption in countries such as Sudan and Iran.

Some Brotherhood candidates offer other ideas for helping to free up resources and cut waste and graft. Sobhi Saleh, a candidate in Alexandria, points to the billions of dollars allegedly tucked away in government coffers – said to be mostly under the control of the ministries of defence, the interior, foreign affairs and oil.



Good works: the Brotherhood is promoting a role for Islamic charities as a source of 'permanent and continuous financing' for communities

Getty

Given the gap between people's expectations and what can be delivered, any government is certain to disappoint

According to economists, Egypt's ministries have access to the equivalent of at least \$6bn in so-called "special funds" that are not under the control of central authorities. Egypt's projected deficit this year is \$22bn, though it is expected to go higher. "If it is added to the budget, it will increase our capacity," says Mr Saleh, who won a seat in the first round of the elections. "Right now, it is plundered."

The cabinet of former interim premier Essam Sharaf broached the delicate subject of bringing the money under the control of the ministry of

finance. "These are slush funds that are hardly used for the purposes they were created," says Samir Radwan, a former finance minister.

Mr Saleh also advocates seizing previously state-owned land, which he says is worth \$133bn, from former cronies of deposed president Hosni Mubarak and selling it off at market prices.

Kamal Ganzouri, the transitional prime minister, announced this month that the government would seize 21m square metres of land in the Gulf of Suez from businessmen who allegedly acquired it in sweetheart

deals and never developed it.

The Brotherhood also vows to pursue aggressively about \$6bn in unpaid tax due from politically connected industrialists and renegotiate the terms of a controversial gas deal with Israel, which Egyptians say hurts the country. "The humiliating decline in Egypt's status and its role regionally and internationally went so far that Egypt was supplying the Zionist occupiers of Palestine and Jerusalem with gas and oil, at the cheapest below-market prices, while Egyptians were in bad need of the same," the programme states.

Anxious to prevent liberals from shaping new order

The Salafis

Heba Saleh reports on a movement that admires the social model of Saudi Arabia

Ultraconservative Salafi Islamists, who admit openly that they do not believe in democracy, have been the biggest surprise in Egypt's election, stunning competitors and inspiring fear in the hearts of liberals and the Christian minority.

Nour, the main Salafi party, secured 25 per cent of the vote in the first stage of the poll, coming second only to the Muslim Brotherhood and racing ahead of liberals of all stripes.

"I can claim that we made a bigger effort than any other party," says Imad Abdel Ghaffour, the leader of Nour. "I don't know on what basis opinion surveys before the election gave us 5 or 6 per cent. We always expected more. The way the media are now attacking us will just boost our momentum and power."

It looks certain there will be a sizeable Salafi bloc in parliament, a prospect that has not only unsettled liberals, but has also upset the calculations of the Muslim Brotherhood, whose own Freedom and Justice party is set to become the largest force in the assembly.

For the Brotherhood, which denied repeatedly that it had plans to ally itself with Nour in parliament or in a future coalition government, the fear is that the Salafis will try to outflank them on religion, dragging them into headline positions that would lose them popular support or undermine relations with Washington.

Salafi spokesmen, who admire the social model of Saudi Arabia, have made it clear they favour segregation of the sexes, banning alcohol and covering up tourists on beaches.

Although the Brotherhood is also socially and



Imad Abdel Ghaffour, leader of the Salafist Nour party

religiously conservative, it appears more cognisant of the need to preserve the crucial tourism industry and to proceed with care on issues of personal freedom.

"The answer for us is to seek to forge a wider national consensus that goes beyond the Islamists [in parliament]," says Mohamed al-Beltagi, a senior official of Freedom and Justice. "This would be a centrist bloc that would be able to apply pressure on all those on the edges."

Before the revolution that toppled Hosni Mubarak as president, the Salafis received scant notice from the press, which treated them as a fringe religious phenomenon active only in the forgotten Egypt of the poor.

Their impact can be seen in the rising number of women wearing the *niqab*, or face veil, on Egypt's streets and in the popularity of their satellite chan-

nels featuring preachers who offer advice on all aspects of life.

Salafi groups – they do not have a single leadership – had shunned politics until the revolution, focusing instead on charity and religious teaching.

Their leaders preached

from supporting the protests against Mr Mubarak.

But in the political free-for-all that followed the revolution, Salafis have rushed into the arena, anxious to prevent liberals from shaping the new order.

Their main motivation has been to ensure the next constitution to be drafted by parliament enhances the centrality of Islam in public life.

Preserving Egypt's "Islamic identity" is a main plank of Nour party publicity. Prominent Salafi leaders, such as Yasser Borhami, say they want the application of Islamic law enshrined in the constitution, even if they are willing to accept a gradual path to full implementation.

The previous constitution speaks of the principles of Islamic law as the source of all legislation, fuzzy language that has been broadly interpreted to mean law should be based on the concepts of justice, equality and freedom.

Unlike the experienced and pragmatic Brotherhood, which has been in the political fray for 80 years, the Salafis are new to the game.

Mr Abdel Ghaffour voices restrained views that emphasise his group's willingness to work with other political forces and accept a gradual approach. But other spokesmen articulate hardline positions at variance with what has been accepted for generations as mainstream thinking on social and cultural issues.

Many Egyptians have been shocked by Salafi leaders who called for banning women from politics, or covering up Pharoanic statues because they are relics of idolatrous civilisation.

In a country emerging from dictatorship, where politicians tend to have a poor reputation and to be seen as cynical opportunists, many voters say the Salafis are the only untainted group.

"Even the Brotherhood are a bit worldly, but the Salafis, they do everything for God, they will bring us blessings," says Mohamed, a gas company worker.

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Islamists set to sweep the board

Politics

Heba Saleh finds the balance of power shifting from the military

As Islamists hurtle towards a landslide victory in Egypt's parliamentary election, the country looks set to enter a new political era, heralding the end of 60 years of military-backed rule dating to 1952 when army officers overthrew the monarchy and replaced it with a republic.

The outlines of the new order remain blurry, but Islamist forces, backed by a strong popular mandate, are certain to be at its core, forming a rising new elite poised to replace the discredited and now disbanded National Democratic party, which governed under Hosni Mubarak, the president ousted in February.

"The end of military power is inevitable," says Khalil Anani, a political analyst. "At the conclusion of this political process, there will be a diffusion of power between the military, the Islamists and part of the civilian elite. But we are not there yet. We are still grappling with dismantling the old structures and building the new."

Egypt's complex, multi-stage parliamentary poll will end in March after the two chambers of the assembly have been elected. But it is already clear that Islamist parties will sweep a majority of the seats, allowing them the biggest say over the writing of a new constitution – one of the first tasks of the parliament. Under rules approved by referendum this year, the two chambers will select a panel of 100 people to draft the charter before it is submitted to a vote.

Freedom and Justice, the political arm of the Muslim Brotherhood, and Nour, a party set up by ultraconservative Salafi Islamists, polled two-thirds of the vote in the first stage of the election.

Early results from the second round indicate similar scores. The FJP secured 46 per cent of the seats contested in the first round, confirming predictions that it will be in the lead. The real surprise is Nour, which was formed only a few months ago, and which won 21 per cent of the seats.

Trailing behind, with about 15 per cent, is the Kotla, an alliance of liberal and secular parties that came together hastily to try to limit a predicted Islamist win. An even weaker performance came from the

young activists who led the protests that unseated Mr Mubarak. Fragmented and underfunded, they have proved unable to mount effective campaigns that could compete with the Islamists whose reach through mosques and charities extends deep into society.

Already the balance of power seems to be shifting away from the ruling Supreme Council of the Armed Forces, the body of senior military commanders that took over after Mr Mubarak stepped down. The generals promised to lead the country to democracy but have seemed intent on preserving as much as possible of Mr Mubarak's authoritarian state. Their foot-dragging on reform over the past year has provoked the ire of young democracy activists who have repeatedly led massive demonstrations to press for a genuine break with the past. The referral of Mr Mubarak and his sons to trial, the disbanding of the NDP and, more recently, the decision to bring forward presidential elections to June 2012, came only after pressure from the street.

Now the council's attempts to retain some control over the new constitution are meeting stiff resistance from Islamist parties, which have twice brought hundreds of thou-

'In the end, there will be a diffusion of power between the military, Islamists and civilian elite'

sands of supporters on to the streets to force the generals to back down. The council has recently given up on plans to agree in advance with political parties constitutional principles that would have allowed the military a political role beyond the transition.

It is, however, still holding out for a provision shielding its budget from parliamentary oversight. In addition, backed by liberals who fear a heavily Islamic constitution, they are pressing for an agreement on criteria that would govern the selection of the panel that will draft the charter. So far, the FJP has been adamant it will not allow unelected bodies to pre-empt the decisions of the parliament.

"There is no way the will of the people will be circumvented," says Mohamed al-Beltagi, a senior official of the FJP. "We need to prevent all forms of tutelage, from whichever institution it comes."

But FJP officials also insist that the drafting panel will represent the broad spectrum of society, and that, even if they secured an outright majority, they would not want to govern alone, or in a partnership of Islamists with Nour: they would instead seek a broad coalition of the forces in parliament.

"We want to team up with others for the sake of stability and to benefit from everyone's experience," says Saad al-Katatny, another senior FJP leader. "Monopolising power is a bad idea, especially in the case of Egypt, where the governing party can face hostility from a large portion of society and from other political forces."

The group, which has been sidelined and repressed for the best part of 80 years, is treading carefully, probably in the knowledge that there will be some unavoidable battles with the council. It has rowed back on initial demands made in the flush of victory after the first round to form the next government. It says it recognises that, until a new constitution has been adopted, the military council is entitled to appoint the government, though its composition should be acceptable to parliament.



Waiting to vote: the outlines of the new order remain blurry, but Islamist forces, backed by a strong popular mandate, are certain to be at its core, forming a rising new elite

Getty

Mr Katatny says the party did not want to strengthen constitutional provisions that make the principles of Islamic law the main source of legislation. Its main focus would be

reconfiguring the distribution of power to enhance the role of parliament and reduce the vast authority vested in the president.

Contrary to earlier statements in which it seemed to

favour a parliamentary political system, the FJP is now arguing for a constitution that would produce a mixed system with power shared between parliament and a president. The Mus-

lim Brotherhood, and its affiliated FJP, are adamant they will not run a candidate for the top job. Conceivably, some analysts say, they are leaving that post to a figure who enjoys the

confidence of the military, and to whom the Islamists would give their electoral endorsement.

"This is a change in the position of the Brotherhood," says Mr Anani. "I

think the president will be the mediator between the military and the Islamists. If they allow a president with some authority, then that will be the common ground for negotiation."

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The New Egypt

Obstacles to dismantling of a repressive state

Human rights

Activists say officers implicated in abuses have yet to be sacked. **Abeer Allam reports**

Ahmed Harara, a young Egyptian dentist, lost an eye on January 28 during anti-regime protests in which demonstrators battled police for hours, beating them into an unprecedented retreat.

Over the next two weeks, the protests grew and Hosni Mubarak, the former president, was forced to step down, handing over his powers to a council of senior army commanders who promised to lead the country to a new era of democracy and accountability. But, on November 19, Mr Harara was again among protesters battling armed police near Tahrir Square in central Cairo. This time he lost the other eye.

Mr Harara's blinded face represents a bitter rejoinder to all the rhetoric of reform by the military council which, many critics charge, has dragged its feet over dismantling the repressive state built up under Mr Mubarak. "Ahmed was trying to help the injured, and he ended up blind," says Bassem Sabry, a friend of Mr Harara. "It means nothing has changed. We don't know if they [the army] can't control the police or if they have no desire to do so."

After Mr Mubarak's downfall, Habib al-Adly, the former interior minister, and his top aides were put on trial on charges of killing hundreds of protesters, along with other abuses. Their case is still being heard. But, aside from a changing of the guard at the top, human rights activists say there has been no progress on restructuring the police and senior interior ministry officers implicated in abuses have yet to be dismissed.

A recent video circulated on YouTube shows police aiming directly at protesters' heads during violent clashes in November. Doctors in field hospitals near Tahrir Square report the use of live ammunition. But the interior ministry denies outright



State force: a strong culture of impunity has taken root in the police. They answered to no one but the interior minister and he was accountable only to the president

Getty

that its men used anything more lethal than teargas, blaming the shootings on an unidentified "third party".

Critics have called repeatedly on the military to rein in the police and to introduce reforms. "We should be using international expertise to train them to deal with civil society and legitimate protests," says Hafez Abu Saada, president of the Egyptian Human Rights Organisation. "If they refuse to reform, we could replace most of them with

unemployed graduates." Before November, in a bid to shield the despised police force from protesters, the army deployed its own military police on crowd-control duties. But they too have proved to be tragically inept and often just as brutal as the interior ministry forces.

On October 9, 25 protesters, mostly Coptic Christians, were killed when armoured vehicles belonging to the military police drove straight into the march-

ers. Live ammunition was fired, though the army also blamed an unknown "third party" which was said to have shot at both sides.

Egyptian activists and human rights groups at home and abroad were outraged when army doctors performed "virginity tests" on a group of detained female protesters in March. The military claimed that the intent had been to prove that the women had not been raped in detention. It promised prompt

investigations into the tests and other claims of torture in detention. But so far there has been no word on the results of these inquiries.

Critics and supporters alike have urged the army to speed police reforms and return to barracks to avoid further confrontation or risk the loss of traditional respect and prestige. "They're trained to use force against hostile forces, not to control the streets," says Mr Abu Saada. "When the military

tries to serve as police, such tragedies are inevitable." Human rights activists accuse the military council of lacking the political will to reform the police, but some observers argue that the council has balked at taking drastic measures because it fears further chaos and is wary of creating a security vacuum that could be exploited by resentful and demoralised officers.

Another criticism levelled at Egypt's military rulers has been

their revival of emergency legislation that has been in force almost without interruption since the 1967 Arab-Israeli war. Previous regimes used the legislation to undermine political opponents and obstruct the development of civilian institutions. Under the law, police could arrest and detain both dissidents and criminals almost indefinitely. It made professional law enforcement and crime detection measures almost unnecessary because suspects could always be tortured into a confession. After years of such practices, a strong culture of impunity has taken root in the police who answered to no one but the interior minister, and he was accountable only to the president.

The military council has also been criticised for resorting to military courts. In the confusion that followed the uprising, Egypt's prisons and police stations were attacked and thousands of prisoners were let loose.

A massive, unprecedented crime wave quickly followed. The council started trying suspects before military courts that are deemed to not meet international standards of fair trials. More than 12,000 people have appeared before military courts since the beginning of the year.

Several high-profile activists and protesters have also been summoned before military prosecutors including, most recently, Alaa Abdel Fattah, a blogger and harsh critic of the council.

He was detained after refusing to answer questions by the military prosecutor on claims regarding his involvement in October clashes in front of the television building.

After an outcry, he, along with 36 others, were referred to the civilian prosecution service to face charges, which he denies, of attacking the military police and stealing weapons.

"The struggle for democracy takes a long time and continuous efforts," says Negad el-Borai, a veteran human rights activist.

"But many political parties failed or avoided pressuring the military council to respect rights or repeal the emergency law for limited gains."

Copts frightened by rise of political Islam

Christians

Sectarian violence is becoming more frequent, says **Borzou Daragahi**

Christians made the first crack in Egypt's wall of fear. It was at an early January memorial service for those killed in the horrific New Year's Eve bombing at a church in Alexandria, a low point in the country's confessional history. The priest leading the televised ceremony began thanking dignitaries in attendance. When he began thanking President Hosni Mubarak for sending an envoy, the mostly Christian worshippers in the pews began to chant angrily.

Three weeks later, the first demonstrations that would turn into the Egyptian revolution began, with Christians defying their own conservative religious leadership to join Muslims at anti-government rallies in Tahrir Square and across the country.

But the blurring of the divide proved temporary. In the months since the uprising, relations between Muslims and the Christian minority appear to have taken another nosedive, with eruptions of sectarian violence becoming even more frequent than before the revolution. Christians continue to complain of harassment and discrimination. Attacks on churches have increased, including the dismantling of one near the southern city of Aswan that triggered protests in Cairo in October that left 21 people dead.

But it is the rise of political Islam – especially puritanical Muslims who subscribe to a severe version of Islam called Salafism – that has contributed most to Coptic fears. Political parties appealing to Islam received 65 per cent in the first round of the voting, with the Salafist Nour party taking a quarter of the votes and about a fifth of the seats so far. Even if

moderate Islamists, the military and liberals manage to rein in those with extremist positions, Christians still fear that the type of identity politics unleashed by the revolution will worsen discrimination and deepen the rift between the two communities.

"I am with the revolution, and it was the right thing to do but people just need to know what is for the good of the country, and the good of the country isn't in religion," says Andrew Ashraf, a 21-year-old student of business. "We don't want this country to turn out like other countries where the Muslims are separated from the Christians."

Many Christians are terrified, wondering how their community – with roots stretching back to antiquity – will fare under the rule of Islamists, some of whom vow to impose strict religious law on the country.

Some Salafis have called for Christians to pay a special tax, as prescribed by the Koran, and were behind campaigns against rural churches. The Nour party has disowned such positions, and so has the Muslim Brotherhood, now the

leading political force in the country, but this has not stemmed a chorus of sectarian rhetoric from some spokesmen.

Analysts say the Salafis' political debut and their surprise electoral success has given Christians fresh incentives to withdraw from cultural and political life, further undermining the vision of the integrated democratic state that had inspired hope during the revolution. "I used to think that the Salafis are sort of Sufis, peaceful dedicated Muslims who called for reviving the old days of Islam religiously," says Youssef Sidhom, editor-in-chief of the Coptic weekly, *Watani*. "But when after the revolution they stunned everybody. They say, 'We don't believe in the state. We only believe in Islam. No laws – only the penal code of Islam'," he says. "We thought these were newcomers that sooner or later would integrate themselves under the Muslim Brotherhood. But they kept striking upon the Copts, time after time."

The vast majority of Egypt's Copts are not wealthy or foreign passport

holders, though, as in the rest of the Middle East, they tend to be better educated and perhaps slightly better off than Muslims, who constitute 90 per cent of the population. They will be forced to accommodate any changes and they will have to depend on good relations with Muslim neighbours, socially and commercially, in order to stay in Egypt.

"We're hopeful," says Maryam Gergis, who works with Muslim colleagues at a series of shops near the ancient Christian heart of the capital called Old Cairo. "There's law in this country. For now, the country is under the law."

What scares Christians is that their identity will make them stand out from the mainstream. "We don't care who rules, which religion they are from," says her friend, Miri Yaqoub. "We're happy to have our rights equally, that they don't force us to wear the hijab [the Islamic headscarf]. But we also don't want to live our lives normally but feel abnormal because our necklines are too deep or get harassed because we're wearing skirts." Another friend, Amal Ayid, chimes in. "We don't want to be the only ones not wearing the headscarf."

Copts' participation in Egyptian civic life has been receding ever since Gamal Abdul Nasser overthrew the monarchy and squashed Egypt's 150-year-old European-style liberalism in 1952. They have further diminished in visibility and status since the rise of political Islam in the 1970s.

Now, Christians, who have already retreated culturally and politically to their churches, wonder whether a revolution that was supposed to bolster their rights will instead make them feel like second-class citizens. "I hear the Salafis talking about justice and following Islamic law," says Adel Iskander Abdul-lah, 61, a businessman in Old Cairo. "What's our role? If they come here and establish Islamic law, there is no role for us."



Outrage: Christians may be asked to pay a special tax

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TV channels gripped by vested interests

Media

Abeer Allam reports on a sector reorganising itself around political ideologies

As Egyptians battled in the streets to topple President Hosni Mubarak last winter, state-controlled media broadcast footage of boats sailing on the Nile before claiming a foreign conspiracy was behind the uprising.

From the first broadcasts of Gamal Abdel Nasser's incendiary speeches, the rule of Anwar el-Sadat, and up to the collapse of Mr Mubarak's apparatus, print and broadcast media have long served as an important tool of Egypt's leaders.

Now, with power diffused and new private media emerging, even the state media has begun airing street protests. Commentators on state television talk shows have broadened to include previously blacklisted guests from the once-outlawed Muslim Brotherhood.

The state networks have been joined by an influx of upstarts financed by business families striving to preserve their interests after the collapse of Mr Mubarak's regime. Gulf satellite giants such as Al Jazeera and al-Arabiya have been increasingly overshadowed by new stations with strident presenters closely fixated on Egyptian affairs.

Prominent among them is CBC, owned by businessman Mohamed al-Amin, a former member of the disbanded National Democratic party. They also include al-Tahrir, financed by a group of journalists and businessmen, and Egypt 25 of the Muslim Brotherhood. While coverage is more professional than state media, the

reporting closely reflects the political ideology of the owners.

Critics complain that hopes for creating a professional independent media in a new democratic Egypt are being dashed as the sector reorganises itself for the benefit of interest groups. Both the state and private media have been accused of resorting to old ways of subjective and inflammatory reporting.

Perhaps the most alarming incident took place when state channels claimed on October 9 that Coptic Christian protesters were attacking the army near the state television building, urging "honourable citizens" to defend the troops during clashes that left more than 25 people dead, mostly Copts, and brought the country to the brink of sectarian strife. Even now, the state broadcaster sometimes claims that certain activists are agents of foreign powers.

With every political crisis in the past 10 months, a tug of war has developed among the different private channels and state-run television, all competing to attract audiences and impose their views on the future of post-Mubarak Egypt.

"Each channel has its own political agenda," says Mohamed Salah, a newspaper columnist. "Their agendas serve their owners, and advertisers sometimes insist on controversial guests because rational discussion is less likely to bring in the viewers."

The mushrooming hours-long talk shows, a staple in Egyptian broadcasts, have become a big tool in political posturing. Given the general tumult, the risk of arrest or legal charges is seen as minimal, and rumours or insinuations appear to be widely popular.

In the aftermath of the revolution, Mr Mubarak's family and figures from the previous regime were targets of most of the on-air allegations. Accusa-



Screen shot: mushrooming talk shows, a staple in Egyptian broadcasts, have become a big tool in political posturing

Both the state and private media have been accused of resorting to old ways of subjective and inflammatory reporting

tions of corruption or misconduct were made by guests or unscripted callers in what at times was no more than an attempt to settle scores with rivals. Television hosts, however, rarely challenged the accusations.

"Egypt's media are like the rest of the country: chaotic, devoid of standards, full of energy with no sense of direction," says Magdi Abdel Hadi, a media consultant.

"Talk shows on private stations operate more or less as a platform to slander, while guests argue, rant and get things off their chests. Investigative reporting is totally absent. We hear opinions and analysis without knowing the facts."

State radio and television, he adds, still serve as a tool of propaganda. News reports about the activities of Field Marshal Mohamed Hussein Tantawi, head of the military council,

have replaced those of Mr Mubarak at the top of the bulletins.

After Mr Mubarak's ousting, the military rulers pledged to protect freedom of expression but urged "honest journalists" to ensure accuracy and objectivity to allow the airing of different views. Editors of state newspapers were also replaced. But, in July, the military council reinstated the information minister's post, vacant since the fall of the regime, in order to address what it described as "shortcomings".

"Since we have become a free country, we have seen an influx of cash to create new channels that air with no restrictions," says an official at the information ministry. "But we have to codify, streamline the licensing process and create a code of ethics. Everyone can talk about corruption, but television stations have a responsibility to filter information."

The official says the ministry is working on improving the quality and coverage of state media, which is saddled with thousands of employees. It is looking to emulate the French audio-visual council and set up an independent committee to draw up a code of ethics.

Even private media are calling for the creation of a code to avoid libel accusations, as they too find themselves under attack from rival television stations. "We have to write a media constitution to stop incitement on religious channels and to stop chaos," says Albert Shafik, ONTV's head, who was recently accused by a caller on state television of firing her for refusing to criticise the military council. "We are forced to impose self-censorship now, but others don't," he says.

National Bank of Egypt

The Flagship of Egyptian Banking

Just three years ago, the National Bank of Egypt would have found it challenging to fulfill its crucial role in rebuilding Egypt's post-Revolution economy. In April 2008, when the new management team took over, its mandate was to transform a drain on state resources into a thriving asset for the Egyptian people. By the eve of the Revolution, NBE had covered 100% of the provisions gap, reduced the total NPLs portfolio from EGP 30 billion to EGP 8 billion (and counting down to 8% of total assets from 25%, with a target of no more than 4% in the coming 18 months) and reported net profits of EGP 3.7 billion before taxes in the last fiscal year.

In the weeks following the resumption of economic activity in Egypt, NBE was the first major institution to undertake a nationwide campaign in support of business and production facilities to help expedite a return to normalcy. This campaign came at a key time, as the business community was tempted to go into a "self-defense" mode in reaction to the uncertainty sweeping the political and business arenas. NBE chose to act in the best interest of the country and stayed on the offence to support the Egyptian economy.

In such critical times for the tourism, textiles and industrial sectors, NBE extended initial credit lines of EGP 100 million to small- and medium-sized businesses in each segment at very competitive rates. The credit lines allowed SMEs — particularly crucial in Egypt, as they represent 80% of all private enterprise — to meet operational costs and purchase raw materials to increase production capacity. The Bank also actively worked with SMEs and other customers to restructure standing loans and allowed postponement of loan payments in qualified circumstances.

Meanwhile, NBE aimed to support key planks of the national economy to help create a stable stage on which Egypt's political transformation may play out. In the weeks following the Revolution, we led an EGP 4.6 billion, 14-bank syndicated loan to finance desperately needed expansion to a major electricity producer, thus enabling it to meet the heavy demand of households and businesses alike. We advanced USD 300 million to the country's primary importer of propane and butane and a further USD 200 million to support Egypt's refineries through the import of crude materials, both being part of a multi-billion-pound effort to accelerate the production and delivery of strategic goods including food and energy.

These efforts capped a year (July 2010-June 2011) that saw us lead syndicated loans totaling EGP 38 billion, including the largest-ever loans in the history of Egypt's oil and gas and telecommunications sectors.

Furthermore, NBE capitalized on the new balance-sheet strength, risk-control systems and culture of innovation to become the second-largest player in the Middle East and North Africa market for

syndicated loans in 2010 and the largest player by far in the first half of 2011 (with USD 2.061 billion) as ranked by Bloomberg.

For retail customers, our transformation team has overseen the roll-out of a new service model to branches based on a study commissioned by global consultants McKinsey, bringing a fresh look and feel to the branches, actively branding NBE to raise consumer awareness and implementing key improvements to customer service.

Our efforts have created tangible change for clients of all types and sizes: NBE is the country's largest lender in the trade finance sector and the largest lender to small and medium businesses, with 8,000 new customers and EGP 1 billion in new SME loans in 2010/11 alone. Over the past 18 months alone, we have launched new products including housing finance, auto loans, five-year certificate upfront interest certificate in foreign currency, and mutual funds. The Bank has also launched Al-Ahly Phone Service, which provides round-the-clock support for NBE's customers; interactive voice response service (IVR); and Al-Ahly Net, an internet banking service.

This profound transformation has been endorsed by some of the toughest global due-diligence processes: The bank's first Eurobond issue, for a total of USD 600 million to support our foreign currency liquidity, was heavily oversubscribed by more than 150 leading international institutional investors.

We have no illusions that the months ahead will be easy for the banks of the MENA region, but we have every confidence in NBE's long-term future. Our senior management is drafting a vision for the future that includes not only domestic growth, but also an expanded international presence to better support our clients wherever they do business.

From May through July 2011, key members of the management team went on a nation-wide listening tour to meet with businesses from all governorates representing a wide industrial cross section. It was inevitable to be keen on hearing about the problems faced by our 5 million clients, but more so, thrilled to hear them speak about the type of support they felt they needed as they chase new economic opportunity. In the short term, this meant providing more liquidity, extending grace periods and revision of loan terms. In the long term, this will involve becoming a true partner of institutions of all sizes, looking to capture new market shares, penetrate new segments and drive innovation.

As our clients grow beyond their neighborhoods, so will we. Management has obtained banking licenses in Sudan and Dubai (DIFC) and opened an office in Addis Ababa to complement NBE existing presences in London, New York, Shanghai and Johannesburg.

The months ahead will be challenging, but our 16,000 employees have 5 million reasons to deliver sustainable growth.



Since 1898, The National Bank of Egypt has been the cornerstone of the Egyptian banking sector, and a main supporter of the national economy. It is what makes NBE the trusted bank for more than 5 million clients; from individuals and start-ups to top tier corporations. It is also what makes NBE the leading arranger of syndicated loans and Egypt's largest lender to small and medium businesses.

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The New Egypt

Unusually liquid but profits under pressure

Banking

Bankers maintain that ratings downgrades were ill-advised, says Robin Wigglesworth

When Egypt's revolution broke out this year, many thought it would deal a painful, perhaps devastating blow to the banking system, with a rash of souring personal and corporate loans and perhaps even bank runs and mass capital flight.

Yet despite the turmoil brought by the ousting of former president Hosni Mubarak – and tussles over the country's future – Egyptian banks have managed to fare better than expected.

There has been an increase in Egyptians trading their local pounds for US dollars, more loans have become impaired and money – predominantly foreign capital – has leaked out of the country, but not nearly to the extent feared when the country felt compelled to introduce capital controls on the banking system, analysts and bankers say.

"Banks have performed better than many expected after the revolution," says Wael Ziada, head of research at EFG-Hermes, a local investment bank. "We were initially very worried about a decline in deposits, dollarisation and a surge in non-performing loans, but there haven't been any major problems."

To ease pressure on the financial system, the central bank has relaxed rules on bank provisions and fought to keep the pound below six to the US dollar, despite strong outflows of foreign capital from the stock market and government bonds.

Bankers concede that many loan repayments were missed in the wake of the revolution, but insist that stresses in loan portfolios have since abated. The profits of most banks have been hit, but not savagely.

"Right after the revolution [non-performing loans] exceeded our stress scenario for a short while but by June/July delin-



Money matters: Egyptians have been trading their local pounds for US dollars, more loans have become impaired and money has leaked out of the country

Reuters

quencies were again below our projections," says Hisham Ezz al-Arab, chairman and managing director of Commercial International Bank, Egypt's largest private lender.

CIB's nine-month net profits for 2011 dropped 20 per cent to about E1bn. National Société Générale Bank (NSGB) profits rose 9 per cent in the first nine months of the year, to E1.1bn, while Crédit Agricole Egypt profits tumbled 26 per cent over

the same period to E239m. "People who had problems paying their loans before the revolution still have problems, but Egyptian companies are generally underleveraged compared with international standards," Mr Ezz al-Arab argues.

Egyptian banks also remain exceptionally liquid by global standards. Lending had expanded 2 per cent year-on-year by September, according to central bank statistics, but

deposit growth hit an annual 6 per cent, driving the loan-to-deposit ratio down to 54 per cent.

Angus Blair, head of research at Beltone, an Egyptian investment bank, says: "The banks have been through a number of crises so they are naturally quite cautious in terms of lending and they went into the crisis in good shape, and have fared well despite the uprising."

Still, the financial sector remains under pressure from

the continuing political turmoil, and lending to private companies had contracted by 1 per cent year-on-year by September, according to the central bank.

Rather than lend to the private sector and consumers, banks have stepped in to fill the void left by foreign investors in the local treasury market. This has helped bridge a yawning budget deficit but is constricting credit flows, frustrating many businessmen.

"The banks are not acting like banks, but as government aides. They're only part-time private sector lenders," argues a senior executive at a large private company.

"The banks are very conservative, and make it very hard for companies and people to borrow."

While big companies generally have good access to credit facilities, medium sized ones suffer. Egypt's shell-shocked econ-

omy, poor state finances and the possibility of an extended period of political instability are likely to lead to sustained pressures on the banking sector, some analysts argue.

Soon after slashing the sovereign credit rating to B1, with a negative outlook, Moody's also downgraded the five largest banks and warned that further ratings cuts could come.

The rating agency argued that contributing to the downgrades were the high exposure to Egyptian sovereign bonds and bills, the weakening economic environment and the government's eroding ability to provide support to lenders in case of need.

While the ratio of non-performing loans remains moderate, the agency argued that these figures have in the short term benefited from the central bank's directive allowing different loan impairment classifications.

"We expect a deterioration of Egyptian banks' asset quality and profitability through higher provisioning costs and lower revenues due to weaker loan generation volumes," Moody's said.

"We expect that the full extent of asset-quality issues will begin to emerge in the next few quarters, impacting bank profitability."

The banking system is also increasingly exposed to state finances through the stepped-up purchases of domestic treasury bills and bonds.

While the privately owned banks were either less exposed or could benefit from support from their foreign owners, the state-owned banks – National Bank of Egypt, Banque Misr and Banque du Caire – have sovereign exposures of four to seven times their equity base.

Egyptian bankers have protested strongly at the downgrades and argue that, compared with European banks, their institutions are liquid and abundantly capitalised.

"The rating agencies are wrong," says Mr Ezz al-Arab.

"Egyptian banks are stronger than the European banks. The local subsidiaries are certainly stronger than their parents in Europe. Our bank is even stronger than Egypt."

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New government faces pressure to cut support

Subsidies

A gradual phase-out is likely, explains Robin Wigglesworth

Egypt remains desperately poor and, to pre-empt social unrest, the authorities have for decades provided cheap, subsidised bread to everyone in the country. The trademark local bread is called *ish*, or "life" in Arabic, and for many poor Egyptians it is just that.

Heavily subsidised wheat and corn ensured the price for the flat round pieces of bread remained for years at five piastres, or E0.05 (\$0.008). However, the cost of producing one of these loaves of bread has risen to about 25 piastres, experts say.

Coupled with even more expensive subsidies on energy and other commodities, this is contributing heavily to Egypt's yawning budget deficit, forecast to hit E134bn (\$22.3bn) in the fiscal year that started last July.

Past governments have long discussed cutting, tweaking or eliminating the subsidies to reduce the budget deficit, which has averaged more than 8 per cent of gross domestic product in recent years.

Little was ever done, given the potential for resulting unrest. But with mounting fiscal pressures, any post-revolutionary government is likely to have little choice but to address the country's subsidies bill.

"We will no longer support [the country] through subsidies because too much support is like a cancer," Hazem El Beblawi, Egypt's previous finance minister, said in early October. "People must get used to the idea that subsidies are an exception."

He said changes to the subsidies regime were vital over the next two or three years but the government would have to decrease payments "gradually" to alleviate the effects on the poor.

The Egyptian Centre for Economic Studies (ECES), a non-profit, private-sector funded research body, estimates that the total subsidies bill reached E155bn in the last fiscal year, and make up about a third of government spending.

Of this, about E18bn is spent on food subsidies, such as bread, sugar and rice, and E95bn on fuel and energy – with the balance going to healthcare, education and agriculture.

There is broad agreement among Cairo's business community, political elite and academics that the current level of government spending on subsidies is already unsustainably high, and rising.

"We cannot keep burying our heads in the sand for years and years," says Hisham Ezz al-Arab, the chairman of Commercial International Bank, Egypt's largest private bank. "We've diagnosed the problem, now we need to address it."

Among the general populace, there also appears to be a grudging acknowledgement that the subsidies

may need to be reformed, but many are worried about the effects it could have. Egypt's 40m poor have been hammered by high inflation on other goods and services in recent years and are likely to feel the pain of subsidy cuts the most.

The short-term focus is therefore likely to be on energy subsidies, which make up a large part of government spending after the soaring cost of oil, gas and

There is broad agreement that spending on subsidies is already unsustainably high

power production in recent years.

"Food subsidies are on the back burner as it isn't as expensive as the fuel subsidies, and it's a very emotional issue as it's aimed at feeding poor people," says Magda Kandil, the executive director of ECES. "Reforming the fuel subsidies is a far easier

argument to make."

The subsidies on energy span from petrol to electricity and cooking oil, but heavy industry – which benefits heavily from the subsidies – is the most likely target after years of bumper profits.

"Apart from the post-revolutionary period, which has hit a lot of businesses, a lot of industries can afford to pay the true cost of energy," argues a senior executive of a big Egyptian company. "Increasing energy costs to somewhere closer to the real costs would improve our habits, and help cut the budget deficit."

Egypt's electricity grid is already groaning. Last summer, demand surged to 23,500MW, close to the generating capacity of 25,000MW and forcing the government to schedule occasional power cuts, even during the Muslim Ramadan holiday when Egyptians gather for traditional iftar dinners with their families.

Egypt may open up its power generation industry to private investment to increase capacity, but should also reform its electricity and petrol subsidies to encourage less waste, many experts argue.

"It is unforgivable and unsustainable in a modern state that the petroleum subsidies are larger than the education budget," says Angus Blair, head of research at Beltone, an investment bank.

Still, even energy subsidies can be an emotive subject. The poor also benefit from cheap petrol and cooking gas in particular. Ms Kandil estimates that the government subsidises 95 per cent of the cost of cooking gas cylinders that many Egyptians use to power their stoves.

"We have to take a gradual approach," she argues. "A more targeted system will serve the social agenda better but alternatives have to be in place to mitigate the effect on the poor and protect services that could increase inflationary pressures."



Fuel stop: focus is likely to be on energy subsidies

Getty

FT Special Reports Research 2011

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Thank you for your help.

Michael Skapinker
Editor, Special Reports and Supplements

GENERAL RESEARCH ACTIVITY

Before we ask about the FT Special Reports, we would first like to ask you about how you research information in general.

Q1 How often do you conduct research on a company, industry, subject area (e.g. sustainable business) or country for work purposes?

	Company	Industry	Subject Area	Country
4-5 times per week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2-3 times per week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Once a week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2-3 times per month	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Once a month	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less often	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Never (Go to Q4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q2 When conducting research for work purposes, which resources do you use? Please tick all that apply

- Internal company resources e.g. Library
- Online search engines e.g. Google
- Online research databases e.g. LexisNexis
- News websites e.g. FT.com
- News publications e.g. FT
- Online discussion forums
- Online blogs
- Social media
- External research company
- Other (Please specify)
- None of the above

Q3 When quoting a research source, which of the following are most important to you? Please select up to three

- Reputability of source
- Trust in the source
- Editorial independence
- Source recognised by others
- Up to date content
- Integrity
- Relevance of information
- Other (Please specify)
- None of the above

USE OF FT SPECIAL REPORTS

Q4 How much of this FT Special Report did you read, or do you expect to have read by the time you have finished with it?

- | | |
|-------------------------------------|--|
| All of it <input type="checkbox"/> | About a quarter <input type="checkbox"/> |
| Most of it <input type="checkbox"/> | Less than a quarter <input type="checkbox"/> |
| About half <input type="checkbox"/> | Don't know <input type="checkbox"/> |

Q5 Apart from yourself, how many other people will read your copy of this FT Special Report?

- | | |
|---|------------------------------|
| None-Just myself <input type="checkbox"/> | 3-4 <input type="checkbox"/> |
| 1 <input type="checkbox"/> | 5-9 <input type="checkbox"/> |
| 2 <input type="checkbox"/> | 10+ <input type="checkbox"/> |

Q6 Overall, how would you rate this FT Special Report?

- | | |
|------------------------------------|-------------------------------|
| Excellent <input type="checkbox"/> | Fair <input type="checkbox"/> |
| Very good <input type="checkbox"/> | Poor <input type="checkbox"/> |

Q6a How often do you read FT Special Reports in the Financial Times newspaper?

- | | |
|---|---------------------------------|
| Regularly (at least three out of four reports) <input type="checkbox"/> | Rarely <input type="checkbox"/> |
| Sometimes (one or two out of four reports) <input type="checkbox"/> | Never <input type="checkbox"/> |

Q7 What will you do as a result of reading this FT Special Report (or may have done as a result of reading a previous Special Report)? Please tick all that apply

- Keep it for future reference
- Clip articles
- Contact one of the advertisers
- Contact a company or organisation featured in the report
- Purchase something
- Consider investing
- Research into the subject area further
- Read other FT Reports
- Visit Special Reports area on FT.com
- Other (Please specify)

Q8 Which, if any of the following FT Special Reports recently published by the FT did you read or look at? Please tick all that apply

	In Print	Online
Investing in Poland (2nd November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
The Connected Business (9th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
The Business of Formula One (10th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Watches & Jewellery (12th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Aerospace (14th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Brazilian Capital Markets (15th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Business of Consulting (17th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Private Banking (21st November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Nigeria (23rd November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Cop 17 Insight (25th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Arts Collecting (26th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
Business Education: Innovative Law Schools (28th November 2011)	<input type="checkbox"/>	<input type="checkbox"/>
FT Health: Combating Aids (1st December 2011)	<input type="checkbox"/>	<input type="checkbox"/>

Q9 How do you generally find out about FT Special Reports? Please tick all that apply

- Look at Guide to the Week
- See advance notices in the paper
- Receive advance topic list from FT
- Receive advance topic list from another org
- Online search
- Special Reports twitter feed
- Special Reports facebook page
- Look up on ft.com
- E-mail alerts from FT.com
- Just come across them on day of publication
- Other (Please specify)

Q10 Which subjects would you be interested in the FT covering (in future special reports)? Please write in

Q11 Which geographical regions would you be interested in the FT covering (in future special reports)? Please write in

Q12 Please indicate how strongly you agree or disagree with the following statements about FT Special Reports (on a scale of 1 to 5 where 1 is Disagree Strongly and 5 is Agree Strongly).

	Disagree Strongly	2	3	4	Agree Strongly
They are well written	<input type="checkbox"/>				
They are useful	<input type="checkbox"/>				
They provide information I cannot find elsewhere/would not otherwise see	<input type="checkbox"/>				
The writing is objective	<input type="checkbox"/>				
They help keep me informed about trends/development	<input type="checkbox"/>				
They are accurate and up to date	<input type="checkbox"/>				
They are authoritative and credible	<input type="checkbox"/>				

Q13 In your own words, can you tell us the value to you in reading FT Special Reports? Please write in

Q14 Aside from general reading, in which, if any, of the following ways do you use FT Special Reports? Please tick all that apply

- For a better understanding of countries/regions I do business with
- To research new markets or countries
- To understand emerging trends and developments
- To find out about specific business sectors
- To find out more about the industry I work in
- To make better informed business decisions
- To make my investment decisions
- To find new business partners/to uncover new business opportunities
- To prepare for a business trip
- To prepare for meetings with clients or other contacts from the country or industry concerned
- To incorporate into presentations, reports and other documents
- To show to clients, suppliers or other contacts
- In my role as a teacher/lecturer as teaching material
- Other (Please specify)
- None of the above

Q15 In which of the following ways have you accessed FT Special Reports in print? Please tick all that apply

- A copy of the FT purchased especially for a report
- A copy of the FT purchased for general content (not specifically for a report)
- Office/someone else's copy
- Library/archive
- Purchased/sourced back copy
- Other (Please specify)
- None of these

USE OF SPECIAL REPORTS ONLINE

Q16 Did you know that FT Special Reports are also available on FT.com? Yes No (Go to Q20a)

Q16a How often do you access the FT Special Reports on FT.com via browser on PC/laptop, FT.com via browser on tablet/mobile or FT app on tablet/mobile?

	FT.com via PC/laptop	FT.com via tablet/mobile	FT App on tablet/mobile
4-5 times a week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2-3 times a week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Once a week	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2-3 times a month	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Once a month	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less often	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Never	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q17 In which of the following ways have you accessed FT Reports online? Please tick all that apply

- Navigation bar on FT.com
- Search function on FT.com
- Search engine e.g. Google
- Click through from a link in an FT email
- Click through from a link on FT.com
- Click through from an advertisement on FT.com promoting Special Reports
- Bookmarked page as a favourite
- Typed in the URL from a report read in print
- Other (Please specify)
- None of the above

Q18 For what reasons do you access the FT Special Reports section on FT.com? Please tick all that apply

- To find out about upcoming reports
- For archiving/reference purposes
- To search for reports on a particular country/industry/subject
- In addition to a report read in print
- Prefer to read a report online than in print
- Don't have access to a print copy of Special Reports
- To access additional content relating to a report e.g. video, interactive graphics
- To download a PDF of a report
- Other (Please specify)
- None of the above
- Do not use FT.com to access FT Special Reports

Q19 What would make you use the Special Reports section on FT.com more frequently? Please tick all that apply

- Improved search function
- Reports being regularly updated with new content after being published
- More interactive features
- Better linking to further online content
- An online community of other readers interested in the same subjects
- Improved ability to share content with others
- Other (Please specify)
- None of the above

OTHER MEDIA CONSUMPTION

Q20a In which of these publications do you ever read or look at special supplements/reports? Please tick all that apply

	In Print	Online
Economist	<input type="checkbox"/>	<input type="checkbox"/>
Wall Street Journal	<input type="checkbox"/>	<input type="checkbox"/>
International Herald Tribune	<input type="checkbox"/>	<input type="checkbox"/>
Forbes	<input type="checkbox"/>	<input type="checkbox"/>
Fortune	<input type="checkbox"/>	<input type="checkbox"/>
Harvard Business Review	<input type="checkbox"/>	<input type="checkbox"/>
Bloomberg Business Week	<input type="checkbox"/>	<input type="checkbox"/>
The Times	<input type="checkbox"/>	<input type="checkbox"/>
The Telegraph	<input type="checkbox"/>	<input type="checkbox"/>
The Guardian	<input type="checkbox"/>	<input type="checkbox"/>
The Independent	<input type="checkbox"/>	<input type="checkbox"/>
Other Print (Please specify)	<input type="checkbox"/>	<input type="checkbox"/>
Other Online (Please specify)	<input type="checkbox"/>	<input type="checkbox"/>
None of the above	<input type="checkbox"/>	<input type="checkbox"/>

Q20b Which publication do you think runs the most informative special supplements/reports? Please tick one

	In Print	Online
Economist	<input type="checkbox"/>	<input type="checkbox"/>
Wall Street Journal	<input type="checkbox"/>	<input type="checkbox"/>
International Herald Tribune	<input type="checkbox"/>	<input type="checkbox"/>
Forbes	<input type="checkbox"/>	<input type="checkbox"/>
Fortune	<input type="checkbox"/>	<input type="checkbox"/>
Harvard Business Review	<input type="checkbox"/>	<input type="checkbox"/>
Bloomberg Business Week	<input type="checkbox"/>	<input type="checkbox"/>
The Times	<input type="checkbox"/>	<input type="checkbox"/>
The Telegraph	<input type="checkbox"/>	<input type="checkbox"/>
The Guardian	<input type="checkbox"/>	<input type="checkbox"/>
The Independent	<input type="checkbox"/>	<input type="checkbox"/>

Q21 Are you...?

- Working full-time
- Working part-time (including semi-retired)
- Looking for work
- Retired
- Homemaker
- Studying
- Other (Please specify)

Q22 Which of the following best describes your position/ job title?

- Owner/Partner
- President/Chairman/CEO
- Chief Operating Officer
- Managing Director
- Chief Financial Officer/Finance Director
- Chief Information/Technology Officer
- Other C-Suite title
- Board Member
- Departmental Director/Head of Department/Vice President
- Other managerial level/executive
- Technical Specialist
- Consultant
- Financial Professional (e.g. IFA, Broker, Trader, Investment/ Fund Manager, etc)
- Professionally qualified (i.e. Doctor, Teacher, Engineer etc.)
- Administration/Clerical
- Elected representative
- Other (Please specify)

Q23 Which one of the following best describes the industry sector of your organisation? Please tick one only

- Investment Banking
- Other Banking
- Investment/ Fund Management
- Audit Services
- Insurance/ Actuarial
- Other financial services
- Legal
- Management consulting
- Media
- PR/ Marketing
- IT
- Telecommunications
- Scientific/ Technical services
- Retail/ Wholesale
- Travel/ Tourism/ Leisure/ Entertainment
- Other services
- Construction
- Transport/ Vehicle manufacture
- Logistics
- Utilities/ Energy/ Oil
- Food/ Drink/ Tobacco/ Textile/ Clothing
- Manufacturing
- Engineering
- Government/ Politics
- Education/ Health
- Charity/ Not for profit organization
- Other (Please specify)

Q24 Does your job responsibility involve making decision about the purchase or lease (i.e. choosing the supplier or brand or authorising the payment) of any of the following type of goods or services? Please tick all that apply

- IT equipment/systems/services
- Telecommunication equipment/systems/services
- Other office equipment Aerospace
- Industrial materials/ components
- Fuel/Energy Company vehicles
- Business premises/sites Banking
- Investment/Brokerage Financial Services
- Auditing Services Legal Services
- Management consulting services
- Advertising / Marketing / Public relations
- Human Resources Travel services
- Logistics Conferences/Exhibitions
- Other
- Not involved in purchase decision making

Q24a Which of the following broad areas are your main areas of activity at work? Please tick all that apply

- General management Strategy/ Strategic planning
- Management of particular geographical regions
- Banking services Financial advisory services
- Accountancy/ Management accountancy
- Actuarial/ Insurance
- Investment/ Fund management
- Treasury Other Financial
- Legal Sales
- Marketing/ Advertising/ PR/ Communications
- E-Commerce/ Business systems
- IT/ Telecommunications Scientific/ Technical Services
- R&D/ Design Procurement/ Purchasing
- Logistics
- Premises/ Property management
- HR/ Training Education/ Medical/ Health
- Government/ Politics Other
- Not involved in purchase decision making

Q25 How many people does the organisation that you work for employ worldwide?

- | | |
|--|---------------------------------------|
| Just myself/ 1 person <input type="checkbox"/> | 501-1,000 <input type="checkbox"/> |
| 2-250 <input type="checkbox"/> | 1,001-10,000 <input type="checkbox"/> |
| 251-250 employees <input type="checkbox"/> | 10,001+ <input type="checkbox"/> |

Q26 Which region do you currently live in?

- | | |
|---|---------------------------------------|
| UK <input type="checkbox"/> | Middle East <input type="checkbox"/> |
| Continental Europe <input type="checkbox"/> | Africa <input type="checkbox"/> |
| USA <input type="checkbox"/> | Asia Pacific <input type="checkbox"/> |
| Americas (excluding USA) <input type="checkbox"/> | |
| Other (Please specify) <input type="checkbox"/> | |

FLAP A

FOLD 4

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FOLD 5
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FOLD 2

FOLD 3

FOLD 1

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PLEASE WRITE IN BLOCK CAPITALS

Name

Address

.....

Postcode Country

Email

Mobile* ()

*** It is now possible to conduct market research through text messaging. If you are happy to participate in FT research via text messaging, please enter your mobile or cell phone number (including country code) above.**

The information you provide will be used by FT Group in relation to the prize draw and for market research purposes only. For the FT privacy policy visit www.ft.com/servicestools/help/privacy

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Undermined by decades starved of investment

Healthcare

Robin Wigglesworth looks at a system in desperate need of resources

Like Cairo itself, the huge and rundown Qasr al-Aini hospital in central Cairo seems to function somehow despite the appearance of barely controlled chaos. Mustachioed men in traditional cotton *galabia* robes, strutting young men in tight vests, veiled women, frowning doctors and frazzled nurses in bright pink uniforms mill around the dilapidated hallways, which largely lack the antiseptic smell that seems to permeate medical facilities elsewhere.

Dr Taymour Mostafa, vice-director of the hospital and professor of dermatology at the associated Cairo University, insists that everything is kept immaculately disinfected. "We have a lot of doctors with good experience," he says. "It is very different from place to place, but here we are very careful."

Still, like most of Egypt's hospitals and clinics, Qasr al-Aini does not enjoy a great reputation among the general populace. Egypt's well-travelled elite largely rely on expensive private clinics or overseas treatment, but poorer patients have little choice – if they can even afford healthcare.

Decades of under-investment have severely undermined the system, creating a huge problem for any post-revolution government hoping to address popular demands for social justice by

extending decent medical services to a population of 80m, 40 per cent of whom are poor.

Ballooning fuel subsidy bills, formidable debt servicing commitments on top of salaries for a civil service of almost 6m people, have usually left few spare funds for previous governments to spend on basic services such as health and education.

On average, Egyptian men and women live shorter lives than their north African neighbours – as much as four years fewer than Tunisians, according to the World Health Organisation. Per capita government spending in Egypt on health in 2008, say WHO figures, was \$48, less than half the \$115 spent in Tunisia or the \$172 in Jordan.

The problems predominantly crop up in undersupplied government-run clinics or private surgeries in the ramshackle suburbs of big cities and more rural areas, which are often run by incompetent doctors cutting corners and lacking ethical standards, many Egyptians say.

Past governments have invested in tertiary care – the large, flagship hospitals of the bigger cities – but smaller clinics and other aspects of healthcare have been starved of resources for years.

"There are major inequalities in healthcare," says Dr Khalil Abdelkhalek, at Qasr al-Aini. "Some hospitals will pamper you and give you the five-star treatment, while others are bad and will send you to get your own medicines. There are places where children that shouldn't die, die."

Other observers recount stories of malpractice and infections, even at the better hospitals and clinics. "This is not a country to get ill in," says a



Healthcare hurdles: 'This is not a country to get ill in,' says a long-time expatriate businessman. 'The poor do not stand a chance'

Reuters

long-time expatriate businessman. "The poor do not stand a chance."

Egypt faces several big healthcare hurdles. Some are short term, while others have been festering for years and will take longer to overcome. Patients are often forced to buy their own medication or medical equipment because of the hospital's lack of supplies or money but the situation has worsened since the revolution, doctors and nurses say. "Everything was fine before the revolution but now there are problems," says a nurse at Qasr al-Aini. "There are laws for free medication but after the revolution

they are not available." Dr Mostafa concedes that Qasr al-Aini needs new equipment across the board, while Dr Abdelkhalek says in particular he is desperately short of incubators.

While many of these immediate shortages could be solved relatively easily, the sprawling ministry of health needs drastic reform and more resources after decades of alternating political meddling and neglect. "The health ministry is a massive organisation, but it's underfunded and the state of the facilities is poor," says Ahmed Badreldin, the head of private equity group Abraaj's regional

office. Abraaj owns Al Borg, a local medical company.

Many Egyptians also bemoan the standards of medical professionals – an irony given the fact that Egypt is one of the largest suppliers of doctors and nurses to countries across the Middle East.

Cairo University and other medical colleges educate thousands of doctors every year, but standards have dropped significantly in recent decades, many Egyptians argue. "Just a few decades ago, Egypt was the best place to study medicine in the entire Arab world. These days no one would come here to study," complains a business

executive.

Dr Abdelkhalek argues that Egyptian doctors are "good, but mismanaged", but others say inadequate salaries drive the better doctors and nurses to the west or the oil-rich Gulf, leaving the mediocre ones to Egypt's better hospitals, and inadequate ones to the rudimentary clinics in slums and rural areas.

On average, Egyptians still enjoy a lower mortality rate than in past generations, but the country's creaking healthcare infrastructure still sorely needs more investment and attention to avoid slipping further behind that of its neighbours.

On average, Egyptians live shorter lives than their north African neighbours – as much as four years fewer than Tunisians

Workers see a window of opportunity

Labour

Restrictions on independent unions are to be lifted, writes **Abeer Allam**

After protesting for hours by the cabinet office in Cairo, a band of women stopped by the dusty, cobwebbed office of the Egyptian Independent Labour Union to plan the next step.

"I think we should go and camp by [the prime minister's] house tonight," suggested a woman who wears the face veil. Another with a toddler in her arms objected, noting that military police are guarding the residence.

These women are contract census takers, earning about \$50 a month, and demanding full-time government jobs and a salary increase to \$150 a month.

For decades, state-controlled labour unions rigged their elections to bring in leaders who served as tools of the regime, stifling dissent among workers and turning out reliable votes during sham parliamentary polls.

After the toppling of former president Hosni Mubarak, the new government declared that restrictions on forming independent unions would be lifted as part of Egypt's international obligations and in order to make it easier to address workers' complaints.

But 10 months after Mr Mubarak's fall, activists complain that they do not see progress. "The military council is not enthusiastic about issuing the new labour law that would grant us more freedom," says Talal Shokr, a retired factory technician now organising a Retirees Union and demanding new laws to facilitate the establishment of independent unions. Several independent

unions in the private and public sectors have already been formed to press for higher wages and better conditions.

In recent months, thousands of strikes by doctors, hospitality workers, transport workers, teachers and police officers, have underscored the difficulties facing any government in a post-Mubarak era.

Most protesters demand immediate pay rises of 200 to 300 per cent. Others call for permanent contracts and pensions, or simply to reverse privatisation. Many also ask to replace their managers, demand jobs for their children or for curbs on foreign workers.

Shebin Textile factory workers blocked traffic in Kasr al-Aini Street, home to the main government offices, because they want the government to renationalise their factory after a court ruling found irregularities in the deal under which it was privatised.

"The court said that it was a corrupt privatisation deal. Why doesn't the government want to take back the factory?" asks Mohamed Awad, a technician.

Many ask for their managers to be replaced, jobs for their children or for curbs on foreign workers

Although strikes were banned in April by the military, with few exceptions, protests have been tolerated by a government wary of fuelling popular discontent. The authorities raised the minimum wage from E£422 to E£708 in July, gambling that it would appease most protests and restore normality. The labour ministry said no further negotiations would occur with protesters



On strike: even before the revolution, sit-ins were common

who disrupt output, but protests continue.

"It is hard to understand what exactly is going on in the street," Hassan Boraie, the labour minister, said in a television interview in October. "The public sector can't just hire all people, and investors have to feel secure before they can restore jobs."

Even before the revolution, sit-ins and strikes had become frequent. But the Mubarak regime and its state security apparatus tried to quell labour protests by arresting or harassing organisers while extending pay increases to others.

Workers insist they are forced to take to the street to make their voices heard because the government ignores them. In the past few months, striking transport workers caused the suspension of many bus services, crippling a crowded city of 20m people.

A strike at al-Sokhna port, run by Dubai operator DP World, disrupted imports from Asia. The unrest spread to private factories and hotels. Stockbrokers threatened to strike, and even ballot counters clamoured for better pay

before November's round of parliamentary elections. "The government still sides with the employers against the labourers. Nothing has changed," says Mr Shokr.

Officials have warned that protests stoke fear among foreign investors and businessmen sensitive to higher costs. Employers complain that, in many cases, once higher pay has been negotiated, a new wave of protests begins with demands for other increases. Businessmen also continue to complain of the low productivity, poor work ethic and inadequate skills of many Egyptian workers.

"The main problem we are facing in the factory is our inability to maintain discipline," says an Asian investor. "Workers are not worried because they know they cannot be fired now so productivity is very low." But labour activists argue this is the moment to seize what may be a brief opportunity to meet workers demands. "People have been patient for 30 years," says Mr Shokr. "Why can't my grandson have the same privileges as that of the ruling general's grandson?"

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Stymied by turmoil and lack of security

Hold the horses: peak winter season packages have been deferred

Tourism

Abeer Allam finds industry officials fearful of Islamist victory at the polls

A half dozen horses stroll across a lush orchard nestling against the desert backdrop of the ancient Egyptian necropolis of Abu-sir in Giza.

On a perfect autumn day such as this, tourists would ordinarily flock here from cloudier climes, snapping away pictures of the step pyramids or riding horses before eating a traditional meal under the palm and mango trees. But the tourists are nowhere to be seen.

"I used to make \$100 a day bringing tourists here to ride horses and eat country food," says Ali Mohamed, a taxi driver. "After the revolution, the customers vanished. I had to sell my new car because I could not afford the instalments. I now drive a taxi owned by someone else like I used to do 20 years ago."

Tourists are shunning the great pyramids of Giza and the temple complexes of Luxor and Aswan, among the world's greatest ancient ruins. Hotel occupancy in these destinations has

Hotel occupancy in Aswan and Luxor has dropped from 90% this time last year to 15%

dropped from an average of 90 per cent this time last year to about 15 per cent. Cairo has fared slightly better because of foreign reporters, tourism officials say.

Since Hosni Mubarak, the former president, was toppled in February, turmoil and insecurity have stymied the tourism industry, an important foreign currency earner that last year accounted for up to 11 per cent of the country's \$218bn gross domestic product.

Brought to a near halt during the tumultuous winter protests, it sputtered through a weak spring and summer on to a dire autumn. Violent episodes and sectarian clashes in Cairo in recent weeks have further spooked visitors.

"We are facing a problem of perception because the violent images aired on television have enormous negative impact," says Mounir Fakhry Abdel Nour, the tourism minister. "Coverage focuses on Tahrir [Square], but Tahrir is not representative of the 1m sq km of Egypt, or even the rest of Cairo or Luxor."



On the look-out: Sharm el-Sheikh markets are deserted Getty

Travel agents, fearful of potential outbreaks of violence during multi-stage elections that started in November, have postponed holiday packages during what should be the peak winter season.

Nile cruise operators, tour guides, artisans and even villagers earning extra income from cooking or offering tea to tourists near archaeological sites are feeling the pinch.

"We lack cashflow," says Elhamy al-Zayat, chief executive of Emeco Travel and chairman of the Egyptian Tourism Federation. "We are not firing workers, but we do not have bankruptcy laws to protect us. The funds are gone and banks are not helping. We will be in a dire situation if we can't get out of this soon."

More than 3m Egyptians, or 12.6 per cent of the labour force, work directly or indirectly in the tourism industry. Many seasonal workers have lost their jobs and smaller hotels have closed.

Declining tourism revenues, coupled with higher social spending and capital outflows, have depleted foreign currency reserves, which dropped from \$35.5bn a year ago when a record 14.7m tourists generated \$12bn to just \$20bn in November.

Through to the end of August, the total number of tourists was down 36 per cent from the previous year, with most taking discount offers at the Red Sea beach resorts in Sharm el-Sheikh and Hurghada. Occupancy fluctuated between 40 to 70 per cent in these destinations, and some hotels slashed rates to as low as \$30 a night to attract scarce tourists.

"We managed to get 70 per cent of the numbers back, yes, but we are getting the cheapest kind, not the big spenders," says Mr al-Zayat. High-end business tourists and luxury corporate events have stopped completely, he says, because of a perceived lack of security.

Mr Abdel Nour says the central bank has advised local banks to introduce a grace period and slash penalties for late debt payments, but it cannot force them to comply. "We did not stop advertising or participating in conferences to tell the world we are here and Egypt is safe," he says.

The ministry intends to diversify into other tourism products, including golf, yachting, shopping, wellness and religious tourism. At the same time, efforts to improve the standards of service are under way, he said, including training for drivers, chefs and service providers.

Yet initial election gains by the Islamic groups, particularly radical Salafis who want to segregate

beaches and ban alcohol, may scuttle such aspirations. Mr Abdel Nour and other executives note that cultural tourism of the sort approved by Islamists represents about 18 per cent of

tourism revenues.

Warnings from officials to tourism workers against voting for "those who will destroy the industry" have fallen on deaf ears, as the Red Sea and Luxor govern-

rates polled strongly in favour of the Muslim Brotherhood's Freedom and Justice party.

The Brotherhood has voiced concerns about the "morality" of mixed

beaches and serving alcohol, but analysts suggest the organisation is too pragmatic to damage such a vital industry. The Salafis, by contrast, consider moral constraints a priority, and

some of their spokesmen have expressed hostility towards ancient monuments, which they see as relics of an idolatrous civilisation. "If they take power," says Mr Abdel Nour, a long-

standing member of the liberal and secular Wafd party, "they will not just destroy our plans for tourism, but they will destroy many aspects of our lifestyle and our livelihood".

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