

**HUMANITARIAN
AND DEVELOPMENT
PROGRAMME**

EGYPT 2020

The Impact of Military Consolidation on Long-Term Resilience

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HUMANITARIAN FORESIGHT THINK TANK

KEY OBSERVATIONS

1. The Egyptian government is undertaking fiscal reform to attract foreign investment. In addition to floating the currency, raising interest rates and reducing subsidies, the government hopes to improve the climate for doing business.
2. Despite these stated goals, the primary objective of the military-led government is the consolidation of political space and particularly, the economy. Egyptian businesses face growing competition from military-owned companies who are expanding and consolidating control over sectors of the economy. The production, manufacture and sale of food is particularly experiencing this impact.
3. The livelihood-focused development strategies of international donors and NGOs will be challenged by these contradicting economic and power shifts, which will compete with private enterprise and could hinder project implementation, leading to static or worsening employment and poverty indicators in the three-year period even with rising assistance.



Source: El Shahat, Manal. *Scoop Empire* (15 March 2015): "Ezbet Abu Qarn informal settlement of Cairo."

INTRODUCTION

In November 2016, Egypt's government began a project of fiscal reform to meet IMF conditions for a loan worth \$12 billion dollars. Though the military-led government was already encroaching into Egypt's private sector through a combination of commercial enterprises and political and legal pressures, it is accelerating its monopoly under the cover of these reforms. The private sector faces challenges in accessing and withdrawing foreign and local currency, has experienced the shock of currency flotation, decreasing value of the Egyptian pound by more

than half against the US dollar¹, and is burdened with higher rates of interest on lending, increased taxes, dramatic increases of import prices and restrictions on exporting. In food, pharmaceutical and medical sectors, the military is a tough competitor. Army-owned entities pay very little in wages, do not pay taxes and enjoy a preferential legal context. As a result, they are out-competing and incorporating struggling private sector companies. This is occurring alongside a crackdown on civil society, the media and the judiciary as the government centralizes power.

Reform is a necessary step towards long-term economic stability, paving the way for needed liquidity, encouraging greater foreign investment and a more competitive Egyptian pound. Six months after these policy measures were introduced, economic indicators are encouraging. Yet the structural reform occurring in the context of military encroachment on the political and economic sphere could hinder long-term economic resilience and contribute to uneven wealth distribution and income inequality while transferring the greatest financial risks onto vulnerable Egyptians. Egypt has already experienced IMF reform. In 1992, IMF-led structural adjustment ring-fenced² army-owned companies from economic and fiscal shocks³. At the time, such a policy was likely aimed at insuring Egypt's internal security in exchange for the fair application of its economic policies. In the long-run, enabling corrupt and imbalanced development could have contributed to the 2011 movement of popular protest across the region against corruption and autocratic governance. Once again, stability of the state is being prioritized by the international community as the key modality for economic recovery.

Since the 2013 military coup, the institution of the Egyptian military through the Supreme Council of the Armed Forces has expanded into the state, through strategic appointments of military staff into key ministries (as well as the office of the president, held by former head of Military Intelligence General Abdelfattah al-Sisi) and expansion of the armed forces into a variety of economic sectors. In this model of military-led state capitalism, whereby business is encouraged within the framework of supra-state-controlled profit, self-sustaining revenue supports independence of the armed forces and justifies the oversized military presence with few external threats. Deepening corruption caused by a lack of oversight would be a natural outcome. In exchange, this model requires the exaggeration of internal threats, particularly regarding terrorism, to redirect its massive military might.

The military has also played a significant role alongside the government in providing food subsidies and today, providing cheaper food commodities and preventing shortages for Egypt's most vulnerable households. The impact of inflation alongside high youth unemployment and stagnant wages has massively decreased household purchasing power, and the government has announced substantial investment to the Takaful and Karama food subsidy smart card programs

¹ The pound increased from the official rate of 8.8 EGP/ 1 USD dollar before 3 November 2016 reaching a high of 19.64EGP/1 USD in December 2016. Interest rates increased by 3%. Central Bank of Egypt: Statistics.

² Ring-fenced here means that military-owned companies were exempted from the same reform policies applied to other elements of the Egyptian economy.

³ It was only after structural adjustment that Mubarak-era elites began a project of privatisation, threatening the military business empire.

and expansion into sectors impacted by shortages to attempt to close these gaps. However, it could be argued that a freer economy would be better-equipped to integrate Egyptians into a job market for longer-term stability and resilience; than maintaining subsidy levels while ignoring longer-term drivers of instability in the Arab world's most populous country—poverty and unemployment, an expanding population, a youth bulge⁴, food insecurity and urbanization. This policy, guided by short-term gains for a select few, puts the state in a vulnerable position to meet the growing risks of climate change and water scarcity, and affects political security. With the example of 1992's IMF reform in mind, the likelihood of broader structural reform beyond the immediate objective of receiving external assistance is low, with the continued stifling of free market reform.

Though it is perhaps still too early to determine government strategy, some indicators point to household exclusion from the benefits reaped in this period. Particularly worrying are the curbs on freedom of expression and civil society through protest laws, the media, trade unions and syndicates; the expanding jurisdiction of military courts for civilian trials and monopolization of the judiciary. It is the shrinking middle class and growing working classes that have been the most severely impacted by reforms through reduced access to credit, the wiping out of household savings due to currency devaluation and decreased purchasing power caused by high rates of inflation. Subsidized food cannot serve as a long-term replacement for economic empowerment. More worryingly, in the context of a clampdown on civil society, INGO and CBOs, and a sluggish state assistance body, there are fewer safety nets to assist the likely growing share of vulnerable Egyptians.

Without concerted efforts made in the near future, this policy neglect in addressing the root causes of vulnerability during this period of economic turmoil could cause core development indicators relating to nutrition, education, and child and maternal health to deteriorate by 2020, undoing significant progress made in the last two decades and working against international donor interests. Needless to say, this will impact civil unrest and through the stifling of public space increase support for more radical anti-state movements. Whether today's policies are only a step towards improving state stability enough to usher in reforms, or will prove an end in and of themselves, remains to be seen.

AN ECONOMIC SNAPSHOT: MACRO, BUT WHAT ABOUT THE MICRO?

Reform guided by IMF conditions beginning in November 2016 is already contributing to positive macroeconomic indicators: Egypt's Stock Exchange has grown in value by 150%, foreign direct investment has improved, the decrease in subsidies has strengthened state finances and the wiping out of the black market for currency has improved liquidity. Yet little attention has been paid to how these indicators

⁴ A youth bulge occurs in transitional development contexts whereby infant mortality rates are reduced, but fertility rates remain high, contributing to a larger proportion of the population aging between 14-29 years old. If this age group is not adequately integrated into the economy, it is viewed as a destabilizer. UN Security Council unanimously adopting Resolution 2250, "recognizing the threat to stability and development posed by the rise of radicalization among young people," and calling for greater youth representation.

translate to the micro level. The reform package⁵ improving state-level economic indicators is having the greatest negative impact on 25% of Egypt's population living in poverty⁶, who contend with the real value depreciation of wages and the Egyptian pound alongside inflation of food and energy prices without a robust social safety net to fall back on. Though Egypt is classified as a middle-income country with a GDP per capita of 3,250 USD, wealth inequality and poverty have been a persistent and worsening cause of vulnerability, particularly among urban, young and female demographics⁷. Globally, Egypt is ranked as the eighth-worst country in terms of wealth distribution. In 2014 the richest 1% of Egyptians owned half of the wealth of all Egyptians, up from one-third in 2000⁸. According to the government's statistical body CAPMAS, the richest 10% of Egyptians spend 70 times more than the poorest 10%, with an even greater gap in urban areas⁹. This wealth gap has a dramatic impact on underdevelopment and multi-sectoral poverty due to paltry public spending. For health and education, the Egyptian government's investments are nearly the lowest in the region: 5.6% of GDP for health, lower only in Syria and Yemen¹⁰, and 3.8% of the GDP for education, lower only in Lebanon¹¹. While fuel subsidies have already decreased as part of the reform program, food subsidies will likely also face reform.

The 2011 Egyptian uprising, three presidents over six years, a terrorist insurgency devastating tourism revenue, decreased remittances and aid caused by falling oil prices; as well as an unsustainable subsidy regime precipitated this necessary reform and caused Egypt to reach out to international actors with greater conditions on aid than their preferred Gulf backers¹². The Central Bank approached the end of its reserves, and through the parallel forex black market, created a foreign currency liquidity crisis. Official unemployment increased to 13%, more than double for the youth-heavy population, and even greater for women—more than double the unemployment rate for men¹³. A trade deficit amounting to 7% of GDP and a budget deficit of 12% of Egypt's GDP challenged the possibility of a natural recovery¹⁴. The economic structure leading to this denouement was unsustainable and required transformation. Without a regularized income, the Egyptian government decided to follow conditions suggested by the IMF, which include: improved investment laws, decreased bureaucracy around doing business, a medium-term strategy for energy sector restructuring, improved efficiency and finances of the Egyptian General Petroleum Corporation, streamlined industrial licensing and reporting of monetary and fiscal policies¹⁵.

Alongside the first \$3bn tranche of the \$12bn IMF loan, macro-economic indicators have improved significantly since reforms were implemented. The GDP growth rate which was 3.8% in 2016 was reaching

⁵ Decrease in fuel and electricity subsidies, unpegging the pound from the dollar, increasing interest rates and tax.

⁶ World Bank. 2017. *Egypt Overview*. [Accessed 2 May 2017].

⁷ CAPMAS 100 times spending between wealthiest and poorest in urban areas vs 70 times spending in rural areas.

⁸ Credit Agricole. 2015. *Global Wealth in 2015: Underlying Trends Remain Positive*. [Accessed 2 May 2017]. In terms of income inequality as measured by the GINI index, the difference is far less striking (30.1). Mada Masr. 2016. *Egypt's widening wealth gap*. [Accessed 2 May 2017].

⁹ In urban areas that gap is closer to 100 times more.

¹⁰ World Bank Data. *Egypt Health Expenditure Public: % of GDP 2014*.

¹¹ World Bank Data. *Egypt Education Expenditure Public: % of GDP 2008*.

¹² The broader regional insecurity and interests in Syria and Yemen caused Saudi Arabia and the UAE to condition financial assistance on Egypt's support for war in Yemen and the rebel opposition in Syria, in addition to the transfer of ownership of the islands of Tiran and Sanafir to Saudi Arabia.

¹³ According to the World Economic Forum's Global Gender Gap Report 2015, Egypt ranks 136 out of 145 countries in gender equality.

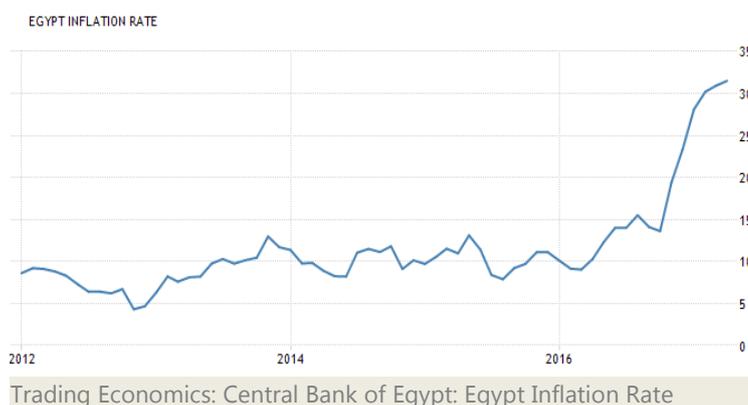
¹⁴ Bloomberg. 16 August 2016. *Egypt's Failing Economy Is Sisi's Fault*. [Accessed 2 May 2017]

¹⁵ Mada Masr. 2017. *Where does government stand in implementing terms of IMF loan agreement?* [Accessed 2 May 2017].

1.105 trillion dollars, and are projected to bounce to 5.4% in 2019¹⁶. Currency is stabilizing, foreign investment has increased and reserves are improving. The question that remains is whether or not these moves will accomplish the structural reform necessary to encourage competition, entrepreneurship, youth employment and long-term investor confidence; or will undertake the absolute minimum necessary to receive IMF and World Bank funding, and see a dip in confidence in the long-term.

The Impact of Reform on the Population

Certainly, the greatest impact has been felt at the local level. Household purchasing power weakened by years of recession has had to contend with massive spikes in inflation of imported and local food prices and other goods. In March, inflation reached 32% year-on-year. For the 90% of Egyptians who are eligible for some form of food subsidy, this margin can be crippling. Food prices have been even further impacted by the fiscal reform, increasing month-on-month to more than 40% in April 2017. Even if general inflation manages to stabilize during the month of Ramadan¹⁷ it will increase on the back of the second wave of subsidy cuts likely to occur before the end of 2017¹⁸.



This has led to scarcity of some goods, including sugar, baby formula and other imported commodities and reduced household purchasing power, causing households to resort to coping mechanisms like less expensive food consumption (88%), reduced intake of protein (72%),



purchasing food on credit (44%), relying on family and friends (40%) and reducing health and education expenditures (30%)¹⁹. This in turn impacts dietary diversity (58.3% for the poor) due to choosing cheap and calorie-dense foods, which increases undernutrition.

At the same time, Egyptian private food manufacturers who face decreased demand and huge

increases in their import costs are beginning to face export limitations through increased

¹⁶ World Bank. March 2017. *Global Economic Prospects*.

¹⁷ According to EFG Hermes. *Daily News Egypt*. 12 April 2017. *Inflationary pressures falling down: EFG-Hermes*. [Accessed 11 May 2017].

¹⁸ *Egypt Independent*. 9 March 2017. *Annual food inflation rate jumps by 41.7%: CAPMAS*. [Accessed 11 May 2017].

¹⁹ Ecker, Olivier; Al-Riffai, Perrihan; Breisinger, Clemens; and El-Batrawy, Rawia, O, 2016. *Nutrition and economic development: Exploring Egypt's exceptionalism and the role of food subsidies*. 1st ed. Washington, DC: International Food Policy Research Institute.

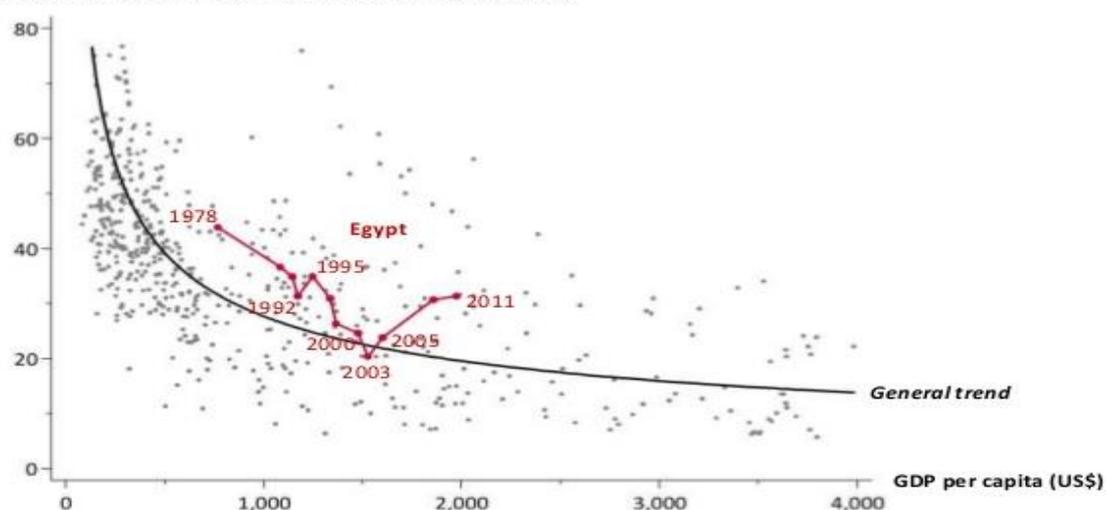
tariffs,²⁰ something that could become more common. The military, which owns several food manufacturing companies, and is increasing its sale points in the Egyptian market with lower priced food—a benefit to Egyptian citizens, but a powerful competitor to local businesses.

UNDERNUTRITION AND THE ECONOMIC PARADOX

Undernutrition, like poverty, is a complex phenomenon driven by numerous factors: access to clean water, sanitation and hygiene, food security, health care, level of education attained by mothers, government policy and household income. Egypt experiences unusually high rates of undernutrition in relation to its GDP, and most strikingly, in periods of economic growth²¹, food security and nutrition deteriorated—as witnessed in the 1990s. This current period of economic reform will likely also be followed by growth, making this particular phenomenon witnessed in the 1990s a pertinent subject for the coming three-year period. The International Food Policy Research Institute in the graph below has isolated Egypt's deviation from the general trend of decreasing prevalence of stunting alongside increasing GDP per capita.

The Nutrition Growth Disconnect

Prevalence of stunting among children under 5 years (%)



IFPRI presentation: Data based on World Bank's WDI data, with IMF's WEO, UNSTAT, and 2010,2011 HIECS data

During the Mubarak era, concerted government efforts to combat the condition led to improvements in rates of stunting—from 44% in 1978 to 20% in the early 2003, yet policies lacked persistence and once neglected, rates began to climb. Alongside marked increases in GDP between 2003, rates of stunting increased by more than 10%. This paradigm is known as the economic paradox²². Considering the similar IMF-backed reform of the 1990s that preceded this policy neglect, it is an important warning for the period following Egypt's current economic stabilization.

Egypt's Double Burden

²⁰ In late April, Egypt imposed tariff on the exports of fish. [Reuters](#). 27 April 2017. *Egypt imposes tariff on exports of fish- Trade Ministry*. [Accessed 17 May 2017].

²¹ Economic growth as measured by increase in GDP per capita.

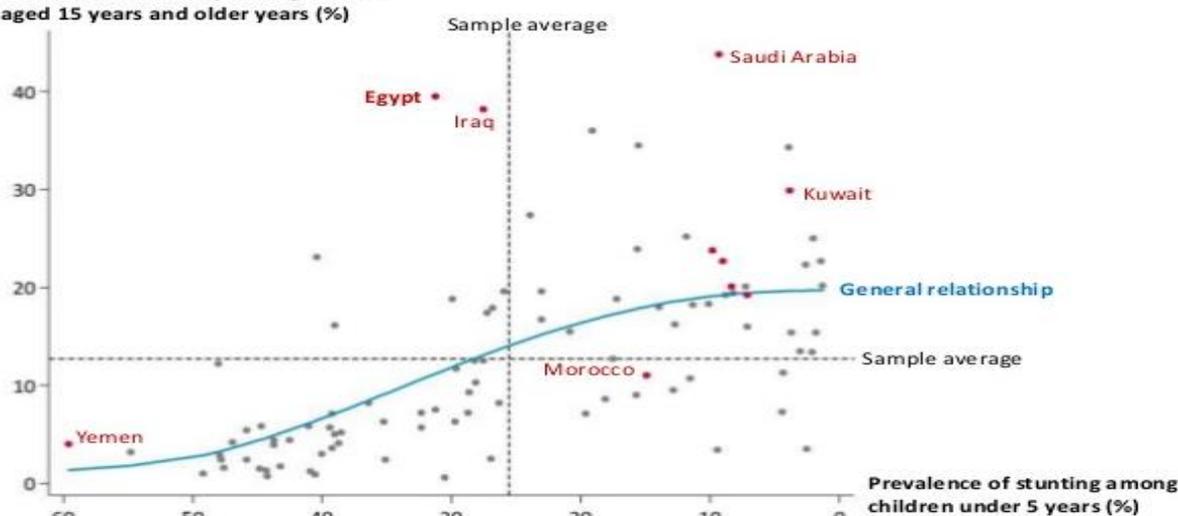
²² Ecker, Olivier; Al-Riffai, Perrihan; Breisinger, Clemens; and El-Batrawy, Rawia, 2016. *Nutrition and economic development: Exploring Egypt's exceptionalism and the role of food subsidies*. 1st ed. Washington, DC: International Food Policy Research Institute.

Egypt also suffers from the double burden of malnutrition: a high prevalence of undernutrition alongside overweight and obesity. Stunting, an outcome of undernutrition defined as a lower than average height for a child's age, impacts 30% of Egyptian children under five²³. Stunting is strongly linked to poverty²⁴ and can have a permanent effect on an individual, diminishing physical and cognitive development and reducing educational and economic outcomes²⁵. Brain and organ development suffer and the immune system is weakened. High rates of diabetes and heart disease in adulthood common with the condition also put additional burdens on the over-stretched health-care system. These figures vary dramatically across the country, yet according to IFPRI, "Egypt's rural-urban gap [in undernutrition] closed over the past decade because children's nutrition deteriorated faster in urban areas than in rural areas and not because progress in reducing child undernutrition in rural areas caught up with the advances made in urban areas" and cannot be fully explained by rural-urban migration or rapid population growth in urban slums²⁶.

Occurrence of stunting in Egypt also has a strong correlation with overweight and obesity, seen in the mothers of stunted children, and as an increased probability for stunted children in later life. Research conducted by IFPRI has also shown very similar proportions of stunted children across income groups,

Double Burden of Malnutrition

Prevalence of obesity among women aged 15 years and older years (%)



IFPRI: Estimate based on World Bank's WDI data, with IMF's WEO, UNSTAT, and 2010/11 HIECS data

with very little difference between the poorest and wealthiest quintiles of Egyptian society, or in urban or

²³ WFP. 2010. *Egypt: Nutrition at a Glance*. [Accessed 16 May 2017]. According to DHS 2014 Health Survey, 1/5 children under 5 stunted, 8% wasted, 6% underweight, 15% overweight, and more than one-quarter of children aged 6-59 months are anaemic. Ministry of Health; El-Zanaty and Associates. 2015. *Egypt Demographic and Health Survey 2014*. [Accessed 17 May 2017].

²⁴ Indrawati, Sri Mulyani. *World Bank*. 2013. *Stunting: The Face of Poverty*. [Accessed 3 June 2017].

²⁵ Stunting contributes to an estimated loss of 16% of GDP. *Concern USA*. 2016. *What is Stunting?* [Accessed 9 May 2017].

²⁶ Ecker, Olivier; Al-Riffai, Perrihan; Breisinger, Clemens; and El-Batrawy, Rawia, 2016. *Nutrition and economic development: Exploring Egypt's exceptionalism and the role of food subsidies*. 1st ed. Washington, DC: International Food Policy Research Institute. In rural areas of Upper Egypt in the 2000s stunting was around 33% and it rapidly increased in rural lower Egypt, leading to north south gap narrowing in rural areas. 2011 Upper Egypt stunting is considerably lower in rural areas than in urban areas. Prevalence between rich and poor wealth income quartiles also quite close in 2011 - rapid increasing prevalence among rich. Poorly correlated across household wealth. UNICEF: *Children in Egypt 2015 A Statistical Digest. 2015. Chapter 5 Child and Adult Nutrition*. [Accessed 16 May 2017].

rural areas²⁷. The answer for the state's unique correlative "exceptionalism" can therefore be found in the interstices of Egypt's rapid nutrition transition—urbanization and sedentary work replacing active lifestyles; numerous economic crises compounded by poverty; the underinvestment in nutrition sensitive infrastructure and services; and the blanket food subsidy system²⁸.

Subsidies

The state's subsidy regime predominantly subsidizes energy, followed by food. Before November reform, energy subsidies accounted for a full 21% of the country's budget and 73% of the subsidy budget—61 billion pounds in the 2015/16 budget. Accounting for the biggest drain on GDP, the Egyptian government has targeted energy subsidies first. Though the distribution of beneficiaries is skewed to the wealthiest 10% of Egyptians who own vehicles and air-conditioning units, the poor are also adversely impacted by the removal of these subsidies. Simulations conducted in 2009 on the removal of subsidies showed a negative GDP growth rate and worsening household welfare across social strata; yet the compounded impacts of inflation and unemployment assume that energy expenses will account for a greater proportion of household income for the poor, therefore amounting to a far greater impact. Since November, energy subsidies have been reduced by almost half, and will be culled further.

The current food subsidy program falls under the now-military-helmed Ministry of Supply and consists of two elements: five daily loaves of bread and since 2014, the targeted Takaful and Karama subsidy program providing 70 million beneficiaries with a smart card of 21 pounds' worth of 30-40 commodities per month. In the coming year the cards will incentivize female education participation through an increased food allowance²⁹. Compared with energy subsidies, food subsidies are theoretically better targeted, as households with greater purchasing power increase the diversity of their food consumption. Yet over the last several years, Egyptians have watched food prices increase dramatically, and seen wages remain frozen, meaning that on the scale of vulnerability, government assessments distinguish between tens of millions of Egyptians who are ultimately vulnerable, yet to varying degrees. According to CAPMAS, the average household spends 48% of its income on food³⁰. The calorie-rich and nutrient-poor quality of subsidized foods including bread, edible oils and sugar only further incentivizes poor eating and does not allow vulnerable families dependent on state support to access a greater range of food commodities with limited resources. Though the average Egyptian eats 3000 kcal per day, these are mostly composed by fats and low protein and vitamin. In March 2017, the Supply Minister General Ali Moselhy announced the possible increase of the subsidy card support to 27 pounds, yet such a measure would not improve or stabilize the subsidy system, but would rather prevent the neediest from starvation.

When the military-associated Ministry of Supply took control of the food subsidy program in 2013 and ushered in a project of centralization, food distribution was directed away from the Syndicate of Grocers, a

²⁷ Brown, Tracy. *IFPRI Blog*. 16 March 2017. *The role of food subsidies in Egypt's rising malnutrition problems*. [Accessed 3 June 2017].

²⁸ Ecker, Olivier; Al-Riffai, Perrihan; Breisinger, Clemens; and El-Batrawy, Rawia, 2016. *Nutrition and economic development: Exploring Egypt's exceptionalism and the role of food subsidies*. 1st ed. Washington, DC: International Food Policy Research Institute. In rural areas of Upper Egypt in the 2000s stunting was around 33% and it rapidly increased in rural lower Egypt, leading to north south gap narrowing in rural areas.

²⁹ *CNBC*. 30 March 2017. *UPDATE 3-Egypt considering raising food subsidies - sources*. [Accessed 8 May 2017].

³⁰ *Daily News Egypt*. 2016. *Unemployment hits 12.6% in Q3 of 2016: CAPMAS*. [Accessed 1 May 2017].

subsidiary of the state-owned and general-headed Food Industries Holding Company and Ahram Markets³¹—companies that do not pay import taxes for produce³². As the world's largest wheat importer, this restructuring has not always been smooth, and has led to food shortages of certain products and the replacement of well-known brands with unknown army-produced alternatives³³.

Evident in the protest calls for 'bread, freedom and social justice,' Egypt's worsening food security and malnutrition was a mobilizing element of the 2011 Uprising; long-standing food subsidies both a symptom and a result of a project of economic liberalization beginning during Sadat's Infitah that increased the burden of the country's population living in poverty. As the government ushers in a period of economic reform and welcomes in increasing foreign investment, malnutrition and food security will likely worsen further still due to poor livelihoods provisions and deepening poverty. Today, malnutrition represents the crucial role of the third sector to advocate for a coordinated nutrition and health care policy across public and private sectors, and in the meantime, the filling of these gaps. This period of reform also represents a unique moment of transition that organizations can capitalize on by presenting clear strategies to target growing vulnerabilities among the Egyptian population.

REFORM: LEGITIMATING MILITARY ENCROACHMENT?

In addition to positive showings in the stock market, long-term stability requires local and international investor confidence through an investment in Egypt's private sector, and faith in the government's leadership. The bullish expansion of the army-backed government into the private and even traditional state sectors weakens this confidence, and furthermore impedes the 64% of Egyptians employed in the private sector³⁴. Partial dealings over contract law and land ownership, and the expectation that military involvement in projects is the simplest way to achieve goals continue to deter investment.

The 2013 military-led popular coup, which saw the ouster of President Muhammad Morsi to be replaced by President Abdelfattah al-Sisi by the military with the widespread popular support of the Egyptian people, provided the military with carte-blanche to strengthen its hold over the state in exchange for security, stability and an improving economy. This process of extending its hand into the private sector, already underway, began in the early 2000s and ramped up at the time of the 2011 uprising. Indeed, the government's unusual October 2016 comments announcing the armed forces would diminish their role producing a range of products from baby formula, pasta, electrical goods and weapons over the coming 2-3 years, even if not upheld, were evidence of popular awareness and resentment of this expansion. Generals were offered 'golden parachutes' upon retirement, as the heads of the largest private enterprises in the country, including Egypt Air and industrial sector companies. Former military officials were offered

³¹ McMahon, S F, 2017. *Crisis and Class War in Egypt*. 1st ed. London, UK: Zed Books.

³² When the poultry tax removal between November and May 2017 - where despite local producers providing 90% of local needs, government cut import taxes to deal with price inflation while possibly killing local industry. [Mada Masr](#). 6 December 2016. *Customs exemption for poultry reversed amid criticism from local producers*. [Accessed 9 May 2017]. [Arab Finance](#). 12 January 2016. *Egyptian's decision to exempt poultry from import taxes angers producers*. [Accessed 1 May 2017].

³³ [Daily News Egypt](#). 2016. *70 million reliant on food subsidies in peril amid government austerity and mismanagement*. [Accessed 1 May 2017].

³⁴ 2014 figures. Noll, Jessica, 2017. [German Institute for International and Security Affairs](#): SWP Comments. *Egypt's Armed Forces Cement Economic Power*, 1-7. [Accessed 1 May 2017].

ministerial positions, encroaching into the public sector. At the same time, production expanded. In addition to increased economic activity the armed forces began to alter the commercial legal climate. In May 2011, an amendment to a law on the military judiciary was passed, stating that only military prosecutors and judges could investigate illicit gains by army officers. Following the 30 June military coup, an executive decree was signed expanding ministers' powers to sign contracts without competitive bidding, as military-owned contractors geared up for the Suez Canal project and housing developments.

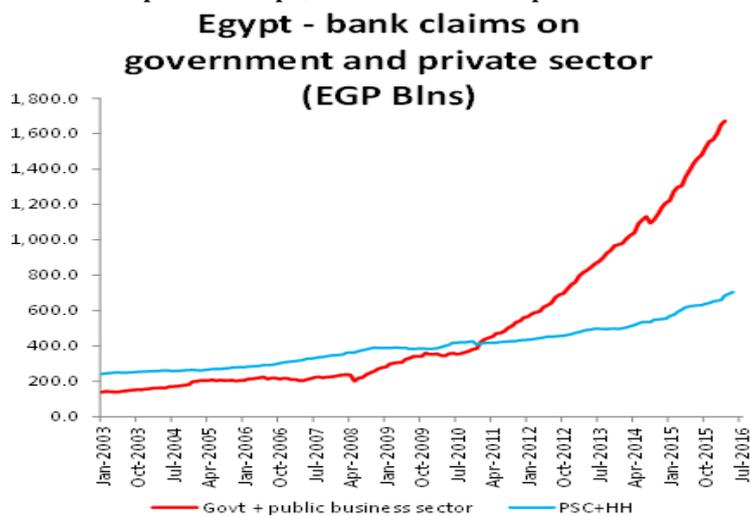
Despite Sisi's statements that the military only contributes 2% to Egypt's GDP, its market share is estimated to be 40% or more. Benefiting from a monopolistic control of some sectors of production due to military control of land and real estate, preferential access to credit facilities from Egyptian banks and foreign currency, a biased judiciary and expanding remit of military courts to try civil matters and nearly free conscripted labour and landownership only incentivizes the military to expand. Military enterprises are also exempt from income, sales or import taxes, despite taxes rising significantly for the private sector. In 2016 valued added property tax rose by 13% and import tax rose by up to 60%. Though Ministry of Defense budget details are not provided, between 2013/14 and 2015/16 they were estimated to rise by one billion dollars to reach 5.4 billion, though it is thought that the annual \$1.3 billion dollars provided by the US covers up to 80% of weapons procurement³⁵. Anecdotally, army-owned enterprises produce olive oil, pasta, baby formula, bottled water, washing machines, vehicles, refrigerators, televisions, smart phones and tablets, operate hotels, work in cement, iron, steel, aluminum, telecommunications, transport, private security and run petrol stations. The largest of the bodies include the Arab Organization for Industrialization, the Armed Forces Land Projects (investment projects), National Service Projects Organization, National Company for Land Reclamation and Agriculture, El-Areesh Company for Cement, El-Nasr Company for Intermediate Chemicals, National Company for Fishery and Agriculture, Mining Sector, Queen Company for Macaroni, Arab International Optronics, National Company for Food Industry, National Company for Roads Construction and Development, El-Nasr for Services and Maintenance, Upper Egypt Company for Agriculture Industry and Land Reclamation and Safi Water³⁶.

³⁵ Noll, Jessica, 2017. *Egypt's Armed Forces Cement Economic Power*. [German Institute for International and Security Affairs: SWP Comments, 1-7](#). [Accessed 1 May 2017].

³⁶ [National Service Projects Organization](#). 2017. *National Service Projects Organization*. [Accessed 1 May 2017].

A developing aspect of the military-state’s economic strategy is the recent employed discourse of public-private partnerships, particularly utilized in conversations with international donors as part of the stabilization and capacity-building of economic empowerment projects. Despite European Union, USAID, Canadian, Swiss and other western donors prioritizing entrepreneurship and employment projects, the military-led Egyptian government is prioritizing its own economic interests by channeling portions of project funding through its military-owned holdings³⁷. This language obscures the power structure implicit in these partnerships, and due to the impact of inflation—particularly on imported goods—poor access of private companies to credit and the even higher rates of interest placed on capital lending; as well as the preferential position of army-owned businesses within the state’s legal and commercial structures and ability to hinder company operations; makes these relationships less of a partnership and more a co-optation.

Private businesses face the necessity to cooperate with army enterprises to receive contracts and liquidity, which creates a dependency, complicity and lack of economic independence. If military enterprise manages to significantly displace private businesses, the outcome will only be to increase poverty and unemployment.



Rebel Economy (16 August 2016): Egypt and the IMF: The Underlying Problem

The Central Bank chart based on public and private lending in Egypt illustrates how particularly from 2011, Egypt’s banks were lending up to 16 times of available reserves to the government and public business sector—many times what was being provided to the private sector³⁸. Instead of partnering with the private sector, the government has starved it. Therefore, the likely strategy underpinning these developments is the economic benefit of a limited number of elite members of the military establishment, rather than a larger, concerted policy. Companies in textiles, industrial production, manufacturing, construction, security and agriculture are facing two outcomes: being unable to bear the current costs of production in the face of continuing instability, they are shuttering, and facing buy-outs at undervalued rates to military subsidiaries³⁹ as the military increases its presence in the selling of Egyptian food. Or, for those with exceptional technical and service capacities, are incorporated within a subcontracting regime established as a presidential decree in the run-up to the Suez Canal expansion whereby military construction companies benefited from private tender bids and co-opt smaller companies within the contracts, dis-incentivizing competition and providing partners with smaller profits, little legal recourse and no independence. For the short-term gain of

³⁷ Roll, Stephan, 2016. *Managing Change: How Egypt’s Military Leadership Shaped the Transformation*. Mediterranean Politics: Dynamics of Transformation, Elite Change and New Social Mobilization in the Arab World, 21, 1.

³⁸ In this graph, PSC + HH is Private Sector Capital and Household. *Rebel Economy*. 16 August 2016. Egypt and the IMF: The Underlying Problem. [Accessed 3 June 2017].

³⁹ *Mubasher*. 2 April 2017. *Newspaper: National Service in Egypt to take over property for agricultural development*. [Accessed 1 May 2017].

conquering enterprise, local investment, creativity, competition, employment and sustainable livelihood opportunities are at risk.

In addition to the impact of military economic policy on the private sector and its long-term resilience, the ability of the military to efficiently run a centralized capitalist economy is worth considering. With the promise of stable economic assistance from the United States, Europe and the Gulf, President Sisi has undertaken several economic policies that provided little to no benefit to the population, or actively impinge on their livelihoods opportunities. Taking the last six years as an example, the government's preferential market positioning allowed it to squander aid packages and resources on dubious mega-projects rather than invest in basic infrastructure. These projects, hailed as the economic salve for Egypt in exchange for a decrease in political freedom, and in the example of the Suez Canal expansion, a source of immediate financial return, fail to deliver. In the case of the \$8bn dollar Suez Canal expansion, global shipping trade had remained steady and the canal was operating below capacity⁴⁰, so the logic behind expanding the canal to accommodate more and bigger ships, failed to translate into increased trade revenue. This project has been the most level-headed compared to the proposed \$45bn dollar administrative capital, a space program and poorly-conceived housing developments⁴¹.

The military-led state is also not a monolithic entity. During the last six years of state consolidation, current Supreme Council of the Armed Forces elements have been at odds with Mubarak-era economic elite, and with traditional elements of state control like the intelligence sectors and the judiciary. The Ministry of Military Production provides supplies for other ministries, including water-treatment stations for the Ministry of Housing, cables for the Ministry of Electricity, laptops for the Ministry of Education and vehicle armaments for the Ministry of Interior⁴². In 2016, conflict usually kept low-profile erupted into public media forums between the Ministry of Interior and the Military over land ownership.

Food Production and Supply

For the world's largest importer of wheat, food supply is an integral facet of the state's subsidy system and the arguably, political stability. The military has extended its influence into food supply and subsidies through ministerial control and the consolidation of additional remits. In September 2016, General-Major Mohammad Ali al-Sheikh became the Minister of Supply; then in February 2017 a cabinet reshuffle brought the smart card subsidy system Takaful and Karama under the Ministry of Military Production, giving Minister General Mohammed al-Assar authority and access to data of a system used by 90% of Egyptians. Products produced by the military have always been priced lower due to the input of poorly paid conscript labour, yet in the months following the flotation of the pound, as fiscal instability caused by a lack of foreign currency leads local businesses to flirt with bankruptcy due to the cost of inputs, imports and transportation and demands for higher salaries to combat inflation, the military has received popular justification to expand its market share—particularly in the face of shortages of sugar and baby formula been able to expand its market share. Food trucks and stores bearing the sign

⁴⁰ [Economist](#). 6 August 2015. *A bigger, better Suez Canal but is it necessary?* [Accessed 1 May 2017].

⁴¹ [Al-Monitor](#). 10 August 2016. *One year on, are 'new' Suez Canal revenues sinking?* [Accessed 1 May 2017].

⁴² [Slate](#). 15 December 2010. *Egypt's Command Economy 259 0 A WikiLeaks cable shows how the regime has bought off the military*. [Accessed 1 May 2017].

'*jihaz mashru'at al-khidma al-wataniya*' (Projects of National Service) are increasingly dotted around Cairo's major thoroughfares and poorer neighbourhoods selling army products at lower prices than any for sale at major retailers, and the military announced the building of a new supermarket chain. Furthermore, as small and medium-sized enterprises factories unable to continue to produce goods economically begin to shut down, the military with its capital resources is beginning to buy up their equipment and infrastructure for under-valued prices. Shortages of medications in the winter of 2016 and early 2017 have seen the armed forces receive a license to expand into pharmaceuticals in January 2017⁴³.

A MONOPOLISED POLITICAL SPHERE: THE SISI FACTOR

Egypt's economic recovery is predicated both locally and externally on the notion that a government unified around President Sisi can secure political stability and clamp down on radical extremism. And the methods with which these objectives are achieved—through the arrest of an estimated 40,000 political opponents since the coup, military tribunals for civilian activists, restricting civil society and the media, the alleged use of torture and surveillance—are no longer questioned by the majority of observers; and are in some ways justified as the necessary cost for overcoming years of recession and insecurity. President Sisi's replacement of the former Islamist President Morsi's corrupt and unpopular leadership led to widespread support of the subsequent massacre of Brotherhood supporters and ensuing crackdown of political opponents of all stripes—liberals, labour, Islamist⁴⁴—as part of a much-needed return to security. Alongside an economic expansion of the new military government, the approved remit of SCAF and Sisi ushered in a systematic campaign tightening control of media platforms, laws restricting NGO activities and foreign funding, the expansion of the security apparatus and restricting of judicial independence.

Nevertheless, this wager is predicated on the Sisi factor—President Sisi's unique ability to carry out unpopular fiscal and monetary reform and weather policy blunders without the risk of another political uprising. In 2013, Sisi's command of 90% of popular support allowed the leader to reduce fuel subsidies and carry out a project of austerity, while simultaneously convincing Egyptians to fund the Suez Canal by investing their savings. Today the president's popularity is estimated to have fallen to about 50%⁴⁵, yet he is still considered the only viable option between the military and the people—even if an estimated 80% of Egyptians would not re-elect him in a free election⁴⁶. In the meantime, Sisi is consolidating power across the few remaining contesting spheres—an insurance against his own military ouster. Through April's three-month State of Emergency, the president's further suppression of the judiciary, outspoken media, economic elites and activists is legally condoned and will intensify.

⁴³ [Reuters](#). 22 February 2017. *Egypt's military to enter pharmaceutical industry*. [Accessed 1 May 2017].

⁴⁴ Egypt approved the construction of 19 new prisons since January 2011 from 43 to 62, 16 of which were built during the time of presidents 'Adly Mansour and Sisi. [The Arab Network for Human Rights Information](#) (ANHRI). September 2016. *There is Room for Everyone: Egypt's Prisons Before & After January 25 Revolution*. [Accessed 1 May 2017].

⁴⁵ [Middle East Observer](#). 5 January 2017. *A recent survey says Al-Sisi's popularity declined by 50% in his 2nd. year in office*. [Accessed 1 May 2017].

⁴⁶ *Ibid.*

Support of President Sisi, a strong leader in a region of volatility, is mirrored by western states who prioritize Egypt's role in halting illegal migration to Europe across the Mediterranean and in counterterrorism efforts, politicized to great effect by the Sisi government. International agendas of human rights and political representation have been notably replaced by employment, livelihoods and entrepreneurship to address youth potential, politically aware youth who spent formative years in the midst of a revolution.

The presence of Islamic State's *Wilayat Sina* on Israel's borders and Egypt's strong security relationship with the Jewish state and as an intermediary with Hamas has further aligned the country with traditional allies⁴⁷. Despite the recent condemnation of the US Congress over continued military aid, President Trump has cemented his relationship with the Egyptian leader, echoing much of the European Union which is providing Egypt simplified visa procedures and increased economic aid for the speedy deportation of unwanted African migrants and to impede arrivals from Libya. Despite the murder of Italian graduate student Giulio Regini at the hands of state security, Italy normalized relations for its oil company ENI to benefit from the Zohr oilfields discovery. Germany and the UK have prioritized business and border security, which is allowing Egypt to build its navy as a border force, buying amphibious assault ships from France. Egypt is also attracting greater western interest due to Sisi's growing proximity to Russian President Putin through shared interests in Libya and Syria, and in the hopes that Russia once more allows tourist flights to Sharm el-Sheikh⁴⁸. Following with Russia's expanding regional presence, Putin is extending his influence into Libya and using Egypt as a stabilizing neighbour to conduct operations supporting General Khalifa Haftar⁴⁹.

Relations with the Gulf, too, have improved after a number of government missteps following the 2013 coup. A released recording in 2015 of President Sisi mocking Saudi Arabia and Kuwait's immense wealth to demand direct military aid was followed by an unwillingness to commit ground troops to Saudi Arabia's anti-Houthi forces in Yemen, as well as a botched attempt by the president to hand over ownership of two islands to Saudi Arabia. The government's pro-Assad stance and abstentions alongside Russia and China vetoes against Syria have further angered their allies. Nonetheless, a realist-driven political agenda is taking hold between the conventional allies, particularly against Turkey's interventions—whom Egypt loathes for its support of the Brotherhood, and Saudi views as a competitor for leadership of the Sunni world.

Media

Regarding media freedom, journalists are first circumscribed by the 1956 Law 3113, which bans journalists from writing about the army. The 2015 Anti-Terrorism Law, which demands the reporting of 'official' versions of 'terrorist' attacks, limiting fair reporting and access to the Sinai. Egypt has also been called "one of the world's biggest prisons for journalists" and fell two places

⁴⁷ Particularly following Hamas' acknowledgement that members of its military wing the Qassam Brigades joined *Wilayat Sina*, and that the Islamic State subsidiary represents a threat to all three interests.

⁴⁸ Following downing of Russian flight by Islamic State on 31 October 2015.

⁴⁹ *The Independent*, 14 March 2017. *Russia dispatches special forces to western Egypt as concerns grow over military presence in Libya*. [Accessed 1 May 2017].

on the World Press Freedom Index in 2017 to 161 out of 180 countries. This is the result of further legislation in December 2016 establishing three new governmental bodies to regulate the media⁵⁰, and restrictions following the 9 April 2017 Emergency Law, which confiscated an issue of the private newspaper al-Bawaba.

Judiciary

In open defiance of President Sisi and the Saudi government, the ongoing saga of sovereignty over Egyptian islands Sanafir and Tiran prove that the judiciary represents a defiant and adversarial centre of power for the president. Consequently, Sisi passed a law in April 2017 to further cripple the independence of the State Council, Supreme Judicial Council, Administrative Prosecution and State Lawsuits Authority. The judges in each court hold elections by seniority, privileging some senior judges who have ruled against Sisi's interests, like Judge Dakroury in the island case, and Judge Anas Omara, who nullified the application of the death penalty in cases based solely on evidence provided by national security investigations⁵¹. The most recent law on chief judicial appointments stipulates that three nominees must be presented by each judicial body within 60 days before the head's end of term, to allow for the government to choose the new judge. The state council disregarded this law in its recent vote, granting the president greater powers over appointments.

Workers and the courts

Labour mobilization and the unions—whose wave of industrial protests played a crucial role in mobilizing before the 2011 uprising—has been another element of the Sisi government's efforts to defang opposition and popular protest. Trade unionists and workers in the private, public and military-owned industries exercising rights to freedom of expression, association and assembly have been met with arrest, detention, dismissal from work and military tribunals⁵². Military tribunals have also become the court of choice for labour unrest, as witnessed during strikes at the military-run Alexandria Shipyard Company, who are facing charges of "inciting workers to strike" under the rubric of civil unrest. The authorities are also proposing amendments to the Trade Union Law and Labour Law to further restrict rights. Such efforts to deny an outlet to protest poor working conditions, the non-payment of salaries and low wages, further desensitize the population to the deterioration of their rights and opportunities.

KEY CONTEXTUAL TRENDS

1. Water Scarcity and Food Insecurity

⁵⁰ These are the Supreme Media Regulatory Council, the National Press Authority and the National Broadcasting Authority.

⁵¹ In April 2016, President Sisi announced that Tiran and Sanafir would be ceded to Saudi Arabia, drawing the nationalist ire of Egyptians against their Saudi backers. The announcement led to a case in the Court of Administrative Justice, which ruled firmly on Egypt's sovereignty. Under Saudi pressure, manifested by a halting of monthly oil resources, Sisi fired several judges, and unilaterally sent the agreement to be voted on in parliament in December 2016, against court orders, which precipitated another positive ruling in the Supreme Admin Court, Constitutional Court, and the April 2017 re-trial.

⁵² [Congressional Research Service](#), 24 March 2017. *Egypt: Background and U.S. Relations*. [Accessed 1 May 2017].

Access to food and water are challenged by numerous factors: population growth, urbanization, poverty, desertification, climate change, and regional infrastructural developments. The UN has estimated that Egypt will face an absolute water crisis by 2025, caused by shrinking resources and an expanding population. Across the Nile Basin, Egypt is by far the most dependent on the river's waters, consisting of three-quarters of its available water resources. Whereas in 1947 the average person accessed 2,500 cm³ annually, in 2013 this figure dropped to 660cm³⁵³, which is below the UN's water poverty threshold⁵⁴. The effect of scarcity is worsened by poor water connections and deprivation particularly in informal urban areas and Upper Egypt. Water access in Egypt revolves around the Nile, which provides 97% of the country's renewable supplies. Pressured by Egypt's growing population and illegal construction of informal areas, water resources are improperly monitored, and lost due to poorly-constructed infrastructure. ECESR suggested in 2014 as much as 35% of residential water is lost in poor and deteriorated networks⁵⁵. Residents often resort to the exploitative private market of water, and 95% face poor hygiene and sanitation conditions that increase the likelihood of diarrhea and other water-borne illnesses⁵⁶. Water use efficiency will be a necessary impact of this period, particularly through irrigation schemes, wastewater reuse improvement, and possibly desalination, water harvesting and the use of non-renewable ground water resources. With Ethiopia's Renaissance Dam project well under way, and the impacts of climate change felt, the issue of water stress will require greater use efficiency, and will likely negatively impact Egypt's capacity to generate hydropower, alongside growing energy demand. The highly political nature of the Dam project has hindered cooperation in conducting a neutral impact assessment to ascertain the mid-to-long-term impacts of this infrastructure on water availability and agriculture. A need to support WASH rehabilitation and alternative energy initiatives can begin to counterbalance this challenge. Reducing fuel subsidies may be the natural trigger to encourage investment in solar and wind energies.

Interventions improving water-use efficiency, particularly concerning waste water will be necessary alongside food sector interventions as crop yields decrease due to the impact of climate change, and the decreasing availability of arable land. Whether these take the form of more efficient domestic production, manufacturing or increased imports, or a combination of these, remains to be seen. The highly politicized nature of food availability and subsidies and military control over the sector will increase the role of subsidies in Egypt. As noted earlier, the armed forces have leveraged food commodity shortages and their subsequent interventions with lower-priced military-produced goods to receive public affirmation of their growing role in food production and distribution, aided by land-ownership a, low salaries and tariff-free imports. The greater availability of food, however, will not strengthen household income. The country has been identified by the Organization for Economic Co-operation and Development as extremely vulnerable to the adverse impacts of climate change, especially with respect to water availability and the risk of rising sea levels on its coastal zones. Groundwater resources are highly limited, and rainfall is scarce. The Aswan Dam has contributed to soil salinization further

⁵³ [Mada Masr](#). 21 May 2014. *Water resources per capita drop 60% since 1970*. [Accessed 1 May 2017].

⁵⁴ [UN Water for Life Decade 2005-2015](#). 2015. *Water Scarcity vs. Water Stress*. [Accessed 1 May 2017].

⁵⁵ [Egypt Centre for Economic and Social Research \(ECESR\)](#). 2017. *Water Pollution in Egypt*. [Accessed 1 May 2017].

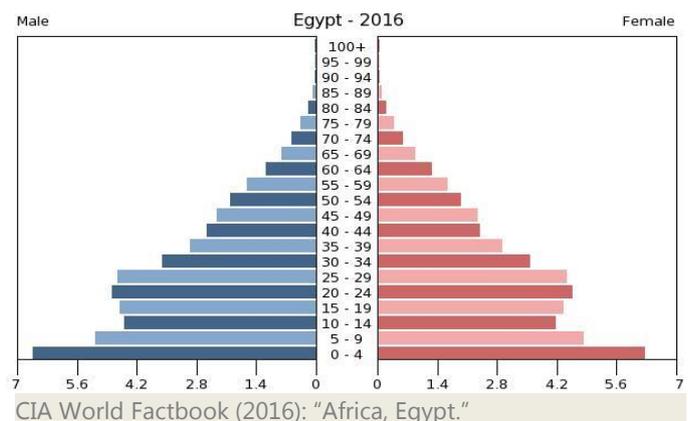
⁵⁶ Poor sanitation means that 95.5% of the population drinks improperly treated water. Ibid.

south, and water pollution due to pesticides, sewage and industrial waste contributes to higher environmental risk and worsening household resilience.

Intersectional poverty and a lack of household purchasing power has caused food insecurity to reach a prevalence of 17.2%. Agricultural work, which contributes up to 14.5% of the country's GDP, contributes a full 28% of jobs, which increases to 45% of women in the workforce in Upper Egypt⁵⁷. Diminishing crop yields and the growing undesirability of work in the sector will disproportionately impact women in rural areas with few other opportunities.

2. The compounding nexus of poverty, fertility and disenfranchised youth

Egypt's 2014 Demographic and Health Survey (DHS) recorded a globally unprecedented 17 percent increase in the country's total fertility rate in the past six years, witnessing a rise from 3 in 2006 to more than 3.5 in 2014⁵⁸. It is unclear as of yet whether this is evidence of a temporary baby boom or the start of a trend—something which would also depend on currently neglected government policy. The deterioration of Mubarak-era family



planning programs in the early 2000s and the spike in child-bearing caused by the instability of the post-revolutionary period is triggering a population increase at a faster rate. It is estimated that by 2020 Egypt's population will exceed 100 million⁵⁹. As evident in the skew of this population pyramid, the state's inhabitants are young, creating a youth bulge.

While not by definition a destabilizing factor, a youth bulge alongside poor economic integration has been closely linked with the rise of popular protest and civil unrest⁶⁰. In Egypt, where half of the population is under the age of 24⁶¹, more than one quarter live in poverty and a similar amount of adults are illiterate⁶², unemployment between the ages of 15 and 24 amounts to 34.3%: 52.2% for females and 28.7% for males⁶³. Economic integration is a far way off, and few efforts have been made to breach this widening gap. Systemic neglect of educational investment—which President Sisi admitted in 2014 would require the recruitment of 30,000 new teachers—fails to prepare the country's youth for its future⁶⁴.

⁵⁷ USAID. 15 May 2017. *Egypt: Agriculture and Food Security*. [Accessed 1 May 2017].

⁵⁸ World Bank. *Egypt Fertility Rate*. [Accessed 23 May 2017].

⁵⁹ *Population Pyramid*. *Egypt Population*. [Accessed 23 May 2017].

⁶⁰ Read CIA. November 2011. *The Youth Bulge; A link between demography and instability*. [Accessed 23 May 2017]; and *Population Action International* (PAI). January 2012. *The Shape of Things to Come: Why Age Structure Matters to a Safer, More Equitable World*. [Accessed 23 May 2017].

⁶¹ CIA World Factbook. 2017. *Egypt*. [Accessed 1 May 2017].

⁶² Daily News Egypt. 2016. *Unemployment hits 12.6% in Q3 of 2016: CAPMAS*. [Accessed 1 May 2017].

⁶³ CIA World Factbook. 2017. *Egypt*. [Accessed 1 May 2017].

⁶⁴ CNN. 2014. *Opinion: Lights flicker in Egypt as 'megaprojects' sap funds*. [Accessed 1 May 2017].

Migration has been a coping strategy for particularly young men to seek employment, migrating from the Nile Delta, Upper Egypt and informal urban areas to Cairo and Alexandria's urban centres, the Red Sea and Sinai, and externally, to the Gulf states, as well as Libya and Jordan. The development boom of the 1970s, carried by high oil prices, created a huge demand for unskilled labour. These opportunities and their associated remittances have decreased due to the collapse in Egyptian tourism, the fall in oil prices and instability in Libya. Though economic reform hypothetically leads to greater opportunities, wage stagnation, gender inequality, the military co-optation of various sectors and the shrinking space for external migration, compounded with growing European Union pressure to clamp down on illegal migration, limits opportunities and increases an individual's reliance on flexible, temporary informal sector employment.

3. Slow-burning jihadist insurgency

Egypt has suffered from Islamist radical insurgencies since the Nasser era, and inexplicably continues to adopt the same heavy-handed strategy to suppress extremist elements. Arrest, detention and torture are tools used on a wide range of political opponents labelled terrorists by the government⁶⁵, who benefits from western financial and military assistance to fight terrorism. First with Takfir wal-Hijra in the 70s, to Tanzim al-Jihad, al-Gama'aa al-Islamiyya to today's Islamic State subsidiary Wilayat Sina, groups recruit through a powerful narrative of political and economic repression. For today's Islamic State, this narrative is particularly apt in the resource-starved Bedouin Sinai region of the group's base, where state education and healthcare infrastructure is notably absent. Supporters coming from the Delta and informal areas, where the Muslim Brotherhood's charitable wing providing a strong network of services has been thoroughly dismantled and not yet replaced, can also identify with this message.

Though attacks against Egypt's sizable Christian minority have occurred sporadically throughout recent decades, and were capped with the two attacks in Tanta and Alexandria in April 2017 in addition to an earlier attack in December 2016, targeting Egypt's Christian population better serves the government's external narrative about fighting extremism than it does to build popular support, and indeed, such incidents are not popular among Egypt's Muslim population. Groups can garner the most support by targeting security forces. Checkpoints, security, police and military stations and structures, convoys and tourist sites will remain a potent target during the coming three-year period to further denigrate President Sisi's ability to clamp down on terrorism and bring security to Egypt.

4. Gas exports as a salve

Egypt—the world's eighth-largest importer of gas—is on track to become gas self-sufficient by 2018, which will be a crucial factor for stabilizing the economy and counteracting the impact of reduced fuel, and likely food, subsidies. The offshore Zohr natural gas reserve was discovered in 2015 by the Italian oil company Eni, who maintains the concession. It is estimated to be the largest ever natural gas find in the Mediterranean, far surpassing Israel's Leviathan gas field with an estimated 850 billion cubic meters,

⁶⁵ [Amnesty International](#), July 2016. *Egypt: Hundreds disappeared and tortured amid wave of brutal repression*. [Accessed 23 May 2017].

estimated to double Egypt's gas reserves. Using a phased approach, Minister of Petroleum and Mineral Resources Tarek el Molla stated that by the end of 2017 one billion cubic feet of gas per day will be produced, and then in later stages production will be boosted to 2.7 billion cubic feet per day by the end of 2019. With the substantial decrease in fuel subsidies that once consumed an estimated 20% of Egypt's yearly GDP in subsidies, this finding could save Egypt an estimated \$3.6 billion dollars yearly, once the state halts imports by 2019 and begins exporting⁶⁶. This gas surplus could provide valuable resources for the state to invest in infrastructure and services.

SCENARIOS 2017-2020

The following scenarios are designed to frame uncertainty during the coming three-year period in Egypt by designing hypotheses around key drivers shaping the context's outlook, but are by no means comprehensive. Rather, they provide a snapshot into the spectrum of possible futures Egypt could experience in the coming three-year period.

Security First

Regional insecurity caused by protracted conflict in Libya, South Sudan, Syria, Iraq and Yemen legitimates the military consolidation of the state under the rationale of stability and increased military spending despite the significant needs of Egyptians for the provision of basic services. Encroachment into the economy, alongside the restriction of the judiciary, civil society, media, and the right to organize peacefully is neglected by the international community due to larger priorities regarding curbing illegal migration and fighting terrorism.

Some economic improvement occurs regarding ease of doing business and stabilizing government reserves, currency and investor confidence, yet the expected economic respite from the production of the Zohr offshore oilfields is slow-coming caused by Egypt's bureaucratic and unclear investment sector; combined with poor remittance revenue and depressed tourism causes two more years of economic stagnation. Though Egyptians patiently accept increasing fuel and food prices alongside depreciating wages, human development indicators begin to worsen. Despite some increased investment into state welfare, the greater neglect of infrastructure, health services and education cause households to resort to more severe coping mechanisms. Amidst greater poverty and persistently high rates of unemployment—particularly impact the youth demographic—the support of radical religious parties intensifies. The 2018 Presidential elections unsurprisingly see no real competitors and voter turn-out is low. Efforts by the Sisi government to oversee the institution of Islamic learning al-Azhar and control the religious community's interpretation of faith as it could relate to the state further alienates believers and draws them to more fringe, politically conscious and radical outfits. Meanwhile, the Islamist insurgency in Sinai, fueled by poverty and state suppression, continues and provides a useful justification for

Indicators

- Egypt's military seeks stability among other military-first states and increases involvement in Libya, Syria, Yemen.
- Tariffs, export taxes, credit and foreign capital limits on foreign businesses in sectors where military has interests, military expansion in these sectors.
- As judiciary pushes against government, Sisi tries to push through island sales.
- Increased support of Egypt navy capabilities and surveillance from international community.
- Laws improving investment context and business climate

⁶⁶ [The Economic Times](#). 17 May 2017. *Egypt's Sisi: Newly-discovered gas fields to save about \$3.6 billion yearly*. [Accessed 17 May 2017].

military spending and the continuation of the emergency law. Illegal migration remains one of few prospects for young Egyptians.

Political and Security Implications

The strong arm of the security state manages to prevent a widespread protest movement and suppress organized dissatisfaction of the state through detention and arrest alongside a presidential election with few contenders and a parliament loyal to and fearful of the president. Attacks against military and police targets continue across the country, with risks for IED attacks on tourism infrastructure high.

Humanitarian Implications

Economic development does not target the Egyptian population and few benefits are felt. No strategy is in place for much-needed social development regarding education, health, water, sanitation and hygiene or increasing water scarcity. Internationally-funded development projects face a shifting partnership landscape privileging military-first relationships at odds with projects strengthening local business.

Energy Renaissance

Egypt's battered economy is the focus of government efforts, as the structural reform project implemented in November 2016 continues with the further decrease in energy and food subsidies, energy sector investment and infrastructure construction. Unfortunately, a strategy aimed at strengthening the resilience of the state is not followed with concerted efforts to protect Egypt's most vulnerable. Despite an increase in some targeted assistance, the impact of high unemployment rates and depressed wages draws more Egyptians into poverty. This justifies the further expansion of the military into cheaper state service provision, through food production and sale, infrastructure development and health provision. However, the strengthening of the military's role in these sectors does not lead to greater employment and competes with private sector businesses who contribute and participate in the economy.

For macro-level entrepreneurship and investment, the energy sector leads the agenda. A resolution to alternative energy feed-in tariffs encourages a dramatic increase in solar and wind energy initiatives that decrease Egypt's dependence on fuel and encourage innovation and entrepreneurship. The improved legal environment around energy has a positive impact on a booming tech sector and economic integration across the region and the focus on alternative energy draws attention to Egypt's persistent challenges of water scarcity and drought. Furthermore, Zohr oilfield extraction begins in 2018 and floods the market with much-needed capital, contributing to increasing optimism across the economy. Little of these resources reach the majority of Egyptians.

As the war in Syria winds down, jihadist fighters begin to return to home countries in the region. Egypt's improved regional security coordination

are passed with little real impact.

- Migration to Europe from Libya and Tunisia particularly increase.
- Increasing proportion of population living in poverty, unemployment increases.
- Military offers employment with conscription-like conditions.

Indicators

- Bureaucracy and corruption in the commercial sector are tackled through presidential decrees and the passing of laws in parliament—the immediate impact is on the energy sector
- Judicial support of these measures is required, so government and judiciary reach some form of détente.
- Zohr extraction begins!
- The presidential elections take place with little excitement and President Sisi is elected for a second term.
- Public-private partnerships become the norm between the military and the

allows the state to better contend with the threat of rising jihadism. The state takes a new tack and begins to invest in the Sinai, and other poorer and disenfranchised pockets in Egypt—in the rural areas and urban peripheries—building schools, public transport and hospitals. As Tunisia and Palestine witness a wave of democratic political change, the Egyptian government makes the earliest steps to incorporate a greater range of actors in politics, easing some of the political pressure of the last seven years.

Political and Security Implications

Economic improvement solidifies support in the Sisi government and allows the president to continue structural reform process aided by improving indicators. Though Islamic State presence and smaller informal groups remain active, their capacity is hindered by weakened support and containment strategies causing attacks to occur away from Alexandria or Cairo.

Humanitarian Implications

Quality of life for Egypt's most vulnerable remains relatively stable, buoyed by energy revenue but only postpones the need for true reform. Government efforts to encourage investment by improving the environment for doing business has a beneficial knock-on effect for the development sector as it improves livelihood initiatives and feeds into broader entrepreneurship programming.

Intra-elite Battle Royale

The Supreme Council of the Armed Forces, elite arguably the key governing force behind President Sisi, adopts a short-term policy to monopolise and control the greatest proportion of the state and its economic interests in the shortest time possible. President Sisi, therefore, is a useful symbol and figurehead of a government he has limited authority over, and as unpopular IMF reforms begin to have a tremendous impact on Egyptians, a president who can be discarded at little cost in exchange for another military leader from obscurity in upcoming Spring May 2018 Presidential Elections. President Sisi, however, has attempted to make himself as essential to governance as possible through the stoking of a personality cult and integration of key allies into security sectors. The divisions between competing elements of statecraft deepen and further destabilize the ailing state through parliamentary blockages, growing criticism and dissonance from elements of the state and media and fuel and electricity shortages similar to those witnessed prior to the ouster of President Mohammed Morsi in 2013.

In the context of conflict within the oligarchy, elements of the state instigate protests similar to those seen during the Tamarod uprising over chronic neglect of high unemployment, growing income inequality and poverty to trigger government change, but dissatisfaction is deeper and less willingly utilized as

private sector and become the key conduit for foreign investment.

- More space for multinationals and tech start-ups increases employment among young, educated Egyptians.
- WASH, health and educational investment in Sinai.

Indicators

- Criticism of Sisi appears occasionally in the media among pro-government outlets.
- Signs of dissonance between intelligence sectors after botched treatment of detainees lead to publicized questions over maltreatment.
- Mubarak-era officials threaten to seriously contest the election, backing military elements.
- Foreign interference by actors trying to

before. The cascading effect of another protest movement once again discourages tourism and investment, delaying once more economic development and diversification. Crackdowns on political opponents of various stripes begin once more under the rubric of counterterrorism. This repressive response contributes to longer-term instability. Quality of life for Egyptians deteriorates substantially. For the richest and the poorest, migration increases.

Political and Security Implications

Conflict between military and economic elite has the potential to spill over across the country as various elements attempt to use proxies to contest the power of one another. Internal conflict also provides the opportunity for extremist groups to target elements of the state with increasing ease, increasing terrorist attacks.

Humanitarian Implications

Ruling-class instability further encourages the elite to consolidate economic assets and redirect capital out of Egypt. Investment in the country decreases as corruption worsens and capital flight causes inflation. As the economy worsens, investment in Egypt's social safety net is neglected and the most vulnerable are forced to adopt severe coping mechanisms to deal with food insecurity and undernutrition. Gender equality deteriorates further.

stabilize Sisi gov- particularly pro-Brotherhood Turkey and Qatar-likely.

- The Central Bank implements restrictions on withdrawals to prevent cash flight.
- Conflict over land ownership between MOI and military intensifies.

CONCLUSION

After more than six years of political unrest and economic recession, President Sisi's government has enacted crucial economic reforms to encourage foreign investment. Egypt's efforts to reform its economy have begun to reap results. As federal reserves stabilize and investment returns to the country, the government will soon have the tools to implement further reform that targets and benefits the population.

Though a slow-burning Islamic State insurgency continues in Northern Sinai, Egypt's security infrastructure has successfully reduced public signs of civil unrest and the possibility of terrorist attacks. To secure these gains, donors are concentrating on investing in the economy, particularly among vulnerable rural, youth and female demographics; and by strengthening policy towards long-term destabilizing trends including an increasing birth rate and rate of urbanization, as well as growing water scarcity and food insecurity. For the greatest impact and buy-in, policy objectives must be streamlined across all sectors by involving and coordinating with civil society, international and national non-government organizations, the business community and government agencies, to improve sustainability, increase impact and to incentivize cooperation. Yet these additional steps require the will to invest, which is arguably missing from the increasingly autocratic state. As President Sisi and his government lead a strategy of restraining the independence of the judiciary and the power of the intelligence sector, further clamping down on the media, forbidding protest, arresting youth activists and political opponents and directing civil matters to closed military courts; he is in effect shutting down

avenues of accountability in the run-up to greater poverty, falling subsidies, and likely, less access to a free and fair market. ■

EGYPT 2020

The Impact of Military Consolidation on Long-Term Resilience

May 2017

HUMANITARIAN FORESIGHT THINK TANK

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