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Sovereign Fund?**

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What's behind Egypt's Sovereign Fund

Abdel-Hafez Al-Sawy

Introduction

The Egyptian parliament has recently ratified legislation to establish a sovereign fund called the “Egypt Fund”. The fund comes after government promises since 2016. Dr. Ashraf Al-Arabi, Minister of Planning, was the first to announce Egypt's intention to establish [the sovereign wealth fund](#). The general climate of any idea is important for its assessment; especially in the Egyptian case, as the military regime that came after the 4 July coup d’etat of 2013 blocked the political life in Egypt and brought a parliament (House of Representatives) away from fair election or real participation of the Egyptian people.

The insistence of the coup authority to tighten its grip on economic capabilities has many indications, including allowing the army to control the civilian economy, marginalizing the role of the private sector, and limiting its role in serving as a subcontractor to the armed forces’ institutions which control the civil economic activity.

At the same time when Egypt is seeking to privatize about 20 companies and institutions over the next three years, the army is expanding its projects in the arena of civil economy. There is much evidence for this matter, most notably that the army in early 2018 operated the largest cement factory in the governorate of Beni Suef, about \$1.1 billion, amid suspension of the work of the National Cement Company (NCC) in Helwan, and offering early retirement for its workers, about 2,300 employees. The military's actions and decisions are far from development requirements. While the army spends [\\$ 1.1 billion](#) on investment in the cement sector, Egypt has a surplus in

cement production, with an annual output of about 72 million tons, while [domestic consumption](#) amounts to only 54 million tons. The cement industry is one of the most polluting industries in the world, which is also an intensive-energy consuming industry. The army should have directed this funding to investment in one of the areas where Egypt suffers from a deficit and relies on imports to manage its needs, such as growing wheat, beans or maize; or the industrial area where Egypt lacks many underlying determinants. Therefore, we find that the recommendations of the IMF reports since the signing of its agreement with Egypt in November 2016 have focused on the need to give the private sector greater opportunity in economic activity, although these reports turn a blind eye to the practices of the army and the spread of corruption in the Egyptian economy.

Why was the Fund established?

There is a state of non-transparency surrounding the desire to establish a sovereign wealth fund in Egypt. Sovereign funds in all countries come within the framework of a surplus of money, through which the state seeks to achieve its economic and political interests abroad. We have witnessed this role through the experiments of China, Russia, India and many emerging countries; and the role of these funds in the international arena at the beginning of the third millennium, when the United States and Europe complained that the sovereign funds of China and Russia targeted their national security. At the same time, the US and Europe were more welcoming to the sovereign funds of rich Arab oil countries, for being away from the practices of Russia and China.

Egypt does not have these financial surpluses, but it has a [funding gap](#) of 438 billion pounds (\$24.5 billion), which is managed through internal and external borrowing, as

well as a cumulative public debt of 3.4 trillion pounds at the local level and \$92.1 billion at the external level. Moreover, Egypt plans to borrow from 8 to 10 billion dollars during the fiscal year 2018/2019.

Implications and concerns

The way in which the legislation of Egypt's sovereign wealth fund was orchestrated reflects a set of implications and concerns, including:

- The fund was established based on a special law, although Egypt has thousands of special funds that have been established over decades according to already existing laws with no specificity regarding the tax situation, exemption from government regulations, or bypassing the parliament.
- Law No. 53 of 1973 on the regulation of state budget states in Article 20 that "By a decision from the President of the Republic, funds may be established in which specific resources are allocated for specific uses. The Fund shall have its own budget in accordance with the rules and provisions provided for in this Law. Rules of public institutions are applicable for the implementation of the provisions of this law." But the coup authority did not want to establish the sovereign wealth fund based on this law because the fund in this case will be subject to all Egyptian regulations and laws, as well as the control of the Central Auditing Organization, and the House of Representatives, making its data and reports available to the media and the civil society.
- In addition, the criticism of the investment climate in Egypt for years is the existence of a forest of economic legislation, because of the exceptions to the same activity and area. The question is: Is there a need for more legislation, despite the existence of laws that allow establishment of such fund without resorting to enacting a special law?

- The intention to seize the Egyptian economic wealth is clear in the provisions of the law on which the Egyptian Sovereign Wealth Fund was based on. Article 5 of the law allows the president to transfer the ownership of the un-exploited assets from the state to the Sovereign Wealth Fund. It also allows for the transfer of the assets already in use from the state to the fund in coordination with the ministry that owns the assets in question. In this way, the law allows those responsible for the sovereign fund to seize the wealth and assets of the state-owned companies and institutions at any time, no matter whether these companies are successful or unsuccessful. Also, the articles of the law did not specify the way in which these companies and institutions will be compensated for the assets withdrawn from them, including real estate, land, cash balances, production lines, etc. - creating a state of imbalance in the assessment of these companies financially.

- Although the fund depends in inauguration on one billion pounds withdrawn from the public treasury, and the remainder of its capital will be supplemented by the annexation of assets in kind and cash available to state-owned enterprises and public institutions, the surplus of this fund will not be transferred to the general state budget, but the fund will keep the financial surplus during the exercise of its activity. Here, it is surprising how the state's assets and money are seized, and the yield from these activities (whether investment, sale, or rent) is kept outside the public treasury of the State. It is supposed that the fund's financial revenues should play a positive role in solving the problems of the state budget, especially with regard to the public debt, as these companies and institutions that are likely to be seized by the Fund, are part of the public debt problems in Egypt, as they used to transfer their losses to the public budget. Therefore, what is stated in Article 10 of the law is not acceptable, and opens

the door to raising questions related to accounting and accountability. Where will the proceeds of this fund activity go? At the end of Article 10 of the law says “The Fund shall prepare annual and quarterly financial statements, provided that the surplus shall be transferred year after year.”

- Article 11 of the law abolishes the role of the House of Representatives and completely ignores it as the largest supervisory body; the article says, “The annual financial statements and the report of the auditor and a detailed annual report on the activity of the Fund and its plan for the following year shall be presented to the General Assembly of the Fund, in preparation of presenting it to the President of the Republic within three months of the end of the fiscal year.” The executive authority here monitors itself, and the President of the Republic is the reference in everything related to the Fund, as the final reports are presented to him. The House of Representatives should have worked to preserve the right of the people to control this fund, like the rest of the state institutions. It is unacceptable that the executive authority acts solely in handling the State’s financial resources.

- Article 13 and 14 of the law exempted the Fund administration from the government rules and regulations, which opens the door wide in hiring foreign administrations and developing financial systems that may not be appropriate for the current Egyptian potential.

- There is a clear state of lack of trust on the part of the regime towards the Egyptian institutions despite their acquiescence to the military authority since the July 2013 coup d’etat.

As the administration of this fund will have the authority to withdraw assets from state-owned enterprises and institutions, the question is: What is the job of this huge

administrative apparatus of the Egyptian State? The real challenge to a successful development management is not the concentration of power in the hands of the head of the regime or the military institution, but in the good use of Egypt's economic resources.

Questions and problems:

Since the Sisi regime is boasting of concluding a new investment law, we should ask: What prevents public companies and institutions from success under this new law? Why does the new sovereign wealth fund seek benefits such as exclusion from government rules and regulations? If the investment climate is attractive in Egypt, and foreigners can succeed in investing in Egypt under the new law, why does the sovereign wealth fund seek to free itself from government rules and regulations?

Articles 15 and 18 of the law dealt with the formation of the Board of Directors of the Fund as well as its General Assembly. The formation of the Board of Directors includes representatives from the ministries of Planning, Finance and Investment. However, the ministers of Planning, Finance and Investment are members of the Fund's General Assembly. That is, the ministers will supervise those who were appointed by them in the board of directors!!! This situation reflects a dangerous vision of the state of tyranny and dictatorship in Egypt, as the executive authority is the one that supervises itself and reviews its actions away from any other authorities, especially the legislative authority represented in the House of Representatives.

The Sovereign Wealth Fund Law invoked the scourge of Egyptian legislation on tax exemptions, circumventing the laws and wasting the state's right to collect taxes. In light of the tax exemptions, Egypt lagged behind in agriculture, industry and services

despite the tax advantages that were given to the activities of these sectors in the new cities and areas of special nature, specialized banks.

Article 19 of the law states in its first paragraph that “the transactions between the Fund and its wholly owned entities shall be exempted from all taxes, duties and the like, and these exemptions shall not apply to dividends.” In this text, we find the spirit of the military institution, which enjoys these full exemptions for its institutions despite the fact that it practices civilian activities, targeting profits.

In accordance with purely economic criteria, what is the reason for granting a sub-sovereign fund that practices health activity, for example, a tax exemption on its purchases of medicines, medical supplies, tools, and means of transport, while the same activity from the private sector or the public business sector pays all taxes, customs duties and fees. Does this reflect a state of fair competition? This only means that there is a clear desire to the military authority that this fund will be one of the tools to achieve greater control over the capabilities of the civil economy in Egypt.

If the purpose of this fund is to improve Egypt's economic potential and better employ its financial resources and assets, the Fund should maintain the State's tax revenues, not to waste them through such exemptions. Is it fair to exempt the sovereign fund's institutions and projects from taxes while owners of mobile carts offering popular meals are subject to taxes? Furthermore, the government talks about seeking inclusion of the informal private sector institutions to the formal economy in order to collect taxes at a higher rate than it is now. It is noteworthy that this sector (informal private sector) usually includes small and micro enterprises, includes small and micro enterprises.

Conclusion

Sisi's move to establish the Sovereign Wealth Fund based on a special law is not unique in Egypt. The General Authority for Investment was established according a special law, as well as the Tourism Development Authority and other entities. However, Egypt remained as it has ever been, not benefiting from these institutions. Employees in these bodies only receive higher salaries than their counterparts in the rest of the state institutions; and therefore most State officials and parliamentarians seek finding jobs for their children and acquaintances in such bodies! We believe that the Egypt's Sovereign Wealth Fund will not be very different from these entities; and that one of the main objectives of the fund's establishment has been to speed up the process of privatization without allowing any kind of oversight on decisions to sell the State-owned assets