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Assessment of the Tourism Sector in Egypt¹

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Executive Summary

Using a model inspired by the “Growth Diagnostic” (GD) approach of Hausmann, Rodrik, and Velasco (HRV) (2005), this paper assesses the “binding constraints” to the growth of two key variables of interest for the tourism sector in Egypt: 1) Private investment in the tourism sector (which determines the “supply” of tourist services); and 2) Foreign consumption of domestic services (the “demand” for tourism). While the highly significant drop in tourism arrivals and receipts in 2011 was overwhelmingly due to the political instability following the revolution, Egypt in fact faces a host of additional issues that will determine the number of visitors entering the country going forward. Overall, Egypt currently ranks in the bottom half (75th out of 139) of all countries currently evaluated by the World Economic Forum’s *Travel and Tourism Competitiveness Index* (TTCI), which is down from 64th in the 2009 Index. Given Egypt’s widely known cultural/historical and Red Sea/beach attractions, and its ability to develop additional tourism destinations and activities; this is a very poor global ranking and will not enable Egypt to reach its stated goal of 25 million visitors per year by 2020.

Egypt certainly does not suffer from a lack of tourist destinations; it has seven different properties inscribed on the UNSECO World Cultural Heritage List (with one on the list of endangered sites) and 32 separate properties currently on the “tentative” list. Egypt also has 1280 kilometers of coral reefs and more than three-quarters of Egypt’s tourists are destined for Red Sea beach resorts. Beach tourists are generally the most price-sensitive and budget-constrained and therefore consume the least amount of domestic services; however, their large volume generates needed job creation. Cultural tourists, whose destinations have been limited so far mainly to Cairo, Luxor and Alexandria, tend to be higher income and consume more domestic services (as they must often use multiple hotels, tour guides, more domestic transport, etc.). Environmental tourists (mainly diving and desert) as well as conference and (increasingly) medical are also less budget constrained and spend more per visit. Private investment in tourism has been relatively robust, especially in the Red Sea, and studies confirm that returns to investment in the sector are high. So while a lack of destinations is not a binding constraint for the sector, there are some key identified binding constraints to building higher value tourism while maintaining and growing the Red Sea beach market in a more sustainable way.

For Urban areas especially, infrastructure is a binding constraint. Egypt’s road density is ranked 114th out of 139 on the TTCI. Cairo’s roads are heavily congested and unsafe, which makes bundling multiple sites in a one day tour near impossible, lowering value to the tourist. Improved road infrastructure would also allow for the creation of more revitalized districts in downtown urban areas that offer tourists walkable access to both historical sites and concentrated restaurants and shops. Airport density is ranked close to last on the TTCI, and the expansion of airport facilities is strongly needed, not only to avoid current congestion and improve the quality of services in existing airports, but equally important, to ensure easy access to targeted and multiple destinations.

The next identified binding constraint is environmental sustainability. Egypt ranks very low on “stringency of environmental regulation” (115 of 139) and associated enforcement (109 of 139) on the TTCI. The reefs in the Red Sea area are accommodating more scuba divers than the maximum carrying capacity recognized by international norms. In urban areas, better air pollution control and solid waste management are critical to improving demand from the higher end tourist market.

Human capital was identified as a “soon to be” binding constraint if the tourism sector rebounds and grows according to projections. On the overall “Quality of the educational system” Egypt ranks close to dead last in the world, at 131 of 139 while “Extent of staff training” places Egypt at 112th on the TTCI.

Many graduates of travel and hospitality vocational schools lack basic skills because their training is not well connected to the needs of the private sector. Better trained tourism police are also needed to regulate hawkers at key sites and taxi drivers the airport to reduce the well noted harassment of visitors. Another reason for the shortage of skilled labor is the disproportionately low number of women employed formally in the sector.

In terms of policy related to the sector, government regulators are overly fragmented, do not coordinate well, and are overly centralized. Egypt also has well known issues related to corruption and “ease of doing business” type indicators, especially for SMEs that often face unpredictable taxes and enforcement. Obtaining permits for new activities is often costly and time consuming. However, at least for the Red Sea/beach and major Urban hotels and sites, Egypt has significantly liberalized tourism services and is an adherent to the General Agreement on Trade in Services (GATS), so tourism is generally considered a relatively “wide open” sector for investment (the privatization of the sector in the 1990s was critical in promoting private sector investment in the Red Sea area and opening up it up to large scale tourism). Overall, poor policy can be considered a binding constraint for investment by SME providers of tourism services and the development of new markets, but non-binding for existing mass markets.

SMEs in the sector face major constraints to accessing finance similar to all other sectors, and this creates a constraint to needed service diversification. However, investment in the tourism sector is largely driven by large private domestic companies and foreign investors with relatively easy access to capital, so access to finance is not binding for incumbent firms at present, yet will need to be expanded to new entrants and smaller local firms in order for Egypt to achieve its goals for the sector.

In terms of tourism demand, it is obvious that health and safety is a critical factor affecting tourism demand. This was confirmed empirically as analysis showed that indicators of security and stability were the most important factor affecting tourism demand. Traffic safety is an enormous problem that relates back to the infrastructure constraint. Another large factor for tourism demand is obviously price competitiveness, and Egypt does relatively well according to the TCI, having particular comparative advantages in purchasing power parity (17/139) and hotel prices (4/139). Such cost advantages should improve further with the expected depreciation of the Egyptian pound, so price competitiveness is not a binding constraint at this time. However, there is a need to revisit pricing policies to increase potential income, and the domestic air travel monopoly of Egypt Air significantly constrains multi-destination and target destination travel.

There are also several issues related to tourism promotion and the effectiveness of the Ministry of Tourism (MOT) and the Tourism Development Authority (TDA) such as its over focus on the “mass tourism” market while doing less to promote higher end cultural and environmental tourism. Recent studies have also found significant levels of underexploited tourism markets, suggesting poor marketing in some areas. Yet Egypt scores fairly well in the TCI in terms of tourism promotion and prioritization, and the mitigation of other constraints such as infrastructure, sustainability, and security are necessary to develop carrying capacity at alternative destinations and increase site maintenance to improve sustainability at existing sites in order viably expand the potential market for them before they can be effectively promoted. However, the private sector, particularly SMEs, could use assistance in developing and “e-marketing” their services which would support product diversification.

I. Background

In January 2011, Egypt was hit by a wave of massive political protests, which resulted in the ouster of President Hosni Mubarak and the opening up of an opportunity for a new, more democratic Egypt. Despite the potential created by the revolution, the resulting political instability took a serious toll on Egypt's economy, not least of which was on the tourism sector. According to Egypt's Ministry of Tourism, the number of tourists arriving in Egypt fell approximately 32% in 2011, from 14.7 million to just about 9.8 million while tourism receipts fell from \$12.5bn in 2010 to \$8.8bn in 2011. Although there were hopes of a quick recovery in the middle of the year, the number of tourists visiting Egypt in the last quarter of 2011 decreased by 29.2% compared to the same period in 2010 due to the resurgence of political unrest (Figure 1). Recent events such as the deaths resulting from riots at a Port Said Soccer match and the kidnapping of tourists in Sinai will likely continue to cause problems in 2012.

This is very bad news for Egypt as tourism accounted for an estimated 11.5%-13% of GDP and employed an estimated 10-12% of the labor force in 2010.² Tourism receipts also accounted for an average of over 22% of Egypt's foreign exchange over 2001-2010 and now accounts for 44.1% of non-tradable exports.³ According to the World Bank, "Tourism can be a vital source for development by stimulating economic growth and employment. It also creates opportunities for biodiversity conservation, urban growth and regeneration, private sector and SME development, infrastructure overhaul and planning, rural development, environmental restoration and safeguarding, coastal protection and cultural heritage preservation. Tourism has a role in a greater number of developing countries than ever before."⁴

In the case of Egypt, few empirical studies have been conducted to track overall effects of tourism mainly because of data shortcomings. El-Tohamy and Swinscoe (2000) used economic impact analysis to trace direct and secondary effects of foreign tourists' spending on value added, employment and tax revenues in Egypt. The results indicated that tourism impacts are of considerable magnitude, with a multiplier coefficient of 2.6, as tourism in Egypt was found to generate significant indirect effects in areas such as construction, agriculture and manufacturing, as well as transport, financial services and others.

Prior to the revolution, Egypt received 14.7 million international tourists in 2010, an increase of around 17.6% over the previous year. Russia, UK, Germany, and Italy were the most important origin countries.⁵ Overall, about two-thirds of tourists come from European countries while about 20% come from Middle Eastern countries, with visitors from Africa, the Americas, and Asia each contributing

² Estimates from the Egyptian Ministry of Tourism (11.5% of GDP) and the Global Travel and Tourism Competitiveness report (2011) (13% of GDP), and the Egypt's General Authority For Investment (GAFI) (2010) (11.3% of GDP and 12.6% of labor force).

³ Ministry of Tourism (MOT), Tourism in Figures, several issues; Central Bank of Egypt (CBE), Annual Report, several issues; and Information Decision Support Center (IDSC), Economic and Social Indicators Bulletin, several issues.

⁴ <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTAFRSUMAFTPS/0,,contentMDK:20793743~menuPK:2145169~pagePK:51246584~piPK:51241019~theSitePK:2049987,00.html>

⁵ Egypt Tourism Sector Analysis. 2011. <http://www.rncos.com/Report/IM538.htm>

around 5% each to the total.⁶ The stated goal of the government is to attract 25 million visitors a year by 2020.

But simply increasing the *number* of tourists should not be the key objective, but rather increasing the total *consumption* of domestic services by tourists. This is an area where Egypt has been having particular difficulties as the average “daily yield” of tourists remained relatively flat at about \$85/day over 2005-2010.⁷ Egypt will need to alter the composition of its tourist arrivals in order to not only attract the more price sensitive “fun and sun” beach visitors, but also wealthier ones that are interested in a broader range of products that are more dispersed throughout the country.

Constraints to increased tourism in Egypt go beyond the security situation triggered by the revolution. Once that constraint is ultimately addressed and a more stable political environment takes hold, Egypt will begin to have to address a host of additional issues that determine foreign consumption of domestic services. Egypt currently ranks 75th out of 139 countries currently evaluated by the World Economic Forum’s Travel and Tourism Competitiveness Index (TTCI), which is down from 64th in the 2009 Index. That Egypt, given its widely known cultural and Red Sea attractions, is ranked in the bottom half of all countries in this index, which includes many countries generally not considered regular tourist destinations (such as many smaller African and Central Asian countries and countries affected by conflict,) is a serious problem. At present, Egypt's share in world tourism is around one percent. This is viewed as a too modest contribution that provides evidence of weak performance despite Egypt's comparative advantage and great tourism potentials (Ragab 2007).⁸ The government’s goal is to increase Egypt’s share of global tourism to 2.2%.⁹

⁶ Source: Central Agency for Public Mobilization and Statistics (CAPMAS) via CBE:
http://www.cbe.org.eg/public/All_Monthly_Statistical_Bulletin_PDF/2012/Bulletin_2012_02_Feb/74_54_Number_of_Tourists_and_Nights_Spent.pdf

⁷ *Ministry of Finance and projections in Tourism Development Strategy (2009).*

⁸ Ragab, A. 2005. Liberalization of the aviation transport sector: Opportunities and challenges, ECES WP, no. 109, December. Egypt: The Egyptian Center for Economic Studies.

⁹ GAFI, Sectors Value Presentation, 2010.

<http://www.gafinet.org/English/SectorsValuePreposition/Tourism%20Value%20Proposition-2010.pdf>



Source: Central Agency for Public Mobilization and Statistics (CAPMAS)

II. Model

Using a “Growth Diagnostic” (GD) model adapted from Hausmann, Rodrik, and Velasco (HRV) (2005), we will seek to identify key “binding constraints” to greater receipts in the tourism sector by working our way down a decision tree (see Figure 1) so that we can compare data and ask questions about causalities and linkages between identified constraints. Multiple constraints can be identified in other types of analyses; however, they often do not answer the questions “in relationship to what?”, and most importantly, “which constraint should be addressed first?” and “what is the likely impact of removing that constraint?” This GD will identify the most significant constraints to two key variables in sector: private investment and foreign consumption of domestic services.

Tourism can be thought of as a simple supply and demand function. Destination countries need to “supply” tourist attractions that cater to visitors’ tastes and add value along the entire tourist “value chain” (from the airport to accommodations to on-site and off-site activities and site information). This ultimately necessitates private investment in the sector because no country has ever enjoyed sustained productivity, employment, and output growth in any sector without the active participation of the private sector. As HRV note, “problems get reflected in investment behavior” and that “there are very few cases of countries where distortions are such that private investment is too high.”¹⁰ Furthermore,

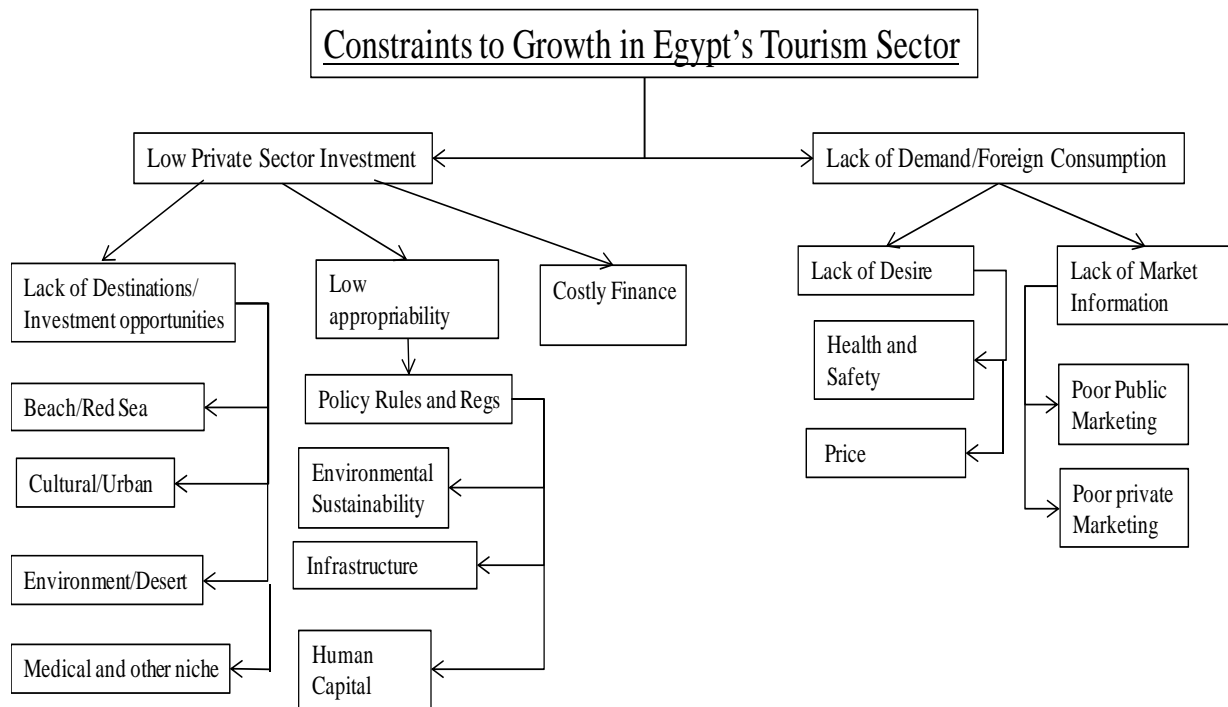
¹⁰ One other common critique of the model is that “Investment is not necessarily productivity”. This is a key misunderstanding of the methodology. The level of investment in this model is determined by the returns to such

increasing the level of private investment directly contributes to a demand for more productive employment.

This is not, of course, to say that government does not have an important role to play in the tourism sector. Indeed, it plays a critical role as a coordinator and facilitator of private investment in every node on the decision tree. The government is the key player in providing access to infrastructure, protecting the natural environment, regulating service providers, and perhaps most importantly ensuring the health and safety of visitors; all of which determine the enabling environment for private investment.

There also needs to be “demand” from tourists to visit these sites and consume domestic services. There can exist numerous constraints on each side.

Figure 1: Growth Diagnostic Model



III. Supply/Private Investment

The supply side of the model determines the level of profitable opportunities for private sector investments in the tourism sector; a variable which Egypt should seek to maximize. Is investment constrained because there is a simple lack of tourism destinations for Egypt to offer? If so, then the

investment. The entire left-hand side of the decision tree is about the determinants of productivity that would increase the demand for investment. Therefore, productivity is implicitly the central focus.

social returns to investment in the sector are low, and this could be the binding constraint. However, investment could also be low due to a lack of “appropriability” or an inability of investors to capture the returns to their investments. This could result from a number of constraints related to government failures and market failures. For example, in this model this could be due to poor policies and regulations, environmental unsustainability, inadequate infrastructure, and/or a shortage of labor adequately trained to be productive in this sector. A third possibility is a lack of access to finance, in that opportunities for investment may exist and be appropriable, but banks are either not efficiently mobilizing savings or domestic savings are insufficient and access to foreign savings is not available.

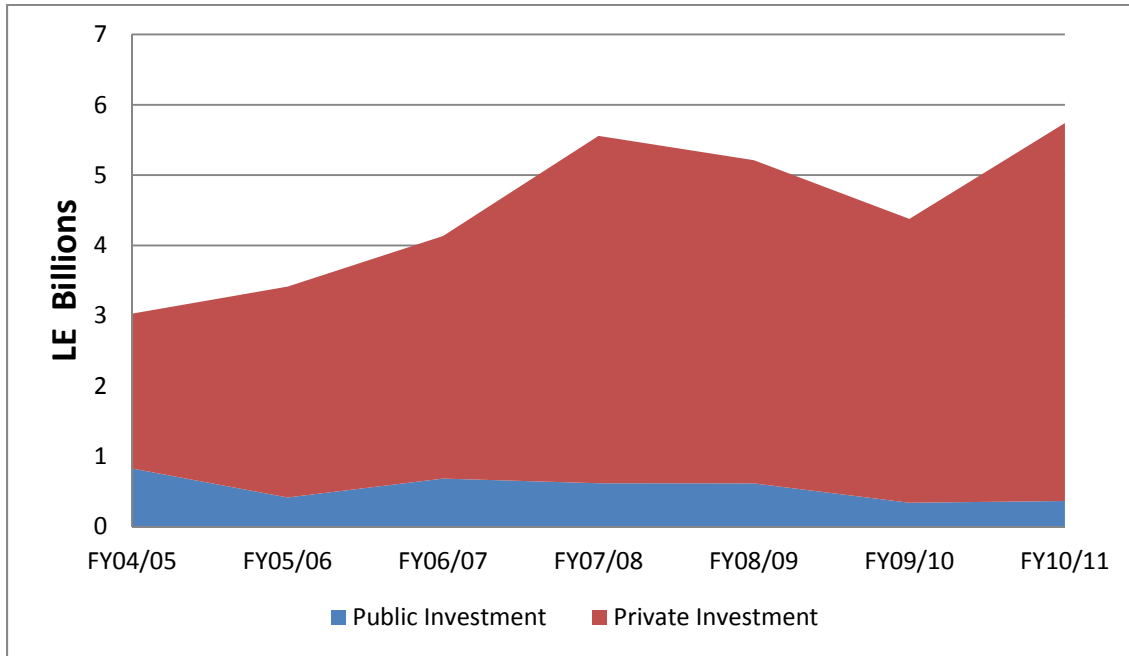
According to the Ministry of Finance, tourism has represented about 2-2.5% of total investments in the economy over the past few years, while well over 90% of this investment came from the private sector.¹¹ In Egypt’s 2010/2011 Fiscal Year (July 2010-June 2011), investment in tourism was estimated at LE 5.739 billion (LE 6 billion is roughly US\$1 billion) (see Figure 2).¹² As can be seen, private sector investment was showing an upward trend until about 2008, when concerns over bird flu disrupted the sector, followed by a recovery in F10/11. It is likely that investment in this sector will again take a large hit once the data is updated to reflect the fallout from the political transition. If it was not for these repeated negative shocks to this sector, it is likely that the trend rise in private investment would have been more stable.

Initial private sector involvement in tourism resulted in large part from a shift in policy that took place in the 1990s when the sector was opened to investment after decades of public control, as part of the *Infetah* policies started by former President Sadat and followed by an agreement with IMF. While public companies still dominated the sector, international companies started investing in Egypt and establishing branches in the 1980s. After 1991, and following the IMF agreement and the pressures for privatization of public assets (supported by USAID) among the enterprises to be sold were tourism assets of several hotels and Nile tourism boats, hotels and shares in tourism-related firms and a number of transportation companies. During this time, the Egyptian government made a long list of planned privatizations, including 36 hotels and ships. By 1997 the Government owned Holding Company for Housing, Tourism and Cinemas had sold about one-sixth of its assets, raising about 512 million pounds (US\$150.5 million) for the government. The role of Government in the sector diminished, apart from marketing and promotion, leaving the sector largely to private investment since this time.

¹¹ According to Sakr and Massaud (2009), cost miscalculation exists in these data, and investments in other tourist activities such as golf courses, diving centers, marinas and water sports are not counted. Exclusion also extends to tourist-related infrastructure investments, whether private or public, and to tourist establishments not licensed by MOT. Therefore, it is likely that investments in tourism are understated by a significant amount.

¹² MOF, Monthly Statistical Bulletins.

Figure 2: Public and Private Investment in the Tourism Sector



Source: Ministry of Finance.

A. Lack of destinations/investment opportunities

Egypt currently has seven different properties inscribed on the UNSECO World Cultural Heritage List (Abu Mena (1979); Ancient Thebes with its Necropolis (1979); Historic Cairo (1979); Memphis and its Necropolis – the Pyramid Fields from Giza to Dahshur (1979); Nubian Monuments from Abu Simbel to Philae (1979); and Saint Catherine Area (2002)); one UNSECO World Natural Heritage List (Wadi Al-Hitan (Whale Valley) (2005)); Abu Mena (1979) which has currently been placed on the Endangered list; and 32 separate properties currently on the “tentative” list. Egypt, however, has not submitted any sites management plans to UNESCO since the enlisting the above sites, nor do any of the sites bear the logo for being on the World Heritage list.

Egypt also has 1280 kilometers of coral reefs and the chance to develop sustainable tourism applications for them is about 30%. Egypt has 15% of its total area as natural reservations, which includes 29 protected areas¹³. Park types are divided to coastal, wet lands, desert and geological, with the last two declared in 2010, namely El-Salum (a marine protected area), and El-Wahat El-Bahreya (a natural heritage protected area).

We begin with an overview of each major tourist market in order to determine private investment opportunities:

Beach/Red Sea

Since the 1980s, this area has been relatively the easiest to attract new and repeat tourists and currently represents an estimated 82 percent of arrivals and about 90% of private investment in the tourism

¹³ Egyptian Environmental Affairs Agency, <http://www.eea.gov.eg/english/main/Protectorates.asp>

sector.¹⁴ This destination has the greatest potential for growth, generates a large number of jobs, and is least affected by political instability given the location which is far removed from major urban areas. However, these types of tourists are generally the most budget constrained and consume the least amount of domestic services. Russian tourists especially, mainly purchase “all inclusive” packages which offer little profit margin.¹⁵

According to a 2008 USAID report¹⁶ on tourism in the Red Sea Coast:

...The Red Sea Coast faces a serious marketing challenge. Beach tourism is to a very large extent (and with few exceptions) what could be considered the “commodity” of the tourism sector. The demand for this kind of product is very elastic as consumers find that one beach destination is easily replaceable with another one offering similar characteristics (sun and sand). This kind of product is dangerously price-sensitive and it is therefore generating cut-throat competition among resort developers and management companies in order to reduce their prices and attract ever increasing number of customers. As a consequence, the quality of visitor to Egypt’s coastal areas is rapidly deteriorating, thus affecting the economic benefits yielded from the activity. Anecdotal evidence points to the fact that the Red Sea Coast’s product is being perceived as a low-price, low-quality destination.

Cultural/Urban

Cultural tourism constitutes the wealth and origin of tourism to Egypt since the nineteenth century. Packaged guided tours were introduced in 1869 by the Thomas Cook Company and primarily focused on cultural tourism, which coincided with the industrial revolution and introduction of steam boats, resulting in a booming tourism business for Europeans. Cultural Tourism encompasses inheritances from Egypt’s Pharaonic past as well as its Arab/Islamic/Coptic/Roman past and present culture. Cultural tourism takes into consideration and actively incorporates in the tourist experience aspects of the social life of the local communities, their customs and tradition, their own sense of heritage, their history, and artistic, architectural, literary and other cultural achievements. It also extends to diversity and the role of communities in the management of their natural resources.¹⁷

Cultural and urban tourists tend to come from Western Europe and the US, are much less budget constrained, and consume more domestic services (as tourists must often use multiple hotels, tour guides, more domestic transport including Nile cruises, etc.) However, this market now services under 20 percent of visitors and offers fewer opportunities for growth and repeat visits vis-à-vis the Red Sea. This is partly due to government policies that have primarily promoted beach tourism, as well as the lack of government capacities to manage cultural sites through Ministry of State for Antiquities Affairs, and its implementing arm the Supreme Council for Antiquities (SCA). In spite of Egypt boasting seven World Heritage sites (one on the List of World Heritage in Danger), no site management plans have been submitted to UNESCO for any of the listed sites. The maximum carrying capacity of archaeological sites for cultural tourism (e.g., St. Catherine Cathedral and Luxor Temples) are limiting factors because more site management to enhance visitor experience is needed, with better organization in order to increase the number of people able to access the site within one given hour.

¹⁴ Meeting with the Minister of Tourism, Munir Fakhry Abdel Nur May 30, 2012.

¹⁵ Interview with Elhamy ElZayat, Chairman and CEO of Emeco Travel and Chairman of the Egyptian Tourism Federation.

¹⁶ (LIFE Red Sea Project report - Action Plan for Sustainable Tourism in the Southern Red Sea Region of Egypt , March, 2008)p.7

¹⁷ Strategic Approach of Egypt’s Cultural Heritage – Final Report 2001 p. 144 - 145.

Looting is another issue related to site management that is becoming a more frequent recurrence with the lack of security following the January 2011 events. As noted by the prominent Egyptologist Kent Weeks “There is a desperate need in Egypt for the regular monitoring of archaeological sites...these sites have survived in various degrees of preservation for millennia...each one of them today is threatened by vandalism, theft, encroaching development, deteriorating environmental conditions, or neglect.”¹⁸ With many of these threats increasing and the rate of decay escalating with urbanization or expanding agricultural lands, the need for improved site management is being increasingly pressing.

Part of Egypt’s efforts to promote cultural tourism has been the investment made in the establishment of regional museums (48 have been established but in different working conditions); the most prominent being the investment in the new Grand Egyptian Museum (GEM) and the new Museum of Egyptian Civilizations. Also several foreign and Egyptian missions (including USAID) are engaged in the conservation and restoration efforts to revive historical sites to protect them and make them available as additional tourist destinations. The restoration of medieval Cairo for example is one of the most impressive where the largest concentration of Islamic monuments can be found in one area. However, rapid tourism growth and the income generated from it can also have serious and sometimes negative implications on the safeguarding of archeological sites. The tourism industry therefore needs to consider ideas and concepts with regard to the use and promotion of cultural sites.

Urban tourism is generally limited to larger cities in Egypt; mainly Cairo, Alexandria and Luxor, each of which has cultural facilities as well as associated amenities. However, other cities around Egypt have much to offer, but are not promoted effectively or often at all. Both Cairo and Alexandria are in serious need of urban planning, beautification, improved sidewalks and/or pedestrian paths, improved urban traffic congestion, and improved waiting places at entrance of cultural facilities (for example Cairo National Museum). The cultural/urban market is also much more responsive to instability such as recent events. It will likely be very difficult to get significant numbers of Western tourists to return in the near future.¹⁹

Luxor and Aswan have been the heart of cultural tourism in Egypt, being the home to the most extensive collection of Pharaonic era antiquities. Yet there are also many underexploited cultural sites, especially in Upper Egypt and the Sinai. In order to increase demand for these alternative sites, the Ministry of Tourism (MOT) could work to boost the involvement of local communities in cultural tourism, promoting better site management and permitting them to share in its benefits and establishing a high visibility link in the form of tangible results accruing to ordinary people. The MOT could also share in the role of enforcing the regulations that protect these sites.

Environmental/Desert/Other ecotourism

This is a high end market segment with considerable growth potential. Environmental tourists tend to have very soft budget constraints and niche tours can yield high profit margins.²⁰ Except for scuba diving, this segment is still pre-mature and includes just small activities along the Red Sea, Nile River, and in the Desert and Oasis region. However, this market has high growth potential but lacks development in terms of carrying capacity, utilization of existing natural resources, attention to

¹⁸ The Theban Mapping Project,

¹⁹ For example, the Boutique Hotels located on the historical El Moezz Street in Cairo have received almost zero visitors since January 2011. - Notes from interview with Hotel Director as part of Case Study.

²⁰ For example, a dolphin watching tour in Marsa Allam costs tourists about \$1400 per week and they sleep in tents.

environmental sustainability issues, and promotion and marketing to attract additional visitors. More government support is needed to meet the requirements of a significantly expanding market, more appropriate and environmentally friendly accommodations are needed, and better training to develop the skills of local staff. Sustainable ecotourism is not a product that would likely attract large number of tourists, but is a high yield revenue product. Other potential areas in eco-tourism are Hinterland of Red Sea coast, the western desert, and surrounding of Lake Nasser.²¹ Promotion of sustainable tourism (also known as nature based tourism) has been an area of focus for USAID since the early 2000 through several programs until 2009.

Conference and Incentive Tourism

This is a very small market niche but also one that can bring in lots of revenues as the size of the conference/group grows. Business tourists often face very soft budget constraints and consume expensive services. However, organization of such events requires significant investments in the form of advertising to business groups, often through a highly qualified PR team. Lots of capacity is required as these events also require careful planning and preparation.

Medical

Egypt is emerging as more and more of a health and wellness destination, primarily for spa goers, but also for medical tourists. The country has a history of health and wellness in addition to which it offers the ideal natural environment and resources for this type of tourism. Medical tourism generates higher revenues than spas, but the number of hotel and resort spas is growing at a fast rate and this area is proving highly attractive as well. The government has recognized the potential of medical tourism and has launched strategies and tools aimed at increasing this type of tourism. Meanwhile, several new hotel and resort spas opened in 2010, including the Kempinski Nile and the Mercato Hotel. Egypt is also getting its first Six Senses Spa, which marks a significant development in the industry. However, this is a very small industry at present and will likely not see significant growth potential for years.²²

Overall, Egypt has a competitive advantage of having rich tourism resources and abundant natural assets covering wide range of the fields which enhances its potential for diversifying tourism products. Egypt has been successful in providing a low-cost alternative to traditional destinations such as the beach. However, striking a sensible balance of tourist arrivals and tourism receipts growth will be the driver for the long-term development of the sector. Egypt has to ensure its long-term competitiveness by expanding touristic services from mass market to additional high-yield segments including cultural tourism, eco-tourism, and other niche markets. The key for Egypt will be how to better segment the market for lower value beach tourism and higher value forms of tourism in order to capture increasing shares of both. Egypt also needs to do a better job of “site bundling” or promoting multi-destination tourism that provides a more complete “Egypt experience” that visitors are looking for. Also, apart from focusing on international inbound tourism from traditional source markets, an increased focus on emerging regional and domestic markets may help to turn volatile demand into a more robust inflow of tourists during downturn periods and thereafter.²³

²¹ JICA report dated

²² EuroMonitor International April 2011.

²³ LIFE Red Sea Project report - Action Plan for Sustainable Tourism in the Southern Red Sea Region of Egypt March 2008 p.7

Makary and Ragab (2008)²⁴ estimate that each million Egyptian pounds invested generates a value added (VA) of LE 2.27 million, creates 3.3 direct jobs, 2.2 indirect jobs, and foreign currency of \$0.75 million (Table 1). According to their conclusion, “*The results indicate that the profitability of capital investment in tourism exceeds by far that of the whole economy.*” These data shed serious doubt on the notion that a lack of destinations or limited profitable investment opportunities is what constrains investment in the T&T sector.

Table 1. Tourism Economic Efficiency and Impact		
Economic efficiency and impact	Tourism sector	National economy
Relative efficiency test (per one Egyptian pound)	LE 2.27	LE1.95
Employment effect (jobs per LE million)	5.5 jobs	9 jobs
Foreign exchange effect (per one Egyptian pound)	\$0.75	\$0.07
<i>Source: Egyptian National Competitiveness Council (ENCC) (2008).</i>		

Despite the need to develop new sites and diversify its tourist sites, a lack of destinations is clearly not a binding constraint for Egypt given the relative wealth of its existing natural and historical capital. Because of the abundance of such natural assets, which ascertains the multiplicity and diversity of the tourism product, the argument often made is that the sector's performance is lagging far behind its potentials. Some other constraint must be driving this underperformance.

B. Lack of Appropriability

Policy Rules and Regulations

According to Sakr and Massaud (2009), Egypt has significantly liberalized tourism services, even before its commitment to the General Agreement on Trade in Services (GATS) in the mid-nineties. As early as the mid-eighties, several actions were taken in support of liberalization. Among these were, (i) cancellation of all import restrictions on tourism-related production sectors, (ii) easing land acquisition at nominal prices to initiate private investments for the development of new tourist destinations along the Red Sea Coast (iii) allowance of private management of some publicly-owned hotel establishments as well as the privatization of some other public lodging facilities, (iv) expansion of the national carrier's fleet (Egypt Air) and permission of chartered operations between two points not directly served by national "air companies" or foreign source countries.

However, while liberalization and reforms have been profitable, the sector lacks planning and coordination, which has led to several negative and undesirable economic, social, environmental and cultural impacts (discussed throughout this paper). Lack of planning has damaging consequences on the environment, dissatisfaction from local communities who have not been integrated, and in some cases over supply in the sector (of hotels in many cases) leading to reduction of prices and devaluation of

²⁴ Makary, S., and A. Ragab. 2008. The Egyptian Competitiveness Report. The tourism sector in Egypt, toward a competitive Egypt: Where everyone wins, May, 71-93. Cairo: Egyptian National Competitiveness Council (ENCC).

investments. Without better coordination in the sector, Egypt risks heading into a tourism cycle that is self-destructive, a trend that has taken place in parts of Thailand, Spain, Mexico and even the US.

According to Sakr and Massaud (2009), there are more than 17 official authorities involved in the supervision and follow-up of tourism business operations with no proper coordination (e.g., Ministry of Health, Ministry of Culture, Ministry of Interior, Ministry of Manpower and Emigration, to mention a few). Also, although there is a clear-cut distinction between tourism development projects under the jurisdiction of TDA and those under the umbrella of local administration, the latter often intervenes in day-to-day operations of TDA tourist establishments causing resentment in the business circle. Furthermore, the Ministry of Civil Aviation and the Ministry of Culture tend to raise services' fees from time to time without prior consultation with the Ministry of Tourism, and in many cases with very short notice to tour operators and travel agencies, an act which adversely affects Egypt's competitiveness.

One often highlighted reason for the documented government coordination failures is over-centralization of government decision making. This acts a constraint to planning and implementation of development plans for the sector. Decentralizing planning and implementation by empowering regional governments would alleviate this constraint and enable local authorities to work more directly (“hand-in-hand” and “on-the-ground”) with the private sector and associated regional Chambers of Commerce.²⁵ This is recognized and accepted in the National Tourism Strategy (2009):

Decentralization is necessary for the effective and efficient implementation of specific components of the Strategy and to this end, the establishment of Regional Tourism Organizations (RTOs) is proposed. Each RTO would in effect be a partnership between private and public sector interests and would be locally owned and controlled. The MOT will be involved initially and play a coordinating and supportive role in advising, providing technical support and part-funding the fledgling bodies in the formative years.

Egypt also has well known issues related to corruption and “ease of doing business” type indicators, especially when it comes to licensing, permits, construction, and closing a business. In terms of the TTCI, Egypt ranks in the middle of most these indicators, but many of business constraints are binding on SMEs which have the ability to offer the diversified services in alternative site that Egypt needs to capture higher value markets. Corruption, misuse of regulations, and inconsistent policy is a persistently reported problem for tour operators. It is very difficult to obtain licenses for tourist related capital equipment and operating permits, especially for new destinations and activities. For example, permits for some forms of desert tourism require a series of permits and approvals that must be obtained 1 month prior to visiting, increasing costs and discouraging visits.

Another issue is multiple and unpredictable taxation by local governorate units. Crossing into each local governorate can result in multiple payment requests, even though collection of such fees is technically

²⁵ Interview with Tarek Wafiq, 4/2/2012.

illegal. For desert tourism there is the same problem as tour operators need to pay the army high fees on top of obtaining the multiple permits mentioned above.²⁶

For tourism commitments under GATS, Egypt's schedule reveals a high degree of flexibility in doing business. Most activities are labeled "none", implying no restrictions. For tourism training institutions, caterers and conventions, there are no limitations whatsoever, as the schedule states "none" for all modes under GATS. With respect to tourist transport services, all commitments are either "none" or "unbound," except for inland Nile cruises. Also, there are no restraints on both market access and national treatment in the case of hotels and restaurants, travel agencies and tour operators, as specified in the schedule of commitments.

Limitations on market access depend on the extent of saturation of the tourism market, and apply to all potential newcomers into the business with no differentiation between national and foreign entities. In the hotel business, for instance, licenses are granted depending on prevailing room occupancy rates and price levels. Physical conditions are also considered in granting projects' approvals. The accommodation capacity of the Nile in terms of safety of navigation and environmental impacts is taken into account when licensing cruisers, however there is often no follow up on the application of those measures nor on the impact they have on the environment by government agencies. All these constraints are in conformity with environmental regulations and are acknowledged worldwide.

At least for "mass tourism", it does not appear that poor government policy in the T&T sector is a binding constraint to private investment. Sakr and Massaud (2009) conclude that "Considering Egypt's schedule of commitments in general, it is apparent that tourism is a widely open sector." However, for small and medium size investors poor policy can be a prohibiting factor. The high time and cost associated with land allocation and providing permits to operate smaller tourism facilities in diverse parts of the country underscore the government's priority of focusing on the promotion of mass tourism destinations. "Security" is often used as the critical prohibitory excuse to prevent new investment in those areas.

Generalized improvements in the business enabling environment, especially by improving the ease of licensing and permitting for SMEs could also benefit the tourism sector in a significant way, especially if corruption and unpredictable taxation are eliminated. A more decentralized approach to tourism policy making may be the quickest and most efficient fix to existing coordination failures that threaten the sustainability of private sector investments. Overall, we find that poor policy is not a binding constraint for existing major markets, but represents one for SMEs and the introduction and development of new markets.

Environmental Sustainability

The sustainability of tourism in Egypt, especially in the Red Sea area which has the highest concentration and highest growth rate of tourist destination, has been repeatedly called into question. Environmental sustainability is clearly an issue on TTCl. Egypt ranks very low on "stringency of environmental

²⁶ Interview with Elhamy ElZayat, Chairman and CEO of Emeco Travel and Chairman of the Egyptian Tourism Federation.

regulation (115 of 139) and their enforcement (109 of 139). Particulate matter concentration (general air pollution) is also a major issue (Egypt ranks close to last at 131/139), especially in Cairo.

Tourism related urbanization on the Red Sea Coast is one of the major contributors to Egypt's environmental problems as identified by the National Environmental Action Plan of Egypt 2002-2017. These documents have clearly identified additional threats to the cultural and natural environment of the Red Sea Coast, including the lack of funding for conservation and adequate management of the region's heritage sites and the lack of management capacity to enforce environmental regulations that protect reefs from unregulated diving.²⁷

The carrying capacity of reefs in the Red Sea area is limited and cannot support an indefinite amount of recreational use. The total amount of reef area is fixed and reef health requires careful maintenance and periods of closure of protectorates to allow reef regeneration. The damage inflicted by divers and snorkelers consists mostly of breaking fragile, branched corals or causing lesions to massive corals. To give examples, Ras Mohamed protectorate gets at peak 600,000 visitors a year, while Jackson's reef is receiving about 120,000 guests per year. As reported by Egyptian Environmental Affairs (EEAA), international norms suggest a maximum of 15,000 dives a year carrying capacity basis, so many Red Sea sites are accommodating multiple times the international acceptable level of dives (Sakr 2007).

The risk of over-building is present along the Red Sea as well. While hotels are required to undertake an environmental impact assessment as part of the licensing process, the Ministry of State for Environmental Affairs does not follow-up on the enforcement during the utilization of the sites, beyond the initial phases of construction. Review of the recent Tourism Development Authority (TDA) future strategy indicates the government's intention to continue to build additional 300,000 rooms in spite of the slowdown in the sector, and without much regard to the natural environment²⁸.

For tourists arriving in Cairo, many (if not most) may not be used to air pollution levels and this could be a major constraint to growth in urban and cultural tourism (e.g. pyramids, Nile cruises) which tends to elicit considerably more consumer expenditure than beach tourism. Solid Waste Management (SWM) is also one of the biggest issues for urban planning within Greater Cairo where piles of smoldering trash along the streets can be readily seen. Even where the UNESCO declared heritage sites of Fostat is located, this prime tourism destination is not fully utilized mainly due to lack of SWM capacity of the Supreme Council of Antiquities, as well as lack of coordination with other authorities. SWM along the Red Sea coast has also been a major problem with the introduction of new materials such as plastic into the environment, many of this material has found its way to the waters and is considered a threat to marine life, including the endangering of the priceless coral reefs along the shores.

²⁷ LIFE Red Sea Project, USAID, March 2008.

²⁸ TDA Power point presentation 2012

The EEAA is currently incapable of fulfilling its mandate and managing these areas efficiently, suffering from lack of finance and proper management.²⁹ EEAA's issues relate more to the capacity and political will to apply and impose existing laws, possibly more than the need to modify the ones in place.

Overall, environmental sustainability, especially in the Red Sea area, is quickly becoming a binding constraint to tourism growth given the potential for significant coral reef degradation and Egypt's documented inability to effectively enforce existing laws and regulations. Air pollution and SWM are also a major turn-off for potential urban and cultural tourists, who are typically the higher value tourists.

Infrastructure:

Roads are identified in the TTCI as well as by interviews with private operators as a binding constraint. The TTCI ranks Egypt's road density at 114th out of 139 countries while "quality of ground transport network" ranks just 84th. Cairo traffic results in lost time spent at tourist sites and can ruin someone's day, resulting in negative feedback about the vacation experience to other potential visitors. Cairo offers opportunities to bundle multiple destinations into a single day tour, maximizing value and experience (and Cairo tourism tends to be higher consumption per tourist vs. the beach as noted above). But current traffic conditions do not allow this, and tourism operators are strictly constrained by the number of sites that tourists can visit in one day. The lack of road capacity in Cairo and Alexandria is also a major factor constraining the implementation of effective urban planning. Cairo and Alexandria are severely lacking in vitalized central districts where tourists (and perhaps much more importantly locals) can walk around and choose from multiple restaurants and shopping options.

Roads also need to undergo further development and improvement in order to reach international safety standards. Egypt is unfortunately ranked among the WHO Eastern Mediterranean Region as the highest reported road traffic death rates per 100,000 in 2009³⁰. An effort to increase road capacity and safety could alleviate two identified binding constraints simultaneously; by improving transportation infrastructure as well as perceptions of safety (see health and safety section below). However, some major improvements have been made in recent years. With roads now linking the Red Sea to Upper Egypt, day trips from Hurghada to Luxor or Aswan are a regular part of a package to Egypt and a new road linking Sohag to the Red Sea is currently under construction.

In the air transport sector, airport density is ranked close to last in the TTCI at 122nd. According to Sakr and Massaud (2009) the expansion of airport facilities is strongly needed, not only to avoid current congestion and improve quality services in existing airports, but equally important, to ensure easy access to "targeted" destinations.³¹ According to the National Tourism Strategy, "Cairo should be developed as a major international travel hub by capitalizing on its strategic position as a natural crossroads for air services between North America/Europe, the Middle and Far East and Africa, while

²⁹ Interview with Dr. Mahmoud El-Qayssouni

³⁰ Road Traffic Injuries and Data Systems in Egypt: Addressing the Challenges p. 46

³¹ For example, the construction of Marsa Alam airport proved to be successful in attracting vacationers to this newly developed destination. Also the establishment of El Alamein airport and the current expansion of Borg El Arab and Matrouh airports are contributing to the promotion of the North West Coast for inbound tourism. Similar actions ought to be taken to exploit untapped tourist destinations such as Ras Sudr Coast.

the development of Alexandria Borg el Arab airport should be encouraged as an alternative gateway and hub to Cairo.” By 2020, the goal for airport capacity is handling in the order of seventy million passengers annually.

One major problem is the state-owned and protected domestic airline carrier, Egypt Air. Introducing domestic competition to lower prices and offer new destinations could attract increased numbers of high value tourists seeking non-traditional sites. However, several progressive actions were taken in the past few years towards the liberalization of the sector (e.g., allowing establishment of private airports, gradual adoption of open skies policies, and joining the Star Alliance). Despite these efforts, the airport sector is still in need for more domestic reforms, including wider private participation and effective programs for upgrading human resources (Ragab 2005).

International group visits are mainly transported within Egypt either by air or ground, while the railroad system in Egypt (the oldest in Africa) has the potential to serve the international independent visitors who can enjoy more scenery and stop at more locations at cheaper prices than flying. Yet rail remains in great need of improvement. Problems include cleanliness, frequency, lack of destinations, clear travel schedules as well as a better reservation system.³² For example, there are at present no trains that run from Cairo to the Red Sea resorts. Rail travel to Luxor from Cairo takes 10-12 hours (or longer with reported irregular stops) and costs just marginally less on average than a domestic flight.

Hotel and accommodation capacity is another critical infrastructure issue for tourism. Total accommodation capacity of hotels and tourist villages in operation rose from 27.3 thousand rooms in 1985 to nearly 190.2 thousand by the end of 2007. An additional capacity of 156.2 thousand rooms has been added in the last five years, particularly in rapidly growing resort areas along the Red Sea Coast and El Aqaba Gulf Coast in South Sinai, and more recently along the North Coast, West of Alexandria (MOT 2011).³³ With the onset of the revolution, hotel occupancy rates in Cairo dropped to as low as 5%. However, the resort areas on the Red Sea and in Sinai witnessed a much smaller drop, as these areas were somewhat isolated from the violence in the capital.³⁴ The focus should therefore be on filling existing hotel capacity before building new accommodation options. Hotel capacity, currently ranked 78th out of 139 countries in the TPCI, could reemerge as an issue if tourism in Egypt resumes its pre-revolutionary and pre-bird flu growth path, but cannot as of this writing be considered a binding constraint.

The Egypt “National Sustainable Tourism Strategic Plan” (funded by UNWTO) realizes the existing challenges with access to sites and transportation and has proposed the use of “Tourism Corridors” to create access to major tourism sites, requiring a strategic shift to coordination based planning.³⁵ Strategic planning should also consider access to new sites around the country to promote a more

³² JICA report p. 1-56

³³ MOT (Ministry of Tourism). Several Years. Tourism in Figures. Egypt: MOT

³⁴

<http://213.158.162.45/~egyptian/index.php?action=news&id=23459&title=Plan%20for%20reviving%20Egypt%E2%80%99s%20tourism>

³⁵ Tourism Development Strategy “Executive Summary” p. 15-16

diversified tourism product that is not entirely based on tour groups (“mass tourism” mostly to the Red Sea beaches), and allows a larger number of the local population to directly benefit from tourism. Egypt’s infrastructure is currently a binding constraint to this strategy, as its roads, airports, and railroad are all highly capacity constrained and quality and safety of travel are low.

Human Resources

If tourism to Egypt recovered and returned to its previous growth path, there would be a shortage of trained workers and hence a lack of capacity to accommodate the growing number of visitors. The poor quality of the Egyptian public education sector and its inability to link curricula with the skills demanded by employers is well known, and this especially applies to the T&T industry. Egypt has relatively many graduates from technical schools who study hospitality and tourism, but according to private sector stakeholders, they lack basic skills (especially “soft skills”) when they enter the labor market. Most graduates of government owned technical schools cannot begin work at hotels, restaurants, transportation, attractions, and other related areas unless they receive additional vocational and on-the job training.

These observations are consistent with TTCI rankings for tourism related education, where Egypt ranks particularly low. On the overall “quality of the educational system” *Egypt ranks close to dead last in the world*, at 131 of 139. “Extent of staff training” places Egypt at 112th while “Hiring and firing practices” (76/139) and “Ease of hiring foreign labor” (94/139) are also relatively poor. This places Egypt at a disadvantage compared to other neighboring countries such as Lebanon, Tunisia, Jordan, and Turkey (ranking 15th, 55th and 95th respectively in the “quality of education system”).

For example, an industry curriculum model called “Mubarak-Kohl” (in recognition of the endorsement of this model by former Egyptian president Mubarak and pledge of support from then German leader Helmut Kohl) has public sector students in hospitality technical schools working two days in the classroom for every four days “on the job training” in hotels, restaurants, and elsewhere. However, this system which was intended to help ensure that young students in this field receive the relevant job experience they need is regularly derided for being ineffective in practice today. The link between the classroom learning component and the “on the job training” component is weak, as the hotels get access to free labor and are not effective at communicating back to the schools exactly what skills the students are learning and the gaps the classroom component needs to fill.³⁶

The public technical schools, in turn, have little incentive to reform this educational model as needed, because they face limited competition from the private sector and the hospitality industry may be perversely benefitting from the old model. It was noted that these public schools don’t even keep track of the percentages of the students that graduate from them actually find jobs. Overall, the technical schools are not effective at providing an adequate quality liberal arts education to their students (basic Arabic, math, writing, foreign language, etc) and without this foundation, they are unemployable at standard hotels.

³⁶ Common complaint heard during meetings conducted in Hurghada at a public technical hospitality school. It was heard that often times students spend their training days “washing dishes.”

In order to cope with this problem, the private sector, especially major hotel chains, have established exclusive links with (mostly privately run) technical schools. Given these links, the school is able to make their curriculum more “demand driven”, meaning the skills needed are linked to the skill taught.³⁷ The hotels hire graduates of these schools directly and immediately enroll them into their own training modules (normally lasting 3-6 weeks) which are more specific to the individual hotel. This system is regarded as highly effective, and turnover rates are less than 3%. However, the number of these effectively run technical schools is very limited and inadequate to accommodate a revival of tourism in Egypt.

Another likely constraint in the area of human resources is the relative lack of women employed in the sector. The role of women in the tourism industry in Egypt has proven that “Egyptian tourism does not seem to create a significant number of job opportunities for Egyptian women.”³⁸ The share of women working in hotel activities declined between 2003-2008, as only 6.1% females were found employed in hotels and tourist villages in 2007, and the number of females working in the main tourism destinations (Luxor, Aswan, Red Sea) is very small. However, many women are also employed in travel agencies, airlines, as well as other industries supporting tourism such as food production. It is also likely that these data fails to capture informal employment of women in the sector as well as marginal forms of employment in small family restaurants and unclassified hotels.³⁹

Data also show that overall there is occupational segregation by gender with women confined to low-level jobs or traditional support functions, even with 25% of them holding university degrees. However, the level of education directly correlates with the ability of women to find employment in 4 and 5 star hotels.⁴⁰ Plus, there is a stated preference for women to work in many geographical locations (expressed by both women and employers) for Cairo, Giza, and Alexandria and to a lesser extent in the Red Sea and North Sinai.⁴¹ Cultural and social norms are already barriers for some women to become active in the labor market, more so in the tourism industry due to the element of interaction with foreign societies.

Human resource development for the tourism sector needs not to be restricted to training teachers and/or students. Adopting a more holistic approach is needed. For example, developing community-based tourism products requires training/capacity building for various stakeholders to improve management of cultural heritage and natural sites. Also, training/capacity building for small investors and for relevant stakeholders in new areas to develop community-based tourism products is needed in order to develop alternative cultural sites.

³⁷ One private sector interviewee has a list of 76 skills required by the tourism industry and for which modules have been prepared.

³⁸ Implications of the Global Financial and Economic Crisis on the Tourism Sector in Egypt, ILO and The Cabinet Information and Decision Support Center, January 2010. – p. 11

³⁹ Women and work in, Case Study of Tourism and ICT Sectors, Working Paper, European Training Foundation, July 2009 (p. 14)

[http://www.etf.europa.eu/pubmgmt.nsf/\(getAttachment\)/D3E0FA7D21DC7D7EC1257610005A2381/\\$File/NOTE7UUM9B.pdf](http://www.etf.europa.eu/pubmgmt.nsf/(getAttachment)/D3E0FA7D21DC7D7EC1257610005A2381/$File/NOTE7UUM9B.pdf)

⁴⁰ Ibid p. 19

⁴¹ ILO Report, p. 31

Overcoming the current shortage of specialized teaching staff and the revision of educational curricula of hotel and tourism faculties and institutes are seriously needed to match labor market requirements in the tourism business, which in turn requires adequate coordination between the Ministry of Higher Education, the Ministry of Tourism and the Egyptian Federation of Tourist Chambers (EFTC). Greater openness to private sector participation in this field is also needed, and the government should encourage, rather than be threatened by, competition. More effort to train and better integrate women into the T&T workforce will also be a key component in mitigating this constraint.

Outside of private sector services, training tourism police is also desperately needed in order to improve safety and perhaps most importantly to enforce existing laws and regulations and control hawkers around major sites and the airports. When tourists arrive at Cairo airport for example, securing a ride to their hotel can be an absolute nightmare as tourists are “greeted” by tens of aggressive taxi drivers offering rides in unregulated vehicles at unregulated prices as soon as they clear customs.⁴² In almost every other major airport in the world, such practices are illegal and enforced, as one has to pre-purchase the fare at the regulated price at a licensed airport kiosk. Aggressive ride solicitation and the high potential for tourists to be “ripped off” is not the first impression Egypt wants to create. At the major tourism sites, especially around the major antiquities, hawking is also unregulated and can spoil the experience and ruin someone’s day. At present, tourism police often do little to enforce existing regulations and control hawkers. Training in enforcement is needed in order to reduce visitor’s potential to be harassed and taken advantage of at major tourist locations.

While we find that human resources and training are not currently a binding constraint, it will become one quickly when Egypt’s tourism industry recovers over the next 5-7 years. A coherent plan should be put in place to systematically train future employees in the sector which is led by the private sector and therefore caters to the needs of the private sector. Larger efforts to train entire communities to cater to tourists will also be an essential component of Egypt’s drive for product diversification.

C. Lack of Access to Finance

Given market based estimates in 2010 (pre-revolution) that tourist arrivals in Egypt will grow by over 12% per year, investment in the sector has boomed. The property market in Egypt has seen an investment growth rate of 20-30% per annum in some key locations in the Red Sea and Mediterranean Coast areas.⁴³ According to the National Strategy (2009), the scale of investment required to finance the planned growth of the section is enormous; estimated to be in the order of US\$37 billion.

This level of investment will not come primarily from the public sector. The GOE has run chronic budget deficits for the past decade averaging over 6 percent of GDP, and in FY11/12 many analysts expect it reach 10 percent of GDP or higher.⁴⁴ According to one analyst, “forty percent of deposits in local banks are going to government treasuries.”⁴⁵ Egypt’s budget deficits are driving up interest rates and crowding

⁴² Personal experience. Anyone can attest.

⁴³ <http://www.lincomrealestate.com/why-invest-egypt-property/>

⁴⁴ World Bank, WDI indicators.

⁴⁵ <http://www.thedailynewsegypt.com/credit-downgrades-put-egypt-economy-in-greater-risk.html>

out lending to SMEs and other productive purposes by channeling domestic savings away from private investment. When credit is made available to the private sector, most loans from banks, particularly the state-owned banks, go to state-owned enterprises and other large and well-established firms.

Indeed, more than 37 percent of Egyptian firms consider access and cost of finance a major obstacle to growth. The large majority of Egyptian manufacturers rely exclusively on their own funds; only 17.4 percent have access to finance from the financial sector. This is especially striking for small firms; only 13 percent have access to finance, as opposed to 36 percent for large firms. While the average for Egypt is comparable to the other countries in the Middle East and North Africa (MENA), it is significantly below that in other developing countries.⁴⁶

While access to domestic finance is clearly constrained at this time, access to foreign savings as well as savings from large, private, and liquid Egyptian companies (e.g. Orascom, Travco Group) should be available for investment in the sector. The development of Egypt's tourist infrastructure has been driven in large part by foreign investors (e.g. international hotel chains, Arab real estate investors, restaurant chains) and this source of investment will likely continue once the country settles politically. One key reason for this ability to attract foreign savings is the major investment incentives that have been offered by the government, including land at \$1 per square meter offered in some instances. Hotel investors are being offered an incentive by the government by giving them more time (from 5 to 15 years) to pay taxes on supplied utilities, such as water, electricity, and new roads.

Given that tourism development is typically driven by large private domestic and foreign companies with relatively easy access to capital, Egypt's current fiscal situation shouldn't affect the ability of the tourism sector to attract investment. Therefore, access to finance in this sector is not deemed to be a binding constraint. However, particular focus should be given to increasing access to finance among SMEs in the sector because they will ultimately drive much of the product and service diversification Egypt needs to increase its tourism revenues as described throughout this paper.

IV. DEMAND/PRIVATE CONSUMPTION

Even if there are plenty of opportunities to invest in and develop potential tourist destinations, and no particularly binding institutional constraints to capturing these investments, if there are no visitors, then ultimately investments will either not be made or will be lost. The key variable of interest on the demand side is therefore the consumption of domestic goods and services by visitors. The constraints to increasing this variable could be numerous. One may simply be a lack of desire to visit to Egypt, which could be driven, for example, by negative perceptions about the safety and security situation of the country. The other driving force behind the decision to vacation at a given destination is of course cost. Any country needs to be price competitive and discriminating (i.e. offer different packages to appeal to different budgets) if it is to promote its tourism sector.

⁴⁶ Nasr, Sahar and contributors, Access to Finance and Economic Growth in Egypt, World Bank, 2009.

Egypt might be the perfect destination for many folks and none of the above listed constraints may bind, but if potential visitors are unaware of all that Egypt has to offer, the opportunity will be missed. Marketing is therefore an essential component of any T&T promotion strategy.

A. Lack of Desire

Health and Safety

Security is clearly a major issue and the main cause of the recent tourism collapse in Egypt. The TPCI ranks Egypt as one of the worst countries in terms of safety including threats of terrorism (132 out of 139 countries), police effectiveness (81/139), crime and violence (97/139), and traffic accidents (135/139).

Sakr and Massaud (2009) apply a panel data econometric technique that estimates tourism demand utilizing a number of variables and proxies. One such proxy they used for “safety” was a commonly used indicator for the rule of law.⁴⁷ According to this paper, “The most interesting finding is that the rule of law tends to be the most important factor that positively affects tourism demand in Egypt, with a 5.98 percent increase in tourist arrivals associated with every 1 percent improvement in the rule of law in Egypt.” Interviews with private sector stakeholders confirm that no mistake should be made: *health and safety is a binding constraint to tourism expansion in Egypt.*

As mentioned above, another often heard complaint is harassment of tourists by locals and overly aggressive hawking practices, especially at key sites such as the airport and pyramids. Police effectiveness was identified as a key constraint by the TPCI, and individual reports confirm that they do not enforce existing regulations as they pertain to hawking and unlicensed service provision. Yet Egypt does relatively well on “tourism openness” (43/139) and “Attitude of population toward foreign visitors” (36/139) and “Extension of business trips recommended” (21/139). So once tourists arrive, they tend to be relatively happy with the way they are treated by Egyptians and encouraged to extend their stay. These advantages could be used to improve Egypt’s security images.

Price Competitiveness

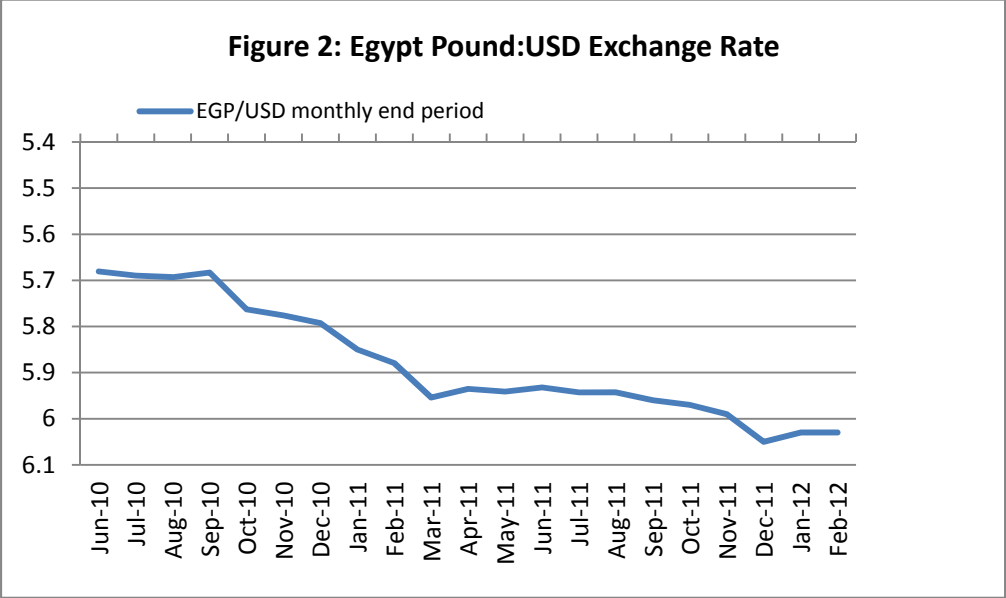
Egypt does relatively well on price competitiveness according to the TPCI, having particular comparative advantages in purchasing power parity (17/139) and hotel prices (4/139). These advantages should be further amplified by the recent political crisis. The Egyptian pound can be expected to fall further against other major currencies, with many analysts and forward currency markets predicting an exchange rate of 7.5 LE to US\$1 possibly by the end of 2012⁴⁸ (see Figure 2) which will increase the purchasing power of tourists. The fallout in demand will also pressure hotels to cut rates further.

Sakr and Massaud (2009) found that the price of tourism was the second most significant factor that impacts tourist arrivals, as an increase of 1 percent in the price of tourism in Egypt was associated with a 5.36 percent reduction in arrivals. Therefore, factors such as increased tourist purchasing power as well

⁴⁷ World Bank’s *Governance Matters* indicators.

⁴⁸ http://online.wsj.com/article/SB10001424052970204059804577228984285910816.html?mod=googlenews_wsj

as falling hotel prices should have a significant mitigating/equilibrating impact on the sector. At present we conclude that, overall, price competitiveness is not a binding constraint to tourism in Egypt. However, the domestic monopoly of Egypt Air as discussed above is becoming an increasingly important constraint, as the absence of a lower cost alternative carriers pushes up the price of multi-destination and target destination travel significantly in Egypt, which dampens the demand for the needed product diversification as discussed throughout this paper.



B. Lack of Market Information

Public Sector Marketing

Egypt does fairly well on the TTCI for marketing and prioritization of the travel and tourism (T&T) sector. Egypt ranks 46th of 139 for “Government prioritization of the T&T industry”, 21st for “T&T government expenditure”, and 42nd for “Effectiveness of marketing and branding.” Overall, major tourism providers don’t seem to have a big problem with the marketing done by the Egyptian Tourism Authority (ETA)⁴⁹, but there was near universal agreement that ETA needed to do a better job diversifying the products it markets. Most also highlight the need for significant restructuring of the MOT and suggested that there are significant training needs for public sector employees in the MOT, especially in the area of social media and internet marketing. The MOT will also need to do a better job attracting non-traditional markets such as Brazil, India, China, and other East Asian nations, yet these countries will require different marketing techniques, especially given their increased distance.⁵⁰

⁴⁹ Both the ETA and TDA are under the Ministry of Tourism.

⁵⁰ Egyptian Tourism Roundtable, Hosted by the Egyptian National Competitiveness Council, May 30, 2012.

The tourism marketing recommendations in the National Strategy (2009) largely reflect the current thinking and opinions of thought leaders today. Many key tourism stakeholders from the public and private sectors emphasize the importance of finding new ways to promote higher-yield tourism products. The private sector in particular wishes to reorient the MOT away from “mass tourism” promotion (mostly beach and all inclusive packages) and more towards the higher value cultural and environmental tourism (i.e. increasing per visitor expenditure). High-yield tourism promotion will require a different marketing approach. Incentives should also be developed for foreign operators, resort operators, and other market players to move to specialized packages (e.g. eco-tourism, cultural tourism, etc.)⁵¹

Changing the market mix and penetrating new segments will be contingent upon the ETA’s altering its current product development and marketing strategy. Segmenting prospective tourists, differentiating products for each segment, creating effective messages to induce them to come, and finally delivering that message is the ultimate goal. The coordination among the various governmental entities including the Ministry of Tourism, Ministry of Culture, Ministry of Antiquities, Ministry of Environment, and the Egyptian Tourism Authority will prove critical to accomplish this.⁵²

Utilizing their modeled demand function and using the parameters of Egypt’s competitive locations as an average, Sakr and Massaud (2009) estimated tourist arrivals that Egypt could potentially attract. They found that “Egypt could have attracted 20-28 percent more tourists over the period under consideration” (1995-2007). By country, they found the highest levels of unexploited tourism in Saudi Arabia (77.4% potential increase), France (29.4%), Germany (20%), and Russia (19.7%). These results suggest that insufficient resources have been targeted toward marketing or that resources have been targeted inefficiently. Possibly as a response to this need, a new advertising campaign targeting Arabs only was launched in early 2010 and its impact was visible, with close to 20% growth in arrivals from markets like the United Arab Emirates and Saudi Arabia, and further growth from Jordan, Qatar and Syria.⁵³ There is also a bridge being built from Sharm El Sheik to Jeddah, which should increase Saudi visitors significantly, especially since they were identified as the most underexploited market. So it appears that Egypt is already effectively responding to identified underexploited market potential.

Overall, we find that public sector marketing is not a binding constraint at the present time, mainly due to the political stability/security situation and the need to better develop diversified destinations before they are marketed. At present, cultural and environmental tourism are largely hindered by other binding constraints, such as infrastructure, sustainability, and security. The MOT tends to focus its marketing on beach destinations because this is largely where the demand potential lays at the current time and these sites are currently the most developed destinations with the ability to accommodate larger amounts of tourists. At the same time however, a better and more diversified marketing approach is needed in order to stimulate the demand necessary to spur the increased development of new markets. The MOT will need to think about affective media campaigns to do this and support the

⁵¹Egypt’s National Tourism Strategy dated March 2009

⁵² Professor Fekri Hassan, Cultural Heritage in Egypt, April 2012

⁵³ EuroMonitor International April 2011.

emergence of new and higher yield destinations. However, greater spending on marketing alternative destinations would probably result in low returns now as stakeholders felt that little could be done to coax high-end visitors back until Egypt can stay out of the headlines for a while.⁵⁴

Private Sector Marketing

One critical aspect of improving private sector marketing in Egypt is greater linkages with the government in order to transmit critical needs and opportunities. According to National Strategy (2009), "In principle, the role of the public sector is to promote the destination with the private sector creating the product, packaging, pricing and selling. Under the Strategy, the current public-private approach to marketing continues but with greater emphasis on partnership. The greater the harmony between the two, the more successful will be the outcome."

While the larger tourism services providers such as major hotel chains, cruise ships, and tour guides have little problem e-marketing, smaller providers and other SMEs often have limited access to modern techniques in marketing to potential customers. Training in social media marketing for SMEs was an often identified need in this area. Building the capacity of SMEs in the tourism sector to offer new and differentiated services as well as their marketing effectiveness is a critical component to diversifying the activities and services currently offered, which is key goal for the National Strategy. Overall however, the relatively unsophisticated marketing methods of tourism SMEs is not considered a "binding" constraint for the sector as a whole.

Conclusion

We identify four binding constraints to private investment in the tourism sector. The first is lack of adequate infrastructure because it places a strict limit on the carrying capacity for tourists. The lack of road capacity in Cairo and Alexandria significantly lowers the value of urban tourism by limiting access to sites and prevents the emergence of more vitalized downtown areas that could offer greater shopping and dining opportunities for visitors. The lack of airport capacity and the domestic monopoly of Egypt Air restrict Egypt's ability to diversify its tourism offerings and offer improved access to multiple targeted destinations.

Second is environmental sustainability. The Red Sea beach areas are being built up quickly without proper environmental impact assessments and Solid Waste Management (SWM) plans, threatening marine life and natural desert surroundings. The number of divers being accommodated also threatens marine life because in many instances they are significantly greater than the sustainable limit recommended by international norms. Especially in urban areas, air pollution and SWM are big turn-offs for potential cultural visitors. Improved enforcement capacity of existing environmental regulations is critical.

Third is human resources and training. While not a binding constraint now, it will become one quickly when the sector recovers. The private sector cannot be expected to provide all of the training necessary for productive employment. The public sector needs to offer better quality vocational schools that

⁵⁴ One idea to overcome Egypt's image problem was to focus on marketing Egypt's *destinations* without necessarily marketing "Egypt".

meet the needs of the private sector. Developing community-based tourism products also requires training/capacity building for various local stakeholders to improve management of cultural heritage and natural sites. This training/capacity building for small investors and for local inhabitants in new areas to develop community-based tourism products is needed in order to develop alternative cultural sites. Also, better trained tourism police that can control hawking and harassment at major tourist sites are desperately needed as poor interactions with locals can ruin the tourism experience and generate lasting negative feedback about Egypt as a destination.

Sector policy on the whole is relatively open to investment and conforms to GATS, and therefore is not a binding constraint to large and incumbent firms. However, poor regulations, licensing, permitting, and unclear tax policy present a binding constraint to SMEs in the sector that seek to expand the number of services offered and diversify attractions across more areas. Restructuring the multiple ministries responsible for the regulation of the sector to improve coordination and planning would significantly improve the enabling environment for investment by SMEs. Decentralization of government authority would also help improve the enabling environment and create more “bottom-up” tourism demand by empowering local communities.

The most binding constraint to increased demand from tourists is clearly health and safety, as empirical studies confirm that perceptions of instability and threats to visitors is the most prominent variable in the tourism demand function. Egypt must ensure that the revolution and democratic transition will pay long term dividends in terms of increasing political stability. Traffic safety is another critical identified area that threatens the safety of visitors and mitigating the road infrastructure constraint could simultaneously ease the safety constraint.

While not an identified binding constraint, improved marketing approaches geared toward higher end visitors and more diversified destinations will be important in moving beyond Egypt’s current over-reliance on Red Sea tourism, but many capacity and sustainability issues need to be addressed first. In general, Egypt needs to do a better job of “site bundling” or promoting multi-destination and multi-activity tourism that includes local communities and provides a more complete “Egypt experience” that visitors are looking for.

As is the case in most all sectors in Egypt, working with SMEs will help improve the quality of services and would aid in the diversification of tourist activities. USAID has experience in all of the above areas and has the capability to alleviate one or more of these identified areas.

ANNEX 1:

The Travel & Tourism Competitiveness Index in detail –Egypt

INDICATOR RANK/139 – (Potential Binding Constraints based on rank, are italicized).

1st pillar: Policy rules and regulations

<i>1.01 Prevalence of foreign ownership.....</i>	<i>100</i>
1.02 Property rights	56
1.03 Business impact of rules on FDI	75
1.04 Visa requirements*	77
1.05 Openness of bilateral Air Service Agreements*	69
1.06 Transparency of government policymaking	68
1.07 Time required to start a business*	21
1.08 Cost to start a business*	54
1.09 GATS commitments*	55

2nd pillar: Environmental sustainability

<i>2.01 Stringency of environmental regulation.....</i>	<i>115</i>
<i>2.02 Enforcement of environmental regulation.....</i>	<i>109</i>
2.03 Sustainability of T&T industry development.....	48
2.04 Carbon dioxide emissions*	60
<i>2.05 Particulate matter concentration*</i>	<i>131</i>
2.06 Threatened species*	84
2.07 Environmental treaty ratification*	30

3rd pillar: Safety and security

<i>3.01 Business costs of terrorism.....</i>	<i>132</i>
3.02 Reliability of police services.....	81
<i>3.03 Business costs of crime and violence.....</i>	<i>97</i>

<u>3.04 Road traffic accidents*</u>	<u>135</u>
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4th pillar: Health and hygiene

4.01 Physician density*	45
4.02 Access to improved sanitation*	56
4.03 Access to improved drinking water*	40
4.04 Hospital beds*	79

5th pillar: Prioritization of Travel & Tourism

5.01 Government prioritization of the T&T industry	46
5.02 T&T government expenditure*	21
5.03 Effectiveness of marketing and branding.....	42
5.04 Comprehensiveness of annual T&T data*.....	40
5.05 Timeliness of providing monthly/quarterly T&T data*	46

6th pillar: Air transport infrastructure

6.01 Quality of air transport infrastructure	39
6.02 Available seat kilometers, domestic*	39
6.03 Available seat kilometers, international*	28
<u>6.04 Departures per 1,000 population*</u>	<u>98</u>

<u>6.05 Airport density*</u>	<u>122</u>
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6.06 Number of operating airlines*	18
6.07 International air transport network	66

7th pillar: Ground transport infrastructure

7.01 Quality of roads	75
7.02 Quality of railroad infrastructure	46
7.03 Quality of port infrastructure	69
7.04 Quality of ground transport network	84

<i>7.05 Road density*</i>	<i>114</i>
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INDICATOR RANK/139

8th pillar: Tourism infrastructure

8.01 Hotel rooms*.....	78
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8.02 Presence of major car rental companies*.....	64
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<i>8.03 ATMs accepting Visa cards*</i>	<i>101</i>
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9th pillar: ICT infrastructure

9.01 Extent of business Internet use	77
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9.02 Internet users*	87
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9.03 Telephone lines*.....	87
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<i>9.04 Broadband Internet subscribers*</i>	<i>92</i>
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<i>9.05 Mobile telephone subscribers*</i>	<i>101</i>
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10th pillar: Price competitiveness in the T&T industry

10.01 Ticket taxes and airport charges*.....	42
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10.02 Purchasing power parity*	17
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10.03 Extent and effect of taxation	75
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10.04 Fuel price levels*.....	12
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10.05 Hotel price index*.....	4
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11th pillar: Human resources

11.01 Primary education enrollment*.....	71
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11.02 Secondary education enrollment*	92
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<i>11.03 Quality of the educational system</i>	<i>131</i>
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11.04 Local availability of research and training services.....	64
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<i>11.05 Extent of staff training</i>	<i>112</i>
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11.06 Hiring and firing practices.....	76
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11.07 Ease of hiring foreign labor.....94

11.08 HIV prevalence*1

11.09 Business impact of HIV/AIDS.....29

11.10 Life expectancy*92

12th pillar: Affinity for Travel & Tourism

12.01 Tourism openness*43

12.02 Attitude of population toward foreign visitors.....36

12.03 Extension of business trips recommended.....21

13th pillar: Natural resources

13.01 Number of World Heritage natural sites*43

13.02 Protected areas*88

13.03 Quality of the natural environment.....60

13.04 Total known species*73

14th pillar: Cultural resources

14.01 Number of World Heritage cultural sites*38

14.02 Sports stadiums*108

14.03 Number of international fairs and exhibitions*51

14.04 Creative industries exports*45

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