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Egyptian Military & Destruction of Economy – 3

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Egyptian Military & Destruction of Economy – 3

Abdel-Hafez Al-Sawi

(In **Part 2** of this documentary file, the writer addressed: Egypt's energy crisis, the military and Egypt's wealth, collapse of the local currency, the regime's fake projects, and Ethiopia's Renaissance Dam)

XI- The Suffering of Agriculture in Egypt

The agricultural GDP in Egypt amounted to about LE 276.7 billion in the financial year 2013/2014, by 14.3% of the total GDP of the same fiscal year, which amounted to about LE 1930.6 billion. The agricultural GDP, estimated according to the economic and social plan for Egypt in the fiscal year 2014/2015, estimated at LE 352.5 billion, up to 14.5 of the GDP, estimated at LE 2431 billion.

As the Agricultural sector accounts for 27% of the labour force in Egypt, amounting to 26 workers, agriculture contributes with about 20% of Egypt's export of goods, with a cultivated area of about 8 million acres, including the old and the reclaimed land.

First: The Most Challenges that Face the Egyptian Agriculture at Present:

- 1) High environmental pollution rates of agricultural waste, (26-28 million tons per year).
- 2) Continuation of the adoption of a crop combination that does not fit Egypt's water problem, depending on highly water consuming crops. In addition, a large proportion of arable land depends on the flood irrigation method.
- 3) High percentage of losses in the agricultural production, and the lack of linkage, to a great extent, between the agricultural products and engaging in the agricultural processing stages.
- 4) Fragmentation of the agricultural holdings (possessions) and exposure of large areas to "assault" for the purpose of housing.
- 5) High production costs of supplies and equipment, lack of provision of sufficient quantities of fuel during the different stages of agricultural production as well as underinvestment in the field of agriculture.

6) Threats related to the provision of water from the Nile and other limited resources, and their inability to meet the growing demand of the increasing population, which resulted in the low average of water per capita.

7) Rigidity of the credit policies of the agricultural sector and restriction to only traditional patterns.

8) Weak control over the agricultural inputs, especially seeds, fertilizers and chemicals.

9) Encroachments on waterways in their infancy to irrigate the “seizure” land (the land seized by farmers but not possessed), and changing the irrigation systems designed for the irrigation project from advanced irrigation, which rationalizes water consumption, to flood irrigation methods.

Unfortunately, despite these problems and challenges that face the agriculture sector in Egypt, the state plan for the fiscal year 2015/2016, came to aggravate these problems and threaten this sector at present and in the future. The budget of the agriculture sector was reduced in the fiscal year 2015/2016. The allocations for research and investments were reduced by 68%. The budget of Part VI, allocated to the investment plan, was reduced, leaving only Part I, allocated to wages.

Second: The Most Important Implications of the Expected Reduction in the Ministry of Agriculture’s Budget in the Fiscal Year 2015/2016:

1) Reducing the research budget of the Agricultural Research Centre from LE 69 million to LE 20 million, which will turn the scientists and researchers into a mere staff who just sign the payroll attendance, in addition to stopping all the research projects, aimed at increasing the efficiency of crops and plantations.

2) Reducing the budget of the Desert Research Centre from LE 32 million to 13 million, as well as reduction of the Land Reclamation Sector budget from LE 243 million to LE 200 million, threatening reclamation of the one million acres of land, announced by Sisi earlier.

3) Cancelling more than 15 research projects serving the agricultural sector at the Agricultural Research Centre, in addition to 12 research programmes at the Desert Research Centre.

4) Threatening the Veterinary Services Authority programmes of anti-epidemic diseases after reducing the Authority’s budget from LE 40 million to LE 21 million, despite previous demands to increase the its budget to LE 100 million, causing a large deficit in the provision of basic serums and vaccines available through the Authority for about 9 million head of cattle owned by farmers.

- 5) Reduction of the Fisheries Development Authority's budget from LE 160 million to LE 120 million, as well as reducing the budget of the Land Improvement Body from LE 60 million to LE 20 million, which threatens the research programmes for development of agricultural crop productivity, aimed at filling the food gap, which is considered a serious threat to the scientific research.
- 6) Reducing the budget of the Agriculture Ministry's General Bureau from LE 436 million to LE 233 million, resulting in cancellation of 10 projects turning the scientists and researchers into personnel who just sign their payroll attendance.
- 7) Causing harm to the Egyptian livestock, upon which nearly 51 million farmers rely and the entire people benefit from. This increases the burdens of the Egyptian peasant, drowns him in problems and debts, resulting in more agricultural land abandonment and a larger increase in the number of the poor in Egypt.

Third: The Most Important Problems Faced by the Farmers after the Military Coup:

Among the problems monitored by the Land Centre for Human Rights are the following:

- 1) Threatening of imprisonment to the small farmers, defaulting on debt payment to the Development Bank. As the Minister of Agriculture declared more than 250000 farmers were tripped in repayment of their debts to the Development Bank, confirming that these debts will not be dropped. Some small farmers are already serving a criminal penalty because of these loans.
- 2) High prices of fertilizers: The price of a ton of fertilizer was increased by LE 500 to reach LE 2000, borne by small farmers and resulting in reducing their income and increasing the prices of vegetables and food to citizens. The high prices of fertilizers come despite the fact that Egypt produces 16 million tons of fertilizers annually, whereas our needs do not exceed 10 million tons annually. However, fertilizers producing companies prefer export to meeting the local needs.
- 3) High utilization rent and titling prices of reclaimed land to five times: The Agency for Reclamation and Reconstruction of Desert raised the prices of the land handed over to farmers, who were affected by the application of Law 96 of 1992 from about LE 15 thousand to LE 50 thousand for a piece of two and a half acres.
- 4) Shortage and pollution of the irrigation water in many areas: This forced the peasants in some cases to use wastewater for irrigation as a result of water shortages. Farmers also suffer from

contamination of the drinking water which is sometimes polluted chemically due to government errors in water treatment or in the drainage systems, in which the wastewater mixes with the drinking water.

5) The low income of farmers due to the rising costs of the process of cultivation in all its stages from plowing to harvest, due to its dependence on diesel fuel and electricity price rise to more than 50% in some areas during 2014. Therefore, the incomes of tenants declined due to this increase, in addition to the high prices of agricultural inputs, including fertilizers, pesticides, seeds and others. As for the cotton crop, some reports have pointed out that the cotton crop produced this year was the lowest ever in terms of volume over the past 100 years. The quantity of cotton that was ginned during the period from March to May, 2015 amounted to 395 thousand quintals, compared to 395 thousand quintals in the corresponding period of last year. Accordingly, the Egyptian exports of cotton was affected where data indicate that the cotton exports during the period in question amounted to 106.5 thousand metric quintals, compared to 351.7 thousand metric quintals during the same period of the previous year.

XII- The Public Debt: An Insoluble Problem In Egypt

Although the issue of the public debt in Egypt is the presentation of a range of chronic diseases, including the fragility of the GDP, the budget deficit and the imbalance of the balance of payments, yet it has not received necessary attention of the Egyptian successive governments, especially after the military coup in Egypt.

The behavior of the Egyptian government after July, 2013, lead to increasing the public debt ratios, and subduing the monetary policy to serve the financial policies, through cutting the interest rates on the bonds and treasury bills. On the other hand, the government did not seek to undertake any real financial reforms in the state budget, not in the taxation sector or wages and salaries. All that was announced then in this regard was not carried out, especially after postponement of the tax code on the stock market works, and the abolition of the maximum wage limitation, concerning the prosecutors and judges as well as bank employees.

Therefore, the issue of the public debt will continue to be stressful on a lot of important economic activities in the lives of the Egyptians, including the necessity to improve education, health and infrastructure services, especially in the drinking water, sanitation or the health security.

The public debt interest as monitored by the 2015/2016 fiscal year budget, amounted to LE 244 billion, which exceeds the wage provisions for about 6.5 million government workers, estimated at LE 218 billion. The debt interest also exceeds the allocations for education, health and public investments (Education: LE 105 billion, health: LE 48.7 billion and investment: LE 75 billion)

Through access to government versions, especially the general state budget for several years, we did not find a government programme to pay off the public debt or to get it off to below 60% of the General Domestic Product. What is contained in the general budget targets of reducing the ratio of the public debt, was not a time-bound programme that reflects a government time commitment, for which it can be held accountable. It does not either allow asking the government for implementation mechanisms. However, what is presented in the final statement of the budget each year is only wishful thinking.

Consumption of the old debt is the only measure that is done routinely by the Egyptian government, particularly with regard to the domestic debt which constitutes the bulk of the public debt. This is done through issuance of new bonds to pay off the old debts with a portion of the new debt, and the debt spiral continues.

What confirms this view is that the successive Egyptian governments did not stop targeting reduction of the public debt ratio to the GDP. However, actual reality proved a steady increase in the public debt value and cost, which has become a burden on the budget and a deduction of improving the performance of government facilities and establishments.

Estimates of the public debt (domestic + external) in June, 2015, indicated that it amounted to LE 2.5 trillion. However, the estimates of the general budget for the fiscal year 2015/2016 showed that the public debt will be LE 2.55 trillion by the end of June, 2016, representing 90% of the GDP.

The Domestic Debt:

The Central Bank data show that the domestic debt reached LE 1.83 trillion by the end of 2014, one year after the military coup, an increase of about LE 300 billion, compared to what it was at the end of June, 2013. In June, the domestic debt reached LE 2.1 trillion. Thus, the difference in the volume of the domestic debt compared to what it was at the end of June, 2013, reached LE one trillion.

The External Debt:

The Central Bank data show that the external debt reached about \$ 34.2 billion in June, 2013. A year later, it reached \$ 46 billion by the end of June, 2014. This means that the external debt increased by 6.4%, one year after the military coup. By the end of June, 2015, the external debt reached \$ 48 billion. Thus, the increase proportion of the external debt in June, 2015, compared to what it was in June, 2013, reached 11%.

However, numbers in their absolute image reflect reality not facts, as people say. In spite of receiving a foreign aid estimated by the Egyptian government at \$ 40 billion, the external debt increased by about \$ 4.8 billion, which means that there is an acute funding crisis in Egypt's economy, as well as an imbalance in Egypt's external dealings (trade) with the world.

The second thing is that the decline in the external debt value at the end of the first quarter of 2015/2016, to \$ 46.1 billion, was not an option to the government, which had no programme aimed at reducing the external debt, as its ratio to the GDP was still in the safe limits, even after reaching \$ 46.1 billion at the end of September, 2015, and its rate to the GDP was 13%.

Decline of Egypt's external debt during 2015 was really due to repayment of Egypt's obligations towards the Qatari bonds and due deposits during the same year. Therefore, it was not due to the Egyptian government's desire. If the Egyptian government only had had the choice, its concern would have certainly been drawn to the dilemmatic debt, i.e. the domestic debt. It is worth noting, that the Egyptian government is ignoring all the risks resulting from the external debt increase; and it borrows between \$ five billion and \$ seven billion weekly.

We have to take into account that the government tended during 2014 and 2015 to convert the indebtedness of the foreign oil companies to local and regional banks, which means that what happened was just conversion of debts, and not repayment of them. The government also tended to get loans through economic bodies and holding companies, as the case was with the Suez Canal General Authority (SCGA), which borrowed about \$ 1.5 billion. The Holding Company for Electricity (HCE) borrowed about \$ 350 million, and the General Petroleum Authority (GPA) also borrowed about \$ 3.5 billion. All this happened through government arrangement that the SCGA, the HCE and the GPA get loans from local and regional banks.

The scourge of the economic data of the Egyptian institutions is that they come late. The economic data of September, 2015, will not undoubtedly show that there was a borrowing of \$ 3.5 billion in the last three months of 2015.

What indicates the Egyptian government expansion of the public debt is what was published on the Central Bank's internet site on December 30th , that the deficit of the balance of payments for the first quarter of 2015/2016 reached \$ 3.7 billion. On the same date, the Egyptian Planning Minister said Egypt was considering various sources of funding, including reaching an agreement with the International Monetary Fund, which means getting more loans with new economic and social burdens to be borne by the poor and the low-income people.

XIII- Increasing Concerns about the Future of Egyptian Economy

According to the Central Bank of Egypt (CBE)'s economic bulletin data of November, 2015, the CBE printed LE 9 billion in September, 2015, in the light of the rising domestic and external debt levels, as well as the decline in the foreign currency reserves. This means that the economic policy deficiency strikes all the economic activities in depth.

Many economic sins usually appear in July every year, when the budget final accounts are finished, and the government becomes in need to pay off some of its obligations. It seems that the government found out that its loans from the banking system during this year exceeded permissible limits; therefore it resorted to printing quantities of cash, not caring about its consequent economic harms and losses.

The government's policy of printing money has been followed for years, not only in September, 2015. What has been printed of cash during the period of the military coup and so far can be monitored through the Central Bank of Egypt's data. The CBE economic bulletin data of September, 2015 indicates that the government printed LE 67 billion during the period from July, to September, 2015. The low-income people, as well as the government and private sector employees who have fixed incomes, may not be aware of the indication of printing LE nine billion in a month. However, they will bear the price rises due to the higher inflation rates, resulting from the process of printing money. However, people will be exposed to another danger through devaluation of the Egyptian pound in less than 6 months, supposed to be within three months due to the nature of the business cycle that relies on imports. However, according to the Egyptian reality of absence of government control over

markets, and preoccupation of the regulatory and security bodies with political aspects, traders will take the advantage of this atmosphere, and the poor will be fire-burnt as a result of inflation and decline in the Egyptian pound exchange rate within few days.

However, owners of bank savings will realize the reality of the negative actions of the government at the economic level when they see their fortunes crumble under the printing of money and the high inflation rates which exceed the interest rates on their savings.

The Open Import Bill:

The Minister of Finance has recently confirmed that the import bill during the fiscal year 2014/2015 amounted to \$ 81 billion, including commodity and service imports, with an increase of \$ 20 billion compared to the previous year. This has also been confirmed recently by the Governor of the Central Bank of Egypt, in the context of justifying the collapse of foreign currency reserves and the devaluation of the Egyptian pound.

Thus, we find that the import bill exactly doubled compared to what it was in 2009/2010, when the Egyptian imports amounted to about \$ 40 billion. However, the justifications, given by some economists and government officials, that these imports were production requirements, tools and machines, are unacceptable. The deficiency of the import structure is not instantaneous, but it has been known for decades, which necessitated a treatment strategy to prevent its aggravation.

The increase in the import bill, particularly in the leisure and luxury goods, was often promoted as requirements of the tourism sector activities. Unfortunately, tourism was almost “hit to death” over the past five years, yet import of these provocative goods did not stop or even decrease.

Undoubtedly, Egypt has got economic resources that can fill part of the import gap, the simplest of which is the cotton crop that has been compromised by the government through exporting it in the form of raw material. However, the public and private sector spinning plants either stopped working for lack of cotton, or depended on cotton imported from abroad. In fact, there are dozens or even hundreds of commodities that can be produced as intermediate or final commodities through local resources, but stakeholders and “seekers of the easiest solutions” depend on import, as they do not bother themselves with the construction of Egyptian economy properly, through increasing self-reliance in the development projects.

Aid Chandler:

It is well-known in development experiences that aid and grants cannot be a mainstay development project, but they come to help at specific times , especially in the moments of the first building or the moments of launching; whereas the local resources are employed mainly to build successful models of development.

Unfortunately, statements of officials and pro-coup economists, often cheered for the support of the pro-coup Gulf States, and photographed to the public opinion that this support began to continue, and that it will not be restricted to these billions of dollars, but direct investments from these countries will come to Egypt excessively as rain

They did not cost themselves the trouble of reading the performance of the Gulf States towards Egypt in investment over the last decades, both in terms of value and quality. They are mostly limited investments as a percentage of the foreign investments in Egypt. Moreover, they are mostly investments in rentier activities in the tourism and real estate sectors, and lately in financial services, in addition to competition between Saudi and UAE companies to take over some foodstuff markets in Egypt.

After the Gulf States' crisis of oil prices collapse and decline in their support to the coup government, the Egyptian officials began to talk about the role of the decrease of Gulf support on the decline in the foreign currency reserves, or continuation of economic recession. They further used this aid decline as a justification to borrow from abroad at the highest interest rates in the world markets. Egypt got a loan of \$ 1.5 billion through bonds raised in the international market in July, 2015, with an interest rate of 6.25%. Instead of submitting a statement of account to the Egyptian people about the true size of Gulf support and how it was disposed of, the Egyptian officials overlooked all this and began to complain of the aid decline.

The Expected Future:

There are no signs from which to adopt the scenario or the prospects for optimism about the Egyptian economy, especially in the absence of accountability mechanisms or the adoption of the principle of transparency in the performance of governments after the military coup.

Whereas the stated policies by the government officials is following the agenda of the international institutions, and dealing with Egyptian economy as if it is in normal conditions, and as if it is able to

compete; yet the reality is that the Egyptian economy is going through its worst performance stages ever.

Instead of taking advantage of the gaps and opportunities in the WTO agreement and reducing imports, according to the convention on the prevention of imports, which gives the right to use the quota system for a certain period if the import rate exceeded the average of the last three years, yet the government is considering raising the customs rates. It is worth noting that the government knows well that its customs system suffers from significant corruption, which badly affects industries like garments, textiles and drugs through smuggled goods (which are imported from abroad without payment of their taxes).

There are expectations on Egypt's macro-economic indicators, which predict that the coming is the worst, which will have negative consequences on the increase of poverty and unemployment and inflation rates as well as other economic indicators.

XIV- The Economic Legislative Structure of the Military Coup & Legalization of Corruption

The Egyptian regime after the military coup tended from the beginning on the issuance of a lot of economic legislation which legalized corruption and wasted the country's wealth, particularly the decree law, issued in November, 2013, by the coup transit President Adly Mansour, allowing the government to abandon its tenders and assign projects for any company in urgent cases, which contributed significantly in the militarization of the economy, the military takeover of most projects, crowding out the private sector and liquidation of many companies.

In April, 2014, Adly Mansour also issued another law by decree to legalize corruption by prohibiting the appeal of a third party to the contracts entered into by the government with any party, an Egyptian or foreign, whether those contracts were related to privatization, sale of the State land, construction works or others.

Coup Leader Abdel-Fattah El-Sisi issued hundreds of decree laws, after taking office, including many economic laws on March 12th, 2014 (one day before the economic conference) amending certain provisions of Law No. 8 of 1997 on Investment Guarantees and Incentives, the Income Tax Law No. 91 of 2005, the General Sales Tax Law No. 11 of 1991, and Companies Law No. 159 of 1981,

considering the foreign investment as a destination not as a goal, and compromising the State resources as an approach.

These amendments awarded the non-Egyptians the right to own land and property, and sometimes they get them free of charge as well. They also allowed the foreign investor to enter and exit the country without any restrictions in a way that might waste the rights of the parties associated with them, particularly the workforce. They acknowledged the absence of criminal accountability to investors and their affiliates. They also allowed the Cabinet to grant advantages to the companies with intensive employment, including getting energy at low prices, loading the country with part of the employees training costs and the costs of the worker's and the employer's share of insurance for a specified period. The amendments also stated the reduction of the sales tax on the machinery and Equipment, provided that these tax yields will be returned to the investors with the introduction of the first tax return.

On July 1st, 2014, Sisi issued a law by decree on amendment of some provisions of the Law of Income Tax, under which a tax of 10% was imposed on capital profits and cash distributions at the Stock Exchange. However, with the businessmen mafia pressure, Sisi dropped his decision and adjourned the capital profits tax for two years, with continuation of the cash distribution tax.

Also, in July, 2014, Sisi issued a decree law, determining the maximum wages for the government and public sector employees at LE 42 thousand per month, representing 35 times the minimum limit of LE 1200. However, he emptied the law of its content after the exception of the judiciary, the police and bank officials of the maximum wages. At the same time, the minimum wages law was completely neglected.

In July, 2015, Sisi issued a law by decree on Electricity, No. 87 of 2015, confining the State role in the Egyptian Electric Utility and Consumer Protection Regulatory Agency as an independent agency with a legal personality. The law pointed out that this Agency is aimed at regulating, monitoring, follow-up and development of all the activities of the electricity production, transport, distribution and consumption. It also aims at attracting and encouraging investment in this field within the framework of legitimate free competition.

This means raising the State's hands from the direct management of the electricity sector, and opening the door to its privatization, and consequently to more sale of citizens to investors. In this context also and in confirmation of this coup policy, Sisi issued a decree law, amending some

provisions of Law No. 102 of 1986, and establishment of the New & Renewable Energy Authority and enabling it, with the approval of the Minister of Energy and Renewable Energy, of establishment of joint-stock companies on their own or jointly with other partners to attract investors to engage with the Authority in joint ventures to encourage the production and sale of electricity from renewable energy sources

And more towards the militarization of the Egyptian Economy and crowding out the private sector, which has become the title of the stage par excellence: In July, 2015, Sisi issued a decree authorizing the Defense and Interior ministries and their affiliate agencies, as well as the General Intelligence, to establish companies for Institutions Guarding, and Transfer of Funds. This will take the Army and the Police away from their basic missions of defense and security to the world of the private sector. Moreover, offering these services with profit-making targets threatens with turning the Army and the Police into units of mercenaries under the name of “private security companies”.

Also, in July, 2015, Sisi issued a decree allowing the Suez Canal Authority (SCA) to establish joint-stock companies on its own, under the Law on Companies (joint-stock companies, limited-share companies and limited liability companies), in a manner, not inconsistent with the nature of the SCA. The general assemblies of these companies are given the authority to issue the financial and administrative regulations of the employees therein, after approval of the Board of Administration of the SCA, without restriction to the provisions of the Law on the Public Sector Employees System, and without prejudice to any advantages enjoyed by workers in such companies. The shares of these companies may be traded once established after approval of the Cabinet. Thus, this law opens the door for the sale of the Canal Zone to foreigners through their purchase of shares traded by those companies.

And it came to allowing the Armed Forces to establish companies on its own or in partnership with the national or the foreign capital. Such decisions take the Armed Forces out of its basic role of guarding the borders. In addition, they expel what is left of the private sector; and even replace the public sector. In December, 2015, Sisi issued a law by decree No. 446 of 2015, amending the powers of the Armed Forces Land Projects Agency (AFLPA), which was set up by presidential decree in 1981 to manage the sale of real estate no longer in use by the Armed Forces. Sisi’s latest decree authorizes the AFLPA to prepare substitute cities and military regions for those evacuated by the Army. The latest amendment now additionally empowers the agency to engage in commercial activity through



undertaking all services and activities “to develop its resources, for which purpose it may form companies in all their guises, whether on its own or jointly with national and foreign capital”

During his presidency of the junta, Mohamed Hussein Tantawi was keen on protecting the corruption of the military by amending the Code of the Military Judiciary, in May, 2011, adding a provision giving the military prosecutors and judges alone the right to investigate the army officers’ graft, even if the investigation began after the retirement of the officer and his conversion to civilian life. However, Sisi opened the floodgates to corruption through issuance of the Law by Decree No. 97 of 2015 in August, 2015, amending some provisions of Law No. 62 of 1975 on illicit gain, allowing reconciliation with the corrupt by refunding what they obtained by illicit gain in any form during the period of investigation, with expiration of the criminal case and the precautionary measures arising from the injunction.

Privileges of the pillars of the military coup; the Army, the Police and the Judiciary, were not limited to only that, but they also extended to issuance of laws by decrees for increasing their salaries and pensions, and also exempting them from taxes. In August, 2014, Sisi issued a law by decree for amendment of the Real Estate Tax Law, including tax exemption of the Armed Forces clubs, hotels, different festivals and occasions houses, medical centres and complexes, hospitals, military clinics, real estate buildings within their scope in addition to other units determined by the Minister of Defence in agreement with the competent minister. Accordingly, they are exempted from the works of the limitation (via survey) and appreciation committees on behalf of the national security requirements, in spite of the objections of the Legislation Department of the State Council. Minister of Defence Sedki Sobhi issued Decision No. 68 of 2015, on June 3rd, 2015, exempting 574 Army establishments from the real estate tax, including: 52 clubs, 29 hotels, 18 summer resorts, 8 cinemas and theatres, a number of festivals and social occasions houses of the armed forces, squares, branches of supermarkets, automatic slaughterhouses, as well as buildings, apartments and villas.

A number of seven bodies, affiliated to the Armed Forces and the Police were also excluded from commitment to the Law of Linking to the State Budget, issued by Sisi in early July, 2015, which imposes supplying a rate of 25% of their relayed surpluses to the State Budget. However, all the seven authorities undertake civil profit making activities. On October 1st, 2015, the Prime Minister issued a decision stating these exceptions to: the Defense Ministry’s Public Services Authority, the Interior Ministry’s Land Projects Fund, the Military Museums Financing Fund, the Defense Ministry’s National

Services Projects Authority, the Armed Forces Land Projects Authority, the Armed Forces Housing Fund and the Industries and Maritime Services Authority.

XV- Egyptian Tourism Sector Plunges into Bleak Prospects under Security Risks

In the past, the wise people said: “It’s an unfavorable wind” about situations similar to those of the Egyptian Tourism Sector, reflecting its reality and the important roles it plays towards the Egyptian Economy, including its contribution with about 11% of the Gross Domestic Product (GDP).

In April, 2015, the former Tourism Minister Khaled Rami said Egypt aimed at increasing tourism revenues to about \$ 9.5 billion in 2015 and \$ 26 billion in 2020, compared to \$ 7.3 billion in 2014.

Rami added that Egypt aimed at increasing the number of tourist nights to 260 million nights in 2020 compared to 97 million in 2014, raising the spending rate for each tourist to \$ 100 per day against \$ 77 and attracting about 20 million tourists by 2020.

At the end of September, 2015, Tourism Minister Hisham Za’zou said that the Egyptian tourism sector was looking forward to recovery and seeking the attraction of about 10 million tourists by the end of 2015, to achieve revenues between \$ 7.5 and \$ 8 billion.

Za’azou revealed that the number of tourists to Egypt in the period between January and August, 2015, reached 6.6 million tourists against 6.3 million during the same period of 2014, an increase rate of 4.9 %. He said the revenues reached \$ 4.592 billion against \$ 4.509 billion. The Egyptian Tourism Minister expected that Egypt will achieve revenues between \$ 7.5 billion and \$ 8 billion by the end of 2015, and between \$ 9 billion and \$ 10 billion in 2016, as well as increasing the number of tourists up to more than 10 %.

These were the aspirations of the Egyptian tourism officials for the tourism sector, which represents one of the foreign currency resources, inflowing into the country. However, Egypt was at an important appointment, with its repercussions that it would not be able to bear, due to the high unaffordable invoice, at a time when the country was experiencing a crisis of scarcity of dollar resources.

On October 31st, 2015, the ruling coup authorities in Egypt woke up on the news of the fall of the Russian “Metro-jet” plane on its trip No. 9268 over Sinai, with the killing of all passengers and crew on board, numbering 224 people.

The US Carnegie Centre considered the Russian plane crash, a new blow to the Egyptian officials who were trying to convince the world that Egypt was safe and provided a favorable climate for business and tourism alike.

Due to the fact that the Russian tourists make up one-third of tourist arrivals to Egypt, the Egyptian Tourism Sector received a fatal blow after the Russian government imposed a blanket ban on all flights between Russia and Egypt in the wake of the crash, despite the striking warmth of relations between the two countries after the Egyptian military coup led by the army against President Mohamed Morsi, on July 3rd, 2013.

Carnegie Centre predicted a further decline in Egypt's revenues with the erosion of the tourism sector in the wake of the Russian plane disaster, and consequently a decrease in Za'ou's expectations of the \$ 10 billion revenues from the tourism sector in 2016.

About 11 days after the disaster of Russian aircraft downing over the Egyptian Sinai, Tourism Minister Hisham Za'ou announced that Egypt will lose LE 2.2 billion (\$281 million) per month because of Britain's and Russia's decision to suspend their flights. Britain suspended its flights to the Egyptian city of Sharm El-Sheikh, four days after the fall of the Russian plane.

Za'ou said the Russian and the British tourists made up two-thirds of tourism in Sharm El-Sheikh, while the Russians alone represented half of the tourists in Hurghada, on the Red Sea. Under the bluesy tourism scene, Za'ou revealed that he planned to launch a \$ 5-million campaign to promote Egyptian tourism in Russia and Britain. However, Russia says it does not intend to rescind its decision of suspending tours to Egypt soon, adding that it could at least take months.

Under the rising inflation, Za'ou said the government would seek to compensate for the loss of the global tourism through promotion of internal and Gulf tourism, as well facilitating entry visas for tourists from North Africa.

Despite the enormous losses sustained by the Egyptian tourism sector after the Russian plane crash, this is not considered something new for Egypt. In February, 2014, there was a tourist bus bombing in Sinai, killing tourists from South Korea. In September, 2015, a number of eight Mexican tourists were killed when the Egyptian Army opened fire by mistake on a tourist convoy, thinking they were fighters.

Over the past years, well-known tourist destinations in Egypt, such as Sharm El-Sheikh and Luxor, witnessed many attacks. Also, the series of attacks, which took place during 2015, including the

assassination of the Egyptian Attorney General Hisham Barakat, formed a challenge to the security forces.

In the light of the importance of the tourism sector to Egypt, its decline leads to a dramatic influence on employment and the foreign exchange reserves, due to the large contribution of tourism in these two areas. One out of eight workers in Egypt works directly or indirectly in the tourism sector. The job losses associated with the tourism sector will pay a heavy blow to the government which gives priority to addressing the problem of unemployment that reached a rate of 13% in the last two years. On the seventh of December, 2015, the Egyptian authorities woke up to the biggest trouble after the Russian airlines announced that it would seek compensation from Egypt.

Due to the fact that numbers do not lie, the official data showed that the era of President Mohamed Morsi, in the fiscal year 2012/2013, was the best period for the tourism sector over years. Tourism revenues then amounted to \$ 9.8 billion. After that, they declined by half to \$ 5.1 billion in the fiscal year 2013/2014, during the rule of the interim President Adly Mansour, the first fiscal year after the military coup. During the first fiscal year of the military coup leader Abdel-Fattah El-Sisi, tourism revenues reached \$ 7.4 billion.

While Egypt was seeking the increase of the tourist spending up to \$ 81 dollars for each tourist per day, during 2015, compared to \$ 74 in 2014, the Central Bank of Egypt's policy of reducing the value of the Egyptian pound against the US dollar about three times to reach LE 7.83 per dollar against LE 7.14 in early the same year, led to a decline in the spending of foreigners in dollars.

In addition to searching for new tourism markets abroad and tending to refine the Egyptian tourist potentials inside the country, the Egyptian government should deal with two main economic priorities, i.e. jobs and foreign currency.

Meanwhile, the extension of security in the country and working for the prevention of acts of terrorism are two key factors for the prevention of the sharp fluctuation witnessed by the Egyptian tourism sector.

(N.B.: **Part 4** of this documentary file will start with: 'Foreign Funding and Egypt's Losing Bets for Achieving Development')