



Eye On Egypt

TABLE OF CONTENTS

PAGE 1

“COMPETITIVENESS AND PRIVATE SECTOR DEVELOPMENT: EGYPT 2010”

Organization for Economic Cooperation and Development

PAGE 2

“EGYPT BEYOND THE CRISIS: MEDIUM-TERM CHALLENGES FOR SUSTAINED GROWTH”

World Bank

PAGE 3

“MIDDLE EAST AND CENTRAL ASIA REGIONAL ECONOMIC OUTLOOK REPORT”

International Monetary Fund

PAGE 5

“THE REAL WEALTH OF NATIONS: PATHWAYS TO HUMAN DEVELOPMENT”

United Nations Development Program

“INTERNATIONAL RELIGIOUS FREEDOM REPORT”

United States Department of State

Special Issue

Egypt's International Economic Forum presents a special issue of Eye on Egypt Digest, offering a review of four recent international reports and their analysis and evaluation of Egypt's economy, society and polity. The views expressed herein are those of the authors and do not necessarily reflect the views of the Forum.

“Competitiveness and Private Sector Development: Egypt 2010”

Organization for Economic Cooperation and Development
October 2010

The Organization for Economic Cooperation and Development (OECD) published a report outlining results of an ongoing Business Climate Development Strategy (BCDS) review on Egypt. The assessment is currently in its third phase—providing assistance to the Egyptian government in helping it execute recommendations identified by the BCDS—after having completed fact-finding visits between April and July 2009 and in-depth workshops in March 2010. In particular, the report covers key findings from phase one of the BCDS assessment, which are divided into: common or “cross-dimensional” findings and specific findings for each of twelve different dimensions.

The OECD report emphasizes that although vast reform efforts have been underway in Egypt since 2004, there remain numerous challenges

with Egypt's business climate, and reforms often remain inadequate or not sufficiently implemented. Even though Egypt has demonstrated notable economic resilience in the face of the global financial recession, the crisis poses both challenges and opportunities for Egypt as a developing country. The weak international climate, combined with “petering out” of economic reforms, has led to slowed inward investment growth in Egypt since mid-2009. Recognizing that financial crises indicate the need for states to establish and maintain effective public institutions, the report—and the BCDS assessment—place emphasis on institutional aspects to policy reform. In particular, the assessment focused on: fostering macroeconomic stability; advocating open markets for trade and investment; and creating a supportive investment and business environment.

The report stated Egypt's labor market needs to absorb between 600,000 and 700,000 new entrants per year, something which puts serious strain on public services and on the government to ensure jobs are created. To create these jobs, the

report says GDP growth needs to exceed 7% at current productivity rates. This challenge represents only one facet of Egypt's business sector, which struggles with "long-standing and structural" economic and social issues. There are issues with Egypt's labor market, its fiscal policy and its rising inflation. Aside from these continuing problems, reforms have not caused all the effects promised of them. For example: the promised "trickle down effect" of positive economic growth has not materialized, and 20% of Egypt's population remains below the World Bank's poverty line.

Cross-dimensional findings outlined by the report concentrate on: an overall lack of transparency and predictability with regard to its policy environment; policy uncertainty, arbitrariness of regulations and business law differences which create investment fear and a weak competitive environment; a high degree of institutional overlap, with institutions competing against one another and insufficient coordination between them; and informal employment, which is associated with low levels of efficiency and productivity. Egyptian businessmen agree with the severity of these problems, having ranked corruption, informal practices and regulatory or policy uncertainty among their top issues with the country's business environment. The business environment also has far-reaching issues with market openness and access, and is marked by the lack of an efficient cadastre.

These problems have meant even though the last decade has seen

positive private sector reactions to reforms, foreign direct investment remains weak. An ineffective combination of reforms and unpredictability and unequal enforcement of laws prove serious problems for foreign investors. In result, the report recommends the government take all measures necessary to ensure laws are applied evenly and consistently and that it avoids sudden policy reversals. It also recommends the new Egyptian Competition Authority (ECA) cultivate a culture of competition and remaining barriers to trade in internal product markets be lifted. Further, the OECD calls for more emphasis on pushing forward competition policy; developing a policy of coordination between institutions; and creating a task assignment to determine issues with institutional overlap. With regard to informal employment, the report calls upon the government to put more efficient structures in place to encourage workers into formal employment. It also stresses that the state should put more emphasis on regulatory matters; better business regulation, anti-corruption, business law and commercial conflict resolution; and access to finance. Even more broadly, the report calls for the installation of review mechanisms in order to ensure reform process "comply with good practices of inclusiveness, consistency and transparency of process."

In addition to these broad themes, the report focuses on dimension-specific sectors, including: investment and policy promotion; privatization and public-private partnerships; tax policy and administration; trade

policy and facilitation; better business regulation; SME policy and promotion; anti-corruption; corporate governance; business law and commercial conflict resolution; infrastructure; human capital and access to finance. Each sector analysis discussed the particular sector's achievements, its challenges and OECD recommendations for the sector. Although the report acknowledges advancements in each specific dimension, its challenges overwhelmingly include that insufficient actions have been taken in regard to the aforementioned advancements. The overwhelming lesson seemed to be: though Egypt has begun to advance reforms, it is only at the tip of the iceberg in doing so. This point leads to the report's conclusion: while Egypt has made impressive progress with regard to improving its business environment, it has not come close to fulfilling its potential as either a high-growth economy or a prime location for investment. ■

[Read the full report](#)

"Egypt Beyond the Crisis: Medium-Term Challenges for Sustained Growth"

World Bank
October 2010

The World Bank's policy research working paper analyzes the global crisis' impact on Egypt within the context of the country's last two decades of economic growth.

The report first addresses Egypt's boom-and-bust cycles since the nineties. It uses Egypt's economic history to argue recent persistence of high inflation rates springs from demand pressures, weak market institutions, market concentration and lack of competition, ineffective consumer protection and misguided policies.

Second, it analyzes the short-term impact of the crisis and the government's responses. The crisis weakened the chief driver of growth during the boom period of 2005 to 2008: external demand and investment. As demand for Egyptian exports dropped and foreign direct investment weakened, Egypt experienced an aggregate demand shock. As a result, GDP dropped from 7% to 4.7% in FY09. Although significant, the drop in growth was less than expected. It was also less than that in developing economies and most emerging markets.

Several factors shielded Egypt from the turmoil, according to the World Bank. The banking sector's lack of integration into the world's financial system protected it from "toxic assets" abroad. A positive current account balance since 2005 reduced Egypt's needs in the context of global financial imbalances. Reduced public debt ratios helped the government fund stimulus packages. Moreover, the limited role of private investment minimized its negative influence on overall investment. Lastly, the government's fiscal and monetary stimulus succeeded in softening the blow, although it certainly did not completely offset it. While the stimulus prudently aimed

to offer temporary measures to mitigate the immediate consequences of the crisis, the World Bank report argues that the long-term output losses resulting from the crisis should be addressed through increased investment and productivity.

In response to the crisis, the government increased spending by LE 13 million to improve infrastructure and support manufacturing. It also froze the energy subsidy phase-out plan, lowered tariffs and offered sales-tax exemptions on capital goods. Meanwhile, the Central Bank of Egypt reduced its lending interest rate by 375 basis points and eased reserves requirements.

The World Bank argues the stimulus was too limited to offset the full impact of the drop in external demand. It attributes the stimulus' low impact on GDP to the leakage of resources between investment and capital as well as the crowding-out effect of public capital in the short run.

Lastly, the report addresses Egypt's growth prospects beyond the crisis. The study predicts the lower private capital accumulation and productivity that came with the crisis will permanently affect GDP levels. The World Bank predicts output will not recover to the pre-crisis level within the ten years following the crisis.

Key to recovering these losses is government policies. According to the World Bank, Egypt needs policies that lift productivity growth rates or permanently increase the rate of

capital accumulation. The government can raise productivity growth through public spending on infrastructure and transportation and reductions in commuting costs, which would enable a more dynamic private sector. ■

[Read the full report](#)

“Middle East and Central Asia Regional Economic Outlook Report”

International Monetary Fund
October 2010

The International Monetary Fund's (IMF) recently released the second Middle East and Central Asia Regional Economic Outlook (REO) report of 2010. The report chronicles how economies in the region are rebounding from the global financial crisis, identifies continuing economic shortcomings and proposes policy alternatives to maximize regional growth and prosperity in the coming decade. The report divides the region into various subsections in order to better analyze economic patterns across countries. Egypt is included in the section entitled “MENAP Oil-Importers,” along with Afghanistan, Djibouti, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria and Tunisia.

The report emphasizes that nearly all of the Middle Eastern and Central Asian economies will experience increased growth in 2010 and 2011, with expected annual growth rates of 3.5-5.5%—a testament to their

relative insulation from the financial crisis. However, in relation to other emerging markets and developing economies, MENAP oil-importer countries are falling behind. In particular, the large number of new labor market entrants expected in the next decade place significant pressure on governments to create more jobs. Unfortunately, due to a myriad of structural economic factors, labor markets in the region are disproportionately unresponsive to economic growth. In order to create the necessary amount of jobs, economies in the region would need to maintain 6.5% annual growth over the course of the next decade—2% higher than the average growth rate in the last decade.

To address many of the concerns it highlights, the report offers a series of policy recommendations. To promote general economic growth, the report stresses the importance of adjusting trade partnerships in light of the changes wrought by the financial crisis. Europe remains the main trading partner for MENA oil-importers, despite the fact that economic growth in the Eurozone was significantly impeded by the crisis. Continued reliance on European trading partners has kept countries like Egypt from benefiting from growth of other emerging markets in Asia and Latin America. The report explains although BRICs (Brazil, Russia, India, China) account for nearly half of global GDP growth, they only account for 9% of MENAP oil-importers total exports. In order to capitalize on the successes of other emerging market economies, Egypt and other MENAP oil-importers should seriously reevaluate

their trade partnerships and open themselves up to increased South-South trade relations. Likewise, the report urges MENAP oil-importers and exporters to boost intraregional commerce. MENAP oil-importer countries are characterized by strong labor supplies but are limited by lack of capital. Conversely, MENAP oil-exporters lack labor supplies and have excess capital. Collaboration could significantly benefit not only labor imbalances, but expand trade and investment.

While increased economic growth is a key to job creation, the slow responsiveness of the labor markets in the region remains a significant barrier to addressing unemployment and its related social and economic consequences (e.g. outward migration). Unemployment among MENAP oil-importers has traditionally been high—averaging 12% over the last two decades. However, in Egypt, unemployment disproportionately affects the youth and the educated segment of the population. Unemployment rates for young people are over 40% in Egypt, and more than 15% of those with tertiary education are unemployed.

Above all, the report outlines three main strategies for policy-makers to begin addressing the chronically high unemployment in Egypt and other MENAP oil-importer countries. First, governments must address the widespread skill mismatches that are a structural contributor to unemployment. In terms of education, governments ought to initiate educational reforms that tailor curricula to labor market needs, as well as create retraining

programs to bolster the skills of the currently unemployed. Furthermore, the report stresses the government's responsibility in determining higher expectations. The generous and widespread public sector employment in Egypt—35% of total employment and 70% of non-agricultural employment in 2000—has warped employee wage, job security and benefit expectations, effectively creating disincentives for private sector employment. A reevaluation of government hiring practices in the public sector could help to diminish feelings of entitlement and place greater emphasis on skills-based hiring.

In addition, the report urges governments to improve the business environment through a two-pronged approach. Trade liberalization on the international and domestic level will help to increase output and labor demand; while more expansive reforms could create the kind of business climate that will attract much-needed investment. The report cites both the World Economic Forum's (WEF) Global Competitiveness Report and the World Bank's Doing Business Reports to further underscore the detrimental impacts of the current business environment. The WEF report ranked the region as a whole very low when it came to labor market efficiency. Likewise, the World Bank's report highlighted enforcing contracts, starting a business, and navigating the complexities of construction permits—all characteristics of the current business environment—as the foremost barriers to business in the region.

Finally, a major policy imperative for tackling unemployment is to reduce widespread labor market rigidities. By making current labor market regulation more flexible and increasing the effectiveness of social safety nets, governments can bolster the private sector's ability to respond to market indications. While surely a less popular recommendation, the report insists on a regime of overall wage restraint, further aided by a commitment on the part of governments to better correlate public sector pay and productivity, fostering more realistic compensation expectations for the expected 10 million new labor market entrants in the next decade. ■

[Read the full report](#)

“The Real Wealth of Nations: Pathways to Human Development”

The United Nations
Development Program
November 4, 2010

In 1990, the United Nations Development Program (UNDP) launched The Human Development Report, which measures development according to a “Human Development Index” (HDI). The fundamental premise of the HDI is that “people are the real wealth of a nation.” The three dimensions used to determine a country's HDI rank include health, education and income. The four main indicators are life expectancy, mean years of schooling, expected years of schooling, and gross national income per capita.

Egypt ranked 101st out of 169 countries included in the report this year, making it a “medium HDI” country. Between 1980 and 2010, Egypt's HDI rose by 1.5 percent annually, higher than the regional average in the Arab World but slightly lower than the world average. The 1.5 percent annual growth won Egypt a ranking of 8 in terms of HDI improvement from 1980-2010. However, Egypt's average annual HDI growth rate measured over ten years has dropped; during 1990-2010, Egypt's average annual HDI growth rate was 1.23 while that of 2000-2010 was only .90.

The Report notes how the position of women in Egypt has hurt the country's HDI. When HDI was calculated for different population groups within Egypt, outcomes were higher for male-headed households than female-headed households. The report also criticizes Egypt's labor laws, which prohibit women from working at night or in certain industries.

The Arab world, among all regions, had the third highest drop in HDI, particularly because of unequal distribution of education. Egypt and Morocco, for example, each lost 28 percent of their HDI because of inequality in education. Despite the general state of inequality in the Egyptian education system, at least one aspect of education in Egypt did improve from 1995 to 2000: school participation by girls in the poorest income quintile increased by 18 percentage points. ■

[Read the full report](#)

“International Religious Freedom Report”

The U.S. Department of State
November 17, 2010

The 2010 International Religious Freedom Report published by the U.S. Department of State offers a bleak perspective on the current status of religious freedom in Egypt. Despite a constitutionally enshrined right to freedom of belief and practice, the report concludes that there significant affronts, often at the hands of the government or government-employed police and security forces, to said rights. Overall, the Department of State finds the status of respect for religious freedom in Egypt to be “poor”—the same score it received in the 2009 report.

Discrimination against religious minorities—notably Christians, Baha'i, Quranists, Shi'a, Ahmadiya, and converts to Christianity—is often experienced in the form of unequal access to government employment, bureaucratic delays or outright violence in response to the construction or repair of religious spaces, and prejudicial regulations regarding the issuing of identification documents. While government-issued identification is required to indicate religious affiliation, the state only allows identification holders to choose between Islam, Christianity, and Judaism, thereby excluding all other believers from accurately stating their religious affiliation. In addition, the report highlights the numerous cases in which the state has required Christians or Christian

converts to maintain Islam as their official religion if they or their father were at one point Muslim.

The report also details a number of criminal cases in which legal authorities refrained from prosecuting Muslims suspected of sectarian violence against non-Muslims, offering “informal reconciliation” as an alternative to formal criminal charges. The report does, however, applaud some of the more positive examples of equality under the law—notably the arrest and prosecution of the Muslims who opened fire on Coptic congregants after a 2009 Christmas mass in Naga Hammadi.

Despite some positive developments and official state rhetoric condemning sectarian violence, the report concludes that little to no progress was made in 2010 to address inequalities and discrimination either in law or practice. ■

[*Read the full report*](#)

About Us

Egypt's International Economic Forum is a non-governmental, non-partisan business organization founded in 1998 by a group of prominent Egyptians committed to the comprehensiveness, sustainability and consistency of Egypt's reform efforts. The Forum aims to promote a favorable economic and business environment that allows Egyptian businesses to prosper while also contributing to the progress and well-being of Egyptian society at large.

EXECUTIVE BOARD

Mohamed Shafik Gabr
Chairman

Khaled Raafat
Secretary General

Shahira Zeid
Treasurer

Hossam Badrawi
Taher Helmy
Hassan Abdalla
Tahy El-Sebai Mansour
Samar El Molla
Farid El Chiati

Loula Zaklama
Ashraf Gohar
Emad Taymour
Magued Gobran
Nabil Ibrahim
Mahmoud Badran

DIRECTOR GENERAL

Ashraf Swelam

EYE ON EGYPT DIGEST TEAM

Jessie Sobrino
Lara Tumeh
Laura Nelson



For more information, please contact us at:

509 Road 10, off Road 9

Mokattam, Cairo

Tel: + (202) 2508-6873/4

Fax: + (202) 2508-6859

E-mail: cief@cieforum.org