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# Corruption and Egypt's Financial Position

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## Corruption and Egypt's Financial Position

Abdel Hafez El Sawi

### *Fighting corruption and supporting Egypt's financial position:*

#### Introduction

The Algerian foreign minister's statement a few days ago about the financial situation in Egypt has not come from a vacuum. The Algerian minister, at a conference with Algerian businessmen, said: "Egypt is a country that spends all time seeking loans from the International Monetary Fund and others." In fact, there is a very serious situation in Egypt's debt policy, as Egypt preferred to take the easy way of borrowing rather than the difficult path of adopting a development project to avoid the risk of borrowing from abroad.

Some may view the comments of the Algerian minister in light of some outstanding issues between Egypt and Algeria, especially regarding the situation in Libya. But the truth is that Egypt is already suffering from a financial crisis and its financial situation is fragile despite the government's claims of achieving progress both in the exchange rate stability (a), and the rise in foreign exchange reserves (b). However, these results (a & b) are temporary, in addition to the fact that a high price was paid on the economic and social levels on the other.

As soon as Egypt concludes a loan through the international bond market to repay some of its obligations, the government immediately offers new bonds on the international market. The Egyptian Minister of Finance has recently announced that Egypt plans to offer bonds between \$ 4 billion to \$ 8 billion in 2018, to meet its obligations due in 2018.

In light of the increasing debt burden, Egypt is not expected to solve its debt crisis in the short and medium term. The public debt burdens in Egypt have been estimated, after the recent increases, at more than LE 400 billion in the fiscal year 2017/2018.

The irony in the Algerian minister's comments is that he talks about Egypt's scrambling for debt, while both his country and Egypt have similar ranks on Transparency International's Corruption Perceptions Index, with Egypt and Algeria scoring 36 out of a total of 100, ranking 88 out of 175 countries. The two countries' performance on the Corruption Perceptions Index has been close to low since 2009. This means that the two countries are highly corrupt, especially in the petroleum sector, both at the internal and external levels.

Algeria and Egypt have suffered from mismanagement over the past decades, leading to the underdevelopment of the two countries which already suffer from illiteracy, scientific backwardness, fragile economy, dependence on rents, and the export of raw materials.

Egypt's domestic debt at the end of June 2017 was 3.16 trillion Egyptian pounds, and the foreign debt on the same date reached 79 billion dollars, bringing the total public debt ratio to about 140% of GDP.

Evidence-based performance of the Egyptian economy indicates that the government continues to obtain more loans at the local and external levels, without the existence of a strategy or program for payment

Amid this uncertain atmosphere of Egypt's financial situation, manifested through the public debt crisis, the state budget deficit, or the existence of foreign exchange reserves based on loans and deposits of foreign countries, Egyptian media outlets are discussing corruption in a state-owned oil company, where the chairman of the company's board of directors and its financial director embezzled nearly one billion dollars. Egypt possesses through the Ministry of Petroleum about 45 companies



working in various fields for the production and distribution of oil and natural gas. These companies conduct investments in many companies operating in the petroleum sector, whether owned by the Egyptian private sector or under the system of partnership with foreigners.

This makes discussion of the corruption in the Egyptian Petroleum Sector an urgent necessity. Over years, those interested in the Egyptian economic affairs have nicknamed the Egyptian Petroleum Sector as "The Black Box", due to the fact that the sector has witnessed many major corruption cases since the days of Mubarak era's Oil Minister Abdul Hadi Qandil (in the mid-1980s), through Oil Minister Sameh Fahmi, also during Mubarak's era, who held suspicious natural gas deals with Europe and Israel.

What if corruption was stopped at the Petroleum Sector alone, which is an important economic resource for Egypt since the mid-seventies? In fact, Egypt is now suffering from an energy crisis and depends on imports to cover the deficit in oil and natural gas, resulting in a deficit in the oil balance in 2016/2017 estimated at about \$4.6 Billion.

And the latest evidence of corruption in Egypt's Petroleum Sector was the government's approval of the Egyptian Gas Company to increase the prices of natural gas installation in houses by 800 Egyptian pounds, to become 1800 pounds. However, this rise will be borne by the Egyptian Natural Gas Holding Company (EGAS), not the citizen.

This step came in support of the financial position of Egypt Gas Company, and the increase will be retroactive from 1 July 2017, which means that the company was supported with about 120 million pounds in one year only, as it carries out gas installations for 150 thousand houses annually.

Instead of supporting transparency through confronting the company's administration with the irregularities monitored by the Central Auditing Organization's report, and placing many question marks on the company's unjustified rise in the stock exchange



from about LE 50 in December 2016 to LE 275 in October 2017, the company ratified the company's rise of gas installation prices, which is corruption of another kind. The financial advisor appointed by the Financial Supervisory Authority estimated the price of Egypt Gas Company at EGP 175 (per share), but it reached LE 220 in the stock exchange trades, which means that there are improper practices at the stock exchange. The Stock Exchange stopped trading on the company more than once During September and October 2017, due to unjustified increases in its price.

The manifestations of corruption in Egypt are quite clear, especially in the public sector institutions. Since the military coup in July 2013, more than one official has been brought to justice, including ministers accused of financial corruption, but this does not mean that there is a real will to confront or fight corruption in Egypt. However, the regime made those officials a scapegoat for abandoning the government-run corruption system and working on their own. It is noteworthy that Hisham Genina, former head of the Central Auditing Organization, had revealed that corruption rate in Egypt amounted to about 600 billion pounds, which was mainly behind his removal from office; and he was later brought justice on charges of releasing incorrect data.

## Corruption in Egypt

The public sector represents the most important bastions of corruption in Egypt so far. Civil servants practice corruption while providing services to the public (bribery) or in selling or buying in favor of the government (embezzlement), as the government continues to import commodities, mainly wheat, sugar and oil, which is a wide door for corruption.

Also, Egypt's foreign trade in the petroleum sector still has the biggest ever rate of corruption practices in the country. In the absence of real control, it is not possible to

know precisely the extent of corruption in such strategic sector, especially as Egypt's annual oil and gas trade is estimated at approximately \$ 18 billion.

Even before 2008, when there was no shortage in oil, and Egypt was an oil exporter, government practices witnessed the sale of oil to individuals or companies abroad at a price below the market price. These individuals or companies used to re-sell these quantities of oil and obtained price differences to share with the government officials who had facilitated the process.

The allocation of lands and the issuance of construction permits in both old and new cities is a wide door for corruption, and perhaps the collapse of buildings in some cities is the most prominent evidence for corruption. In fact, there are many examples of wasting public money, whether by Egyptians or foreigners, including the speculation on lands granted by the government, or the transformation of their activity (e.g. from reclamation and agriculture to real estate and construction), where some individuals won billions of pounds.

### Expected role

The government performance should be based on transparency, but corruption has taken root in the country under the rule of the military, especially that the Egyptian experience in government administration operated under an undeclared principle with employees, namely loyalty for bestowal regardless of the nature of this bestowal, whether materially or morally; legally or illegally.

After the military coup (2013), the government was keen to violate the principle of separation of powers, and the executive power continues to control the legislative and judiciary powers. For example, members of the House of Representatives come through the selection of security services according to their allegiance to the regime. A large share of appointments in the judiciary is allocated for the children of judges

who are always contained through generous and continuing rewards. So, the government has hindered the work of the two largest regulatory bodies in Egypt (legislative and judiciary powers).

As for the rest of the regulatory bodies (the Central Auditing Organization, the Central Organization for Management and Administration, the Administrative Control), members are appointed by the executive authority. Also, chairmen of judiciary bodies are appointed by the President of the Republic after the military coup of July 3, 2013.

If there is a chance to improve the economic situation in Egypt it may be through the following steps:

- Before anything else, the democratic path must be restored in Egypt; the army should return to the barracks, and abandon the civil economic life for the business community, whether public or private. The rule of law should be enforced on all citizens, regardless of any affiliation, and everyone should be treated on the basis of citizenship only.
- Conducting a constitutional amendment to eliminate the one-line budget guaranteed by the constitution of the military coup in 2014 in favor of the armed forces, the judiciary, the Central Auditing Organization and the House of Representatives. The budgets of these bodies should be transparent and subject to the work of auditing bodies concerned. Also, the issue of the higher and lower limits of income should be applied without exceptions.
- The decision makers should be held accountable for the establishment of projects without feasibility studies, especially those called national projects, such as the expansion of the Suez Canal or the new administrative capital. A thorough survey of public resources as well as expenditures and public needs should be made, so that the general plan could be expressive of the requirements of development.

- To issue a law on the free access to data, especially that of the government transactions related to the import and export of strategic commodities such as wheat, oil and gas, as well as those related to the preparation of the public plan and budget.
- To review all contracts of selling the state land, especially in new cities and on both sides of highways, and restore state rights through land re-pricing, especially after buyers changed the activity of these lands from agricultural reclamation to resorts and tourist villages.
- Securing full independence to the auditing bodies, and the executive power should not interfere in their work financially or administratively, or through appointing or isolating its members.
- The media should play a positive role in correcting misconceptions about the public money. They should stop praising and glorifying the corrupt people, and introducing them as community stars.