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THE PRIVATE SECTOR IN POSTREVOLUTION EGYPT

Ibrahim Saif and Ahmed Ghoneim

JUNE 2013



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The authors would like to thank Mostafa Assad for his great contributions to this paper.

Summary

Egypt's 2011 revolution sent seismic tremors through the country's economy. Uncertainty about the direction of government policies has resulted in reduced levels of domestic and foreign direct investment. The decline threatens to complicate Egypt's transition to a market system. The private sector and the government, in collaboration with civil society organizations, must work together to avert an economic crisis and promote growth, stability, and the consolidation of democracy in Egypt.

Key Themes

- The private sector employs some 70 percent of Egypt's labor force. Without a marked increase in investment in the private sector, the government will not be able to restore economic growth.
- Businesses are represented by a variety of associations. The collusion between many such associations and political elites in former president Hosni Mubarak's regime contributed to the private sector's negative image in Egypt. A number of the postrevolutionary associations are closely affiliated with the new Muslim Brotherhood-led regime.
- Numerous new political parties have emerged since the revolution. Many are pro-business, but there are also several Islamist and socialist parties with less private-sector-friendly agendas.
- The government has taken steps to restore the private sector's faith in the Egyptian economy, but the business community has not yet responded with new investments or initiatives.

Recommendations for the Private Sector

- Develop a viable, concerted economic vision that will provide realistic policy recommendations on how to achieve market-driven and sustainable growth while increasing employment and social justice.
- Expand existing efforts to include small and medium enterprises and reach out to stakeholders, such as labor unions.
- Launch initiatives promoting corporate social responsibility at the community level. Coordinate with civil society organizations to identify priority areas in which to undertake these initiatives.

- Adopt clear positions on accountability, the minimum wage, taxation, subsidies, and competition regulations.

Recommendations for the Government

- Reduce policy uncertainty by establishing a reliable framework of policies and regulations for doing business in Egypt that is consistent with international norms.
- Minimize intervention in the credit market.
- Adopt a more transparent approach to public finance and to the military's role in the economy.
- Promote decentralization to empower local communities.
- Reform public sector institutions that deal with investors and limit officials' margin of discretionary action.
- Launch a credible transitional justice process to help the population distinguish between predatory business leaders who profited from widespread Mubarak-era corruption and the rest of the private sector.

Introduction

Egypt's 2011 revolution, which upended an entrenched political system, sent seismic tremors through the country's economy. Ambiguity and uncertainty about the direction of government policies have resulted in reduced levels of domestic and foreign direct investment. This decline threatens to complicate Egypt's economic challenges during its political transition and restrict the government's fiscal and economic maneuvering space at a time when public expectations are running high.

Three issues will be crucial to Egypt's economic—and thus ultimately its political—future. The Muslim Brotherhood-led government will need to establish a reliable framework of policies and regulations for doing business in Egypt that is consistent with international norms, introduce a higher degree of transparency regarding the military's role in the economy, and incentivize the private sector to help revitalize the country's sluggish economy.

The private sector has a critical role to play during the transition process. Egypt's private sector currently employs some 70 percent of the country's labor force. Without a marked increase in private sector investment, the government will not be able to create robust economic growth or satisfy the economic aspirations of its people.

The government also has to build trust between itself, the old and new business elites, and a population desperate for accountability. Egypt's best hope for avoiding the economic crisis that threatens to derail the revolution is a public-private-civil society pact. If these stakeholders work together, they will be able to promote growth, create jobs, protect vulnerable groups, and help consolidate the transition to democracy.

Without a marked increase in private sector investment, the government will not be able to create robust economic growth or satisfy the economic aspirations of its people.

The Private Sector After the Revolution

To date, the government has taken some steps to restore the private sector's confidence in the Egyptian economy. It has expressed its willingness to sign an agreement with the International Monetary Fund (IMF), established committees to coordinate between the president and the private sector, and reduced ambiguities concerning private-public partnerships. However, these steps have failed to assuage uncertainty about the direction of overall economic policy under the Brotherhood. Some in the private sector are also concerned that the Brotherhood partially promotes a negative image of the

business sector, accusing some of its major players of being responsible for the reprehensible conditions of the Mubarak years, including unfair monopolies, large income disparities, increasing poverty, and expanded budget deficits.

This situation is compounded by the widespread negative perception of the corporate private sector that persists throughout Egyptian society. Some political parties, civil society organizations, and media outlets have helped promote this negative image, accusing the private sector of being unwilling to assume a proactive role during the transition period. In several cases, the media have contributed to the negative image by equating the private sector with corruption. It has also been difficult to distinguish between individual actors within the private sector and determine the impact of the process of privatization more generally.

For its part, the prerevolutionary business elite has failed to articulate a new role for itself in the transition period and beyond. Nor has it managed to agree on a unified set of demands to facilitate its interactions with other stakeholders. This silence reflects its hesitancy to act while the political situation remains in a state of flux.

The established private sector must contend with a number of new Islamist-leaning business groups and associations that have emerged since the ouster of Mubarak. Most of these new groups tend to be quite politicized, using slogans of “social justice” and openly supporting the program of the Muslim Brotherhood and President Mohamed Morsi.¹ It is not yet clear how relations between the old business elite and these new, more explicitly Islamic organizations will evolve.

In addition to these Islamist organizations, several new secular parties have emerged since the revolution. Each of these parties—Islamist and non-Islamist alike—employs slightly different rhetoric when it comes to economic issues. Some of them have close ties to business leaders, and most of them have adopted an agenda that advocates a market economy and promotes social justice. But the rather general policy statements that many have promulgated fail to specify what is really meant by either “market economy” or “social justice.” They lack clear positions on key issues such as taxation, minimum wage, and privatization.

Perhaps more importantly, these political parties have failed to forge effective alliances with social forces, such as labor unions, which have emerged as one of the most influential players in the political arena. The number of strikes organized by labor movements has increased over the past two years, with demands for better working conditions and higher wages.² The average annual number of protests following the revolution has doubled compared to the period between 2007 and 2010, during which the average number of protests did not exceed 700.³

The private sector must find a way to navigate this emerging postrevolutionary landscape. Its productive operation within Egypt’s new economic

framework will be crucial to helping pull the country out of its increasingly dire economic situation.

Economic Performance After the Revolution

In the two years since the revolution, Egypt's economic performance has been weak. The economy has slowed since the revolt. The IMF had predicted that the Egyptian economy would grow by 3 percent in 2013, but it has now downgraded that figure to 2 percent. Recorded growth for 2012 was 2.2 percent—that is, very close to the 2011 population growth estimate.⁴ The balance of payments has deteriorated, mainly because capital outflows, such as the purchase of necessary food imports and the repayment of foreign debt installments and services, have persisted while capital inflows have dried up due to the high risk associated with business investment and a significant drop in tourism. The result has been a plunge in foreign currency reserves from \$24.1 billion in September 2011 to about \$15.04 billion in September 2012, which is equivalent to about 2.6 months of imports.⁵

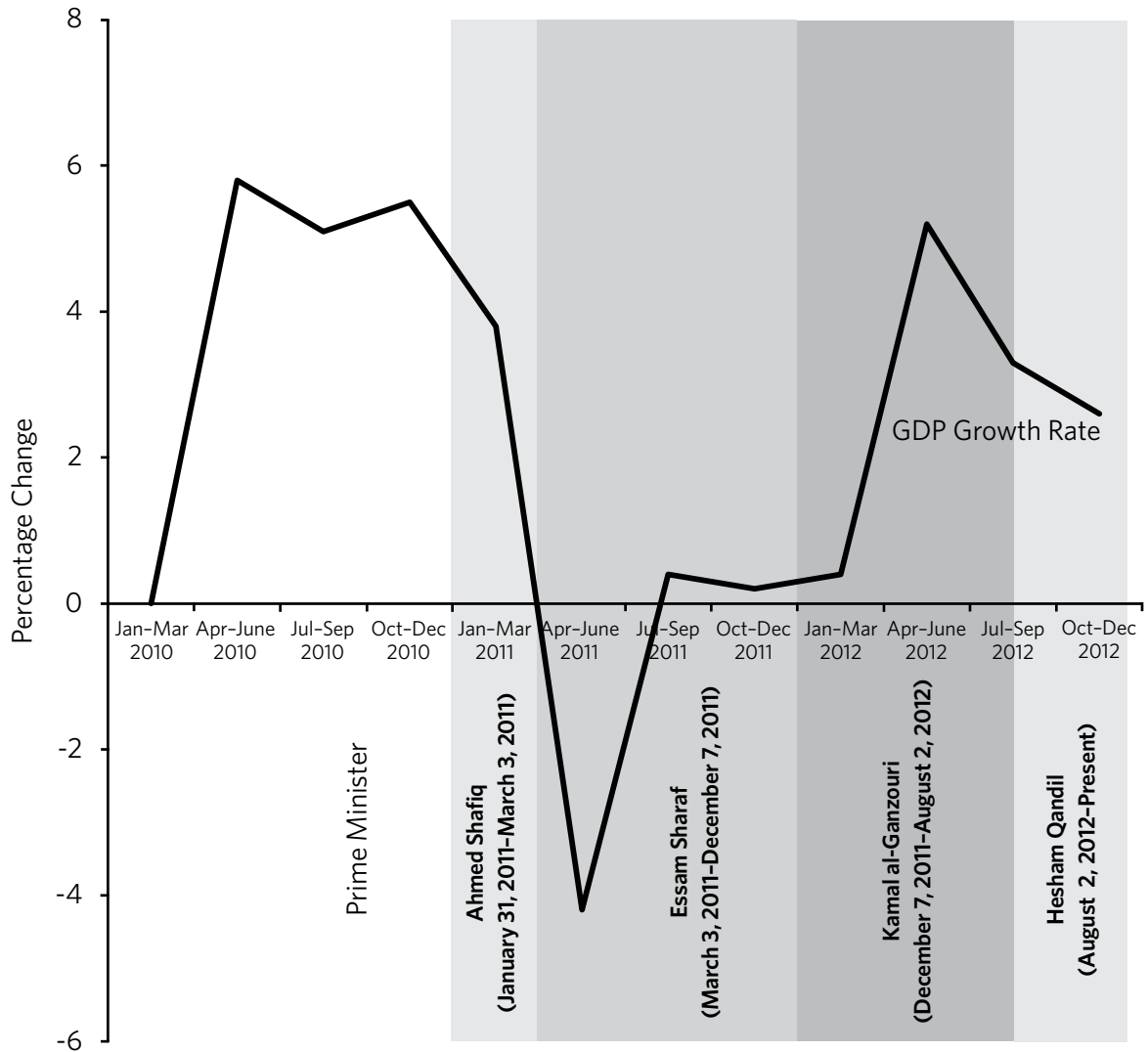
The fiscal deficit has now reached more than 10 percent of Egypt's gross domestic product (GDP). Stalled economic activity accounts for some of the rise, as does the government's increase in public spending in response to rising demands from the street. Outlays include a pay raise for public sector workers and increased subsidies to cover the increasing price of food imports. To finance this spending, the government has resorted to short-term borrowing from the domestic market at high interest rates. Such loans accounted for 16 percent of the treasury's bills in September 2012.

This pressure on the credit market has pushed interest rates to new heights, limiting the private sector's access to financing and crowding out its investments. An estimated 65 percent of commercial bank deposits has been extended as loans to the public sector.⁶ Such an outcome implies an adverse selection problem because this money, instead of being invested smartly, is being used mainly to fuel consumption and imports.

During the last week of 2012, the Egyptian pound reached its lowest level relative to the U.S. dollar since the ousting of Hosni Mubarak, and the Central Bank of Egypt enacted new monetary foreign exchange regulations in an attempt to curb currency speculation and limit inflation.⁷ At around the same time, the credit agency Standard & Poor's downgraded the Egyptian economy's rating from a B to a B–, citing the civil unrest that “weakened Egypt's institutional framework, and the increasingly polarized political discourse [that] could diminish the effectiveness of policy-making.”⁸ The agency had downgraded Egypt's rating earlier in 2012 from B+ to B, arguing that “Egypt's external position . . . [had] deteriorated and . . . [was] likely to weaken further, absent stabilisation in the domestic political situation alongside external financial support.”⁹

None of the four successive administrations over the last two years has attempted to deal with the long-term economic challenges underlying these developments (see figure 1). Rather, each has responded to the immediate pressure of the street.

Figure 1. Quarterly GDP Growth Rate



Sources: African Development Bank, *Egypt Economic Quarterly Review* 1 (2012): 2; Ahmed Feteiha and Gilane Magdi, "Egypt Economy Shrinks 4 Percent Last Quarter Despite Yearly Growth of 5.2 Percent," *Ahram Online*, May 22, 2012; Gilane Magdi, "Egypt's First Quarter Economic Growth Rate Shrinks 21 Percent," *Ahram Online*, November 24, 2012; "Egypt Economic Growth Dips to 2.2 Percent in Second Quarter of 2012-2013," *Ahram Online*, February 21, 2013.

The first government, led by Ahmed Shafiq (January 31, 2011–March 3, 2011), increased the salary of civil servants and military staff by 15 percent. It offered permanent employment to previously temporary government workers. Shafiq’s cabinet also canceled sales-tax fines to encourage the private sector to pay its tax arrears.¹⁰ During this period, growth slowed and the private sector remained somewhat in a state of shock.

The second cabinet, led by Essam Sharaf (March 3, 2011–December 7, 2011) passed the first postrevolution budget. It was the largest in Egypt’s history—\$91.54 billion compared to the previous year’s \$69.53 billion (based on an exchange rate of 6.93 Egyptian pounds per dollar). This meant a 20 percent increase in public spending, including a 14 percent increase in allocation for both education and health. Subsidies witnessed a 26 percent increase due to higher food prices in international markets.

The initial economic reaction to Sharaf’s appointment was positive, with GDP growth reversing its negative trend within two months of his appointment. However, the government, under the influence of the ruling Supreme Council of the Armed Forces, refused to initiate discussion with the IMF regarding a potential loan. Egypt’s leaders did not want to borrow externally due to the ruling army council’s concerns about the overall debt level. They were also reluctant to be tied to the lenient terms offered by the IMF because it sought to avoid foreign interference, especially given the toppled Mubarak’s close ties to the West. These new leaders also wanted to avoid any austerity measures that could be attached to the proposed loan, many of which would be poorly received by the business community because they would increase taxes on Egypt’s largest companies. Thus, in order to fund public expenditures, the government had to borrow from the domestic market, crowding out the private sector and increasing the cost of funds for private enterprises.

Kamal al-Ganzouri’s government (December 7, 2011–August 2, 2012) adopted a number of policies to consolidate the macroeconomic situation, such as reducing public spending and foreign debt. Al-Ganzouri introduced a public wage ceiling and a new minimum wage and approved two plans to support tourism and the production of cotton and sugar. These initiatives were well received in the market, and growth registered its highest rate of the transition period, climbing briefly to around 5 percent.

The government of Hesham Qandil took office on August 2, 2012, after the presidential election. Since its swearing in, the government has been clear about its intention to reach a deal with the IMF that would secure a \$4.8 billion loan. However, controversy over the new constitution has delayed the conclusion of the agreement. President Mohamed Morsi, who was preoccupied with passing the constitution, has blocked a number of new policy initiatives, including tax increases and elements of an austerity package that were designed to win approval for the IMF loan and shore up finances battered by

political turmoil.¹¹ Such contestations in the decisionmaking process have created political uncertainty and weakened other stakeholders’—and especially the private sector’s—trust in the government.

Structure of the Private Sector

A marginal force during the days of Nasserist state socialism, the private sector grew under Presidents Anwar Sadat and Hosni Mubarak to become Egypt’s primary engine of economic growth. In 2011, the private sector represented 63 percent of GDP and employed 70 percent of the Egyptian labor force.¹²

The private sector in Egypt is a mix of micro-, small-to-medium, and large enterprises. Microenterprises, employing one to four employees, comprise nearly 91 percent of all Egyptian enterprises. Small and medium enterprises, employing five to 100 people, comprise 8 percent, and large corporations constitute less than 1 percent of total Egyptian enterprises.¹³ In terms of employment rates, microenterprises employ 58 percent of the labor force, small and medium enterprises employ 25 percent, and large corporations account for 17 percent.¹⁴

Microenterprises are scattered and have little potential for expansion due to structural weaknesses, such as poor managerial skills and few financial resources. Most microenterprises are informal, so it is difficult for them to benefit, even from the government-sponsored programs that aim to enhance their capacities. These businesses require specific programs that target their key weaknesses. Moreover, they face tough competition, and their profit margins are generally very narrow. The workers in these businesses suffer from poor working conditions and, despite their large numbers, are not organized. As a result, they have little political representation and cannot bargain for better wages or benefits.

Small and medium enterprises, which operate in the manufacturing and services sectors, face numerous obstacles, including limited access to financing, poor labor skills, inconsistent standards, and weak links to large firms.¹⁵ They lack effective representation in the existing private sector institutional framework, which is dominated by large firms. The poor business climate, the obstacles associated with adhering to social security requirements, and limited access to financing have forced many medium enterprises into the informal sector.¹⁶

Large corporations normally dominate the scene as a result of their effective organizational structures and access to financial resources. They also have disproportionate access to decisionmakers and may be skewing policy in their direction. Large corporations include enterprises that operate in the services, manufacturing, and agricultural sectors.

Organizations Representing the Private Sector

A wide range of organizations and institutions have represented the private sector in Egypt both before and after the revolution. Some of them have been highly visible and influential in shaping the business environment, while others have had limited influence on the policymaking process. Many are directly or indirectly linked to the Egyptian government, and a number of the prerevolutionary associations played a part in the rampant corruption that marked the Mubarak era. The newer associations pursue the interests of certain businesses that were marginalized prior to the revolution, but they have adopted many of the policies and practices of their predecessors and are not promoting a new economic vision.

Business Institutions That Predate the Revolution

Among the most visible and influential organizations formed before the revolution is the Federation of Egyptian Industries, which comprises sixteen chambers of industry that seek to support Egypt's manufacturing sectors. It serves as a formal lobby for the interests of its members. Another prominent institution is the Federation of Egyptian Chambers of Commerce. This organization, the member chambers of which represent various governorates, aims to serve the interests of the Egyptian business community in general.

These federations are semi-official bodies. The government appoints their chairs and contributes to their financing. Since the revolution, a number of business leaders have been demanding amendments to the laws regulating these bodies in order to guarantee full independence and free elections for their leadership.¹⁷

Export commodity councils constitute another group of semi-official bodies. They are financed by their members but overseen by secretariats linked to the Ministry of Trade and Industry. There are fifteen export commodity councils that serve the interests of exporters in specific fields and lobby against bureaucratic overregulation and red tape. There are also specific chambers of commerce and associations linked to countries of particular interest to manufacturers and traders (such as the American Chamber of Commerce and the Canadian Chamber of Commerce).

There are also bodies, such as the Association of Egyptian Businessmen, the Egyptian Junior Business Association, and the Alexandria Business Association, that do not enjoy such high levels of government support. These organizations are not related to the government and were effective advocates of the corporate private sector during the Mubarak era. They have historically been relatively narrow and sector specific in their focus. They do not possess an overarching policy or vision of economic development and have limited resources, which have been expended mainly on internal logistics and operations. In most cases, the little lobbying these institutions have undertaken

has been limited to securing specific protection and favorable treatment from complacent government officials rather than focused on developing and promoting a wider growth-oriented economic program that would benefit both them and the national economy.

A self-interested co-mingling among these business associations and political elites—which became particularly flagrant during the last ten years of Mubarak’s regime—contributed to the negative image of the private sector held by many Egyptians. During that era, business leaders manipulated parliament and the government to shelter their interests and maintain monopolies over certain markets, including the steel and cement industries. These clear conflicts of interest went unpunished as there was no law or code of ethics to govern the relationship.

The Mubarak regime was driven by the need to solicit support from private sector leaders for the succession of the former president’s son, Gamal Mubarak. A quid pro quo arrangement was in place whereby prominent businessmen offered political support for Gamal in exchange for certain privileges that served their business interests. Examples include allocations of land, freezing of anti-trust laws, and dubious privatization deals. Such instances of corruption have stuck in the minds of many Egyptians.¹⁸

Business Associations and Public Policy

In the past, both public and private sector elites were satisfied with this arrangement. This weakened the sort of demand for serious reform from powerful constituencies that could have produced a more competitive environment and encouraged new entrants to the market, not to mention expanded the economy more sustainably so as to alleviate the sense of injustice that helped spark the January 2011 revolution. But now a healthier relationship, taking account of 2011 events, needs to be predicated on transparency, wider inclusion, and a focus on promoting socioeconomic policies that encourage growth while creating jobs and boosting social justice.

For example, a number of debates have been going on in Egypt for several years concerning the minimum wage, taxation policy, and the curtailment of subsidies. Private sector associations have not seriously engaged these issues, rarely addressing them or outlining policy alternatives. The same has been true for questions of how to support the informal economy or increase linkages between small-to-medium enterprises and large corporations.

In terms of representation, micro- and small enterprises have been essentially invisible in the existing structure. They may have been members of associations either by law (in the case of the Federation of Egyptian Industries and the Federation of Egyptian Chambers of Commerce) or voluntarily (in the case of the business councils and investors’ associations that are spread across the country at the governorate level). However, the influence of these enterprises has been minimal in the main business associations, and their concerns

have not been communicated effectively in the public sphere or the policy-making process. Moreover, the de facto informal economy, which makes up almost 30 percent of the Egyptian economy, has had no official acknowledgement or representation.

Currently, there are attempts to amend laws and regulations governing representative institutions in the private sector to limit government intervention. These laws would allow elections to be held for the boards and chairmen of industrial and trade federations, which would be a step in the right direction.

New Private Sector Institutions

In the wake of the revolution, Egypt witnessed the birth of new business organizations. The most visible has been the Egyptian Business Development Association,¹⁹ which represents a broad spectrum of the business community. It had almost 300 members by the end of 2012. Its board is headed by Hassan Malek, a member of the Muslim Brotherhood who enjoys good relations with President Morsi.

Other board members include well-established corporate private businessmen such as Safwan Thabet, chief executive officer of Juhayna Group, a food production and distribution company, and other influential business associations. The board also includes Tarek Fahim, secretary general of the Salafist al-Nour Party. A number of former regime leaders have also joined the board. In addition, Malek has been trying to lure Egyptian business tycoons back to Egypt after they fled the country following the storm of arrests against Mubarak-affiliated associates. These include Yassin Mansour, an auto and banking investor, and Hamed El Chiaty, chairman of the Travco hotel and tourism company.²⁰

The Egyptian Business Development Association aims to act as a channel between investors and the government, claiming also to encourage the development of small and medium enterprises across Egypt and conduct vocational training. Malek argues that “business should benefit the widest possible base of society, and not just a small tier, as was the case under Mubarak.”²¹

According to its members, the association takes its inspiration from Turkey’s twenty-two-year-old Independent Industrialists and Businessmen’s Association and the Small and Medium Enterprise Corporation of Malaysia.²² The Turkish association played a role in decentralizing Turkey’s economic development, particularly through the promotion of small- and medium-sized enterprises. It also contributed to cementing the political preeminence of Turkey’s Islamist Justice and Development Party.

But not everyone is happy about the emergence of such an organization in Egypt. Several businessmen have been cited in the media expressing their dissatisfaction with the Egyptian Business Development Association, which is clearly entering the partisan fray by allying itself with the incumbent president. They are skeptical about its mandate, arguing that it is yet another

business association seeking to take advantage of good relations with the governing party in order to obtain privileges for its respective industries and marginalize competitors.²³

Other newly founded organizations in the banking and financial sectors are attempting to promote Islamic finance, a financial model based on the principles of sharia that prohibits lending on interest, gambling, and investing in the trade of commodities forbidden by Islam, such as alcohol. For example, the Egyptian Association for Islamic Finance was created to promote new Islamic financial products, according to Mohammed Beltaji, the chairman of the board. According to the Egyptian Central Bank, fifteen conventional banks

applied for licenses to open Islamic finance departments in 2011. There are currently 211 Islamic bank branches in Egypt of a total of 2,360 banks in the country.²⁴

It is difficult to draw a clear distinction between the roles of the new and old private sector associations, other than the intimacy that new institutions enjoy with the Muslim Brotherhood and Salafist movements. These institutions have paid lip service to the need to engage micro-, small, and medium enterprises, but they have so far failed to take the initiative to expand their mandates and address

the concerns of this important, yet neglected, segment of the private sector. The small- and medium-enterprises sector, for example, is no more represented on the board of the Egyptian Business Development Association than it was on the boards of the associations that came before it.

Moreover, the position of these newcomers on, for example, labor unions, minimum wage, and subsidy reforms, cannot be distinguished from the positions of prerevolutionary institutions. In general, they do not represent a significant departure from the practices established by the private sector's old guard.

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The Business Community and the New Political Parties

Numerous new political parties have sprung up since the revolution. Most of these parties have a generally favorable position regarding the private sector and the business community.

But, as is to be expected in a country as diverse as Egypt, the economic agendas of the political parties reflect the nation's wide political spectrum. A number of parties were established by influential business leaders and openly advocate policies favorable to the corporate private sector. Others, like the Islamist parties, try to square the circle of support for the private sector and market economics while at the same time try to uphold principles of Islamic

sharia and slogans of social justice. Finally, Nasserist and leftist parties advocate a return to nationalization and a reversal of the privatization process.

Pro-Business Parties

The Free Egyptians Party, which was established following the revolution by telecommunications mogul Naguib Sawiris, has a clearly defined economic agenda that is distinctly private sector friendly. It has joined the newly established Egyptian Conference Party led by Amr Moussa and Ayman Nour, which was announced in September 2012. The two parties were founded upon the same values.

According to Ayman Nour, the Egyptian Conference Party's main economic goal is to lay the foundations of a strong Egyptian economy based on fair competition and the protection of consumer rights. According to its platform, the party promotes the imposition of nonprogressive taxation, with greater tax exemptions granted for low-income groups.

The Egyptian Conference Party also advocates continuing privatization in a manner that is fair, equitable, and transparent. This commitment to the process of privatization sets the party apart from socialist and Islamist parties that are skeptical about the issue. In addition, it calls for the creation of a "development corridor," built along a north-south road running parallel to the Nile, with agricultural lands and cities on its periphery.

The Reform and Development Party has also been associated with the business community. Although it was established in 2009, the party was only officially registered in May 2011. Its platform advocates supporting small and medium enterprises and microfinance projects in order to provide the poor with access to credit and to benefit impoverished local communities.²⁵ It also calls for increasing employment and economic opportunities for Egyptian citizens to raise living standards and bridge the gap of social inequality. According to the party, this will be accomplished by promoting economic growth and nurturing the free market.

The Modern Egypt Party is a moderately liberal, pro-business party founded in July 2011 by businessman Nabil Deibis, who acts as its president. Deibis's family businesses range from education to the media. The party seeks to embrace the various segments of the Egyptian community without discrimination. Its core platform includes eliminating corruption and supporting the agricultural sector. It has adopted the slogan "Food and Shelter First," identifying these as the main components of human dignity. In pursuit of this goal, the party has called for several large-scale projects, such as a national campaign to grow wheat.²⁶

The Freedom Egypt Party, founded by Egyptian political scientist Amr Hamzawy, provides more detailed recommendations than other parties. It also takes a clear position on the minimum wage, arguing that it should be related directly to the level of labor productivity and the local cost of living.

Additionally, any policy on the minimum wage should be flexible and corrected according to inflation rates and current economic conditions. The party's goal is thus to present economic and institutional reforms as an integral part of the market economy while maintaining a balance between economic and social interests in order to ensure fair and comprehensive growth.

Islamist Parties

Among the newly established Islamist parties is the Justice and Development Party, which is associated with the Muslim Brotherhood. Its economic agenda is basically private sector friendly, as it encourages private domestic and foreign investment as well as respect for private property.²⁷ However, there are gray areas in the party's stance on the role of the state and its limits. Moreover, the party adopts the slogan of social justice without clearly articulating policies to achieve this goal and has not outlined how it is going to secure the financial resources to fund its investment initiatives.

The al-Nour Party represents the Salafist trend in Egypt.²⁸ It has published an economic program that purports to be founded on the basis of Islamic sharia. This program advocates public spending targeting infrastructure and human capital through funding from *zakat* (Islamic tithe). The al-Nour Party's economic agenda also stipulates that at least 4 percent of Egypt's GDP has to be spent on research and development and emphasizes the importance of having Arab and Islamic regional economic blocks to increase the intra-Arab trade.

The al-Nour Party is generally business friendly, but it refuses to accept traditional commercial bank operations, which include interest. The party claims interest is against sharia and hence should be replaced by Islamic finance.

Beyond these prescriptions, the al-Nour Party's economic agenda does not provide an integrated vision for how the Egyptian economy should address the complex challenges it faces, nor does it propose clear and practical policy alternatives to overcome immediate challenges, such as poverty, unemployment, and low productivity.

Leftist Parties

A number of parties founded after the revolution are leftist in orientation and are, to at least some extent, less friendly to the private sector agenda. The Socialist Popular Alliance incorporates a number of these leftist groups, most notably the al-Tagammu Party. The alliance is committed to a social welfare state with free healthcare and education. Its economic program calls for the end of privatization initiatives. Furthermore, it demands the restructuring of social safety nets so that social spending can target the poor instead of subsidizing commodities that are consumed by all consumers irrespective of their income level.

The al-Karama Party was founded by Hamdeen Sabahi, a former parliamentary representative who sees himself as a socialist, following in the footsteps of Gamal Abdel Nasser. Sabahi was one of the candidates for the 2011 presidential elections and came in third in the first round. His party emphasizes the developmental role of the state and advocates government control of the means of production. These policies are viewed with hostility by much of the big business community, which regards Sabahi's party as advocating the nationalization of big business.

The al-Karama Party also insists that Egypt should accept foreign loans from the IMF or the World Bank only if they involve technology transfer, but it embraces borrowing from Arab states and advocates Arab economic integration.

Bridging the Confidence Gap Between Government and Business

The current government has been trying to reassure the corporate private sector of its economic reliability by taking steps to restart economic growth and reduce policy uncertainty. For example, it has continued to try to move forward with the IMF on the crucial loan agreement, so far without success, and has moved to facilitate private-public partnerships.

However, poor transparency on important issues—such as the removal of subsidies and IMF loan conditions as well as the lack of a well-defined economic vision and clear policy regarding those businesses that profited unfairly from the Mubarak system—threatens to undermine the positive message the government is trying to convey. One has to keep in mind that the Brotherhood movement is trying to avoid articulating a clear pro-market and pro-business position. It fears that doing so might antagonize its electoral base, which is composed mainly of poor and middle-class groups, mostly in rural areas, that have negative perceptions of the private sector.

The IMF Loan

As of this writing, Egypt's government and the IMF had made considerable progress toward approaching agreement on a \$4.8 billion loan. Still, the two sides have not yet reached a deal. If the loan were to go through, it could encourage other sources of funding and capital inflow into the country. Former finance minister Samir Radwan projects that this inflow would help increase the level of domestic investment from the current low of 15 percent of GDP to around 25 percent. The difference is equivalent to nearly \$10 billion annually.²⁹

The debate surrounding the IMF loan reflects the divergence of views concerning Egypt's economic future more generally. Some observers and political

The debate surrounding the IMF loan reflects the divergence of views concerning Egypt's economic future.

activists believe that approval of the loan would signal to investors that the fundamentals of Egypt's economic policies will remain steady, boosting confidence. Other political groups are more concerned with the negative implications of appearing to perpetuate the economic policies of the Mubarak era.

Some have gone even further, accusing the ruling Freedom and Justice Party of succumbing to IMF conditionality and abandoning its core constituency in favor of the business community.³⁰ This debate shows the ways in which politics takes primacy over serious economic issues in Egypt, a fact that has been reflected in the decisionmaking process and delayed serious reforms in areas such as social spending, subsidies, and the public sector, which constitute more than 70 percent of the government's budget.

Coordination With the Private Sector

The Egyptian president has been trying to reach out to the corporate business community.³¹ Indeed, President Morsi has formed a committee to liaise between his office and representatives of the corporate private sector. The committee includes investors from traditional private sector institutions and members of the Egyptian Business Development Association. According to Hassan Malek, the committee's spokesperson, it is intended to develop policy ideas that would jump-start the economy and to plan for the future by undertaking strategic studies for long-term economic development.

Part of Morsi's plan is to encourage the Egyptian private sector to look abroad. During his recent visit to China and Turkey, Morsi was accompanied by a group of corporate businesspeople interested in establishing and exploring business opportunities in these countries.³² This development was viewed positively by the business community and negatively by some opposition groups and small and medium enterprises that accused the president of favoring the big business community over other stakeholders. These complaints were exacerbated by the lack of transparency concerning how the businesspeople who accompanied the president were selected.³³

Some corporate businesspeople have expressed dissatisfaction with the views on the economy that Morsi presented during these visits. They argue that the president sugarcoated the business environment in Egypt, glossing over the red tape, corruption, and opacity that still exist, not to mention the ongoing unpredictability and insecurity. As a result, they argue that he is naïve to expect foreign direct investment to improve, regardless of his goodwill tour. Before appealing to the outside world, these businesspeople would like to see the government working to improve the business environment in Egypt and creating conditions that would incentivize the Egyptian private sector to inject money into the Egyptian economy.

The Freedom and Justice Party does not share this perspective, instead arguing that uncertainty has been reduced by the dismissal of the Supreme Council of the Armed Forces and the election of Morsi. The ruling party

claims that these measures have ended the duality that plagued decisionmaking in the aftermath of the revolution, and the increase in political predictability has in turn yielded positive economic effects, such as the Egyptian stock market's gain of over 20 percent between June and December 2012.

However, recent economic performance has shown that uncertainty is still high. Furthermore, Egyptians' confidence is deteriorating with the depreciation of the Egyptian pound and downgrading of the country's credit rating.

Promoting Private-Public Partnerships

Postrevolution governments have been trying to explore new schemes through which they can involve the private sector in providing public goods, such as infrastructure. These projects are based on a private-public partnerships law that was approved during the Mubarak era in 2010.³⁴

The current government, headed by Qandil, has proposed that the private sector invest in infrastructure for utilities, such as electricity and water. For example, the government has encouraged private investment in power generation to compensate for a deficit that has resulted in regular electricity cuts during peak periods. Private plants participating in this project could sell electricity directly to consumers using the national grid for a reasonable fee.

Egypt has also amended the laws governing private-public partnerships to allow disputes to be resolved through arbitration rather than the Egyptian court system. This reduced some current negative incentives for investors by amending the arbitration laws to guarantee shared executive powers and create more efficient arbitral proceedings. These amendments also closed a few loopholes that have materialized over the years and encouraged more transparency in the appraisal of the arbitrators' fees. They also reassured investors that nationalization of key industries—a measure that enjoys support from several political parties—is not an option the government would pursue.

The private-public partnerships law was meant to replace another system of private-public partnerships in which the private sector established and operated some infrastructure projects that, after an agreed-upon period of time, were transferred to the government. This system, known as BOT (Build, Operate, and Transfer) or BOOT (Build, Own, Operate, and Transfer), was widely adopted in Egyptian infrastructure projects during the 1990s. Interviews with business leaders have revealed that the private sector needs clear legal terms on which to base a transparent process to conduct some of the needed private-public partnership projects.

Financing Small and Medium Enterprises

Successive Egyptian governments have long promised to fund small and medium enterprises.³⁵ In March 2011, then prime minister Essam Sharaf announced through his minister of finance, Samir Radwan, that Le Caire

Banque (one of four public banks facing financial difficulties that was acquired by Bank Misr) would be devoted to small and medium enterprises. That project failed to materialize. In October 2012, the National Bank of Egypt announced that it expected to establish the country's first bank specializing in loans to small and medium enterprises. However, the bank's development plan has yet to be clarified.

Egypt could see its first bank specializing in loans for small and medium enterprises developing projects in Egypt within six years, according to Tariq Amer, chairperson of the National Bank of Egypt. The new bank would have access to capital amounting to \$8.3 billion and would form part of the National Bank of Egypt. This would be a huge step in the right direction, as one of the largest current obstacles to expanding small and medium enterprises is the lack of available financing. While there are several funds currently operating in Egypt providing loans to these organizations, there continue to be shortages in funding for new startups.

High collateral requirements with a prejudice in favor of real estate and a tendency to disproportionately award loans in greater Cairo—and neglect small and medium enterprises in the rest of the country—also hinder access to financing.

The Private Sector Response

The corporate private sector's response to attempts by successive postrevolution governments to incentivize it, measured in terms of new investment or new initiatives, has so far been weak. There is still a high degree of skepticism among large private enterprises, which appear content to “wait and see” for the time being.³⁶ Contradictory signals on the government side have muted the private sector's enthusiasm.

According to data published by the Ministry of Economic Development, private investment dropped from \$35.8 billion in 2008–2009 to \$18.3 billion in 2011–2012. Of all investment in 2011–2012, 28.8 percent (\$5.29 billion) was directed toward crude oil, mining, and natural gas; 26.3 percent (\$4.83 billion) toward housing and real estate; and 18.9 percent (\$3.46 billion) toward transport and communications (including the Suez Canal). There was noticeably limited investment from the private sector directed toward financial services, insurance, and social welfare.³⁷

As far as foreign direct investment is concerned, the picture is even worse. Figures from the last five years reveal that such investment reached \$2.2 billion in 2007–2008, with inflows amounting to \$2.9 billion and outflows of only \$747 million. In 2011–2012, inflows dropped to \$1.5 billion and outflows increased to \$1.2 billion. This means net foreign direct investment amounted to only \$359 million, its lowest level in the last six years.

These figures suggest that international investors are still very wary of investing in the Egyptian market. Nevertheless, some players are indicating a serious long-term interest. Recently, the Qatar Investment Agency announced that it is planning to invest about \$18 billion in Egypt, and Qatar also announced its interest in taking a stake in a new \$9 billion joint-venture port on the Mediterranean Sea near the northern entrance to the Suez Canal.

There are five key reasons behind the domestic and international private sector's skepticism and reluctance to invest in Egypt. The first is the overall management of the economy, with the government appearing complacent about a growing budget deficit while the economy slows down. The current budget deficits, estimated at 10 percent of GDP, threaten the stability of the economy and narrow the policy options available to the government. Moreover, the business community perceives some government measures—such as welcoming foreign investors and borrowing money from abroad—as cosmetic, skirting the core issues of low productivity and high transaction costs associated with doing business in Egypt.³⁸

The second factor contributing to the private sector's timidity is the lack of clear guidelines for the public sector involvement. There are several gray areas that leave much to the discretion of policymakers. While concepts such as social justice seem appealing, translating these goals into actual policies has proven to be very difficult. For example, the Muslim Brotherhood's Renaissance Project offers no indication of how it plans to achieve its ambitious goals—including lowering unemployment, promoting economic and social justice, improving living standards, and supporting small and medium enterprises and the agricultural sector—at a time when the economy is in distress.³⁹

The third factor is related to the “hidden economy”—that is, the part of the economy owned by the military.⁴⁰ It is estimated that between 20 and 40 percent of the national economy is controlled by the army. The broad margin given to this estimate reflects the dearth of knowledge and lack of transparency surrounding the issue. As it stands now, military firms enjoy favorable tax treatment and are subsidized through the financial assistance they receive from the government defense budget.

In order to encourage more private sector investment, a clear demarcation between the army's area of control and that of the private sector must be made, especially in the agricultural and agro-industry sectors, where the army owns many factories and facilities and enjoys an unfair competitive advantage due to direct and hidden subsidies. Disclosing this information would reflect positively on any new government's commitment to transparency and indicate to what extent it is willing to level the playing field for investors.

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Alternatively, should it choose to hide behind the slogan of “national security,” the government would indicate that a large segment of the private sector will have to focus only on “safe sectors,” such as construction or services provision, and avoid investment that risks conflict with the army. The existence of this hidden economy raises doubts about the credibility of rule of law in Egypt. Unfortunately, According to Carnegie Middle East senior associate Yezid Sayigh, the new constitution passed in 2012 has granted the military even more immunity from public disclosure than before.⁴¹

The fourth factor is the rising cost of collective action. For example, Egypt Air stewards and hostesses went on a twelve-hour strike on September 7, 2012, to demand better working conditions. The strike cost the company about \$1 million. Schoolteachers have been on strike since September 9, 2012, the first day of the new school year, demanding the application of a minimum wage of \$500 per month. On September 15, 2012, university workers and bus drivers announced a strike demanding better working conditions.

These actions make domestic and international investors nervous because they destabilize the domestic economic situation. The private sector has not been able to engage with labor movements in order to reduce the number of strikes or to mitigate their adverse financial implications. There is no law to regulate collective action, and as such it is sporadic and out of control. Some business leaders insist that such laws should be introduced in order for collective action to be orderly and legal.

Finally, dynamics within Egypt’s private sector, such as the rising competition between various business groups and the weak trust between private sector leaders, contribute to the business community’s reticence to invest in the Egyptian market. This is especially the case with new business groups affiliated with the Muslim Brotherhood and the extent to which they are likely to influence the policymaking process. Suspicions regarding the close ties between these business groups and the government are reinforced by the fact that the president’s liaison with the private sector is Hassan Malek, who belongs to the Freedom and Justice Party. Khairat el-Shater, the Muslim Brotherhood’s presidential candidate before his disqualification in 2012, is meeting international investors from China and Turkey in his personal capacity. However, it is well established that he is influential in decisionmaking circles.

Many investors fear that the newly created private sector associations are replicating those of the Mubarak regime, with coalitions being forged between the new political elites and the emerging business community. This would result in new institutional arrangements and risk potential conflict between these new organizations and the traditional institutions that represent the old guard of the Egyptian private sector.

A Way Forward

The concerns of the private sector must be addressed in order to restore growth in the Egyptian economy. There are three main actors that must be involved in the process of restoring growth. The first is the private sector itself, followed by the government, and finally, civil society organizations and political activists. Each stakeholder can play a role in the process of building trust among the three.

Private Sector

The private sector needs to develop and present to the government and society in general a viable and concerted economic vision. It should provide realistic policy recommendations for achieving market-driven and sustainable growth while increasing employment and social justice. It has not developed a communication strategy to defend its position and clarify what it stands for—or to convincingly distinguish between its corporate interests and the Egyptian national interest. For example, private sector institutions need to develop a new convention that sets out their vision for social justice, taxes, competition, the environment, working conditions, minimum wage, regional disparity, and how to overcome the multiple challenges currently facing Egypt.

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Until now, the private sector has been on the defensive and failed to convey a positive message regarding what it intends to do. It has failed to draft such a convention because the private sector comprises a variety of competing groups that lack a united, coherent vision. There is also a need to launch a private sector dialogue in an open environment that highlights the commonalities among the sector's many elements.

Various boards of business organizations need to encourage new and young entrepreneurs to join the existing structure. New generations of the business community, especially those of a medium scale, must be given the chance to present their views through existing private sector institutions.

In addition, the private sector should expand its efforts to include small and medium enterprises and to reach out to other stakeholders, such as labor unions. Increasing the number of links between larger corporations and small and medium enterprises would help improve the image of the private sector by indicating that the private sector was no longer limited to the few large corporations that supposedly collude against consumers.

Next, until the new bank for small and medium enterprises is established, the banking sector should develop credit schemes that would encourage startups and facilitate the extension of credit to successful micro-, small, and medium enterprises. Such a crucial responsibility cannot be left in the hands of the government alone.

In Egypt, private deposits in banks are on the rise, but the primary beneficiary of lending is still the public sector through treasury bills. An adverse problem of selection seems to be in play, with deposits—including private ones—mostly channeled to the public sector. This sector, in general, offers better risk assessment, repayment guarantees, and possibilities for monitoring.

Indeed, this is an area where the private sector can contribute significantly to encouraging the “culture of banking” in Egypt. Overall, the banking sector and capital market in Egypt are not developed. Only 10 percent of Egyptians have a bank account. Nearly 90 percent prefer the cash economy, making its size difficult to estimate. Less than 20 percent of Egyptian firms have access to credit.⁴² This makes it difficult for private banks to extend credit, given that such enterprises cannot use their business model as collateral. This is an area that has been neglected by most political parties, despite its crucial importance. The interest margin that measures the difference between rates of lending and deposits is very high in Egypt, reflecting a market failure that necessitates some form of intervention by the government in order to address the deficit in the credit market.

The private sector needs to engage positively in politics in order to promote certain values consonant with whatever convention it proposes. It should approach key political figures and present its vision if it is to succeed in influencing the debate during this transitional period. Positive engagement should be based on the comparative advantage possessed by each sector. This would encourage the state to adopt an industrial policy that would enhance successful and competitive firms.⁴³

Traditional means of lobbying officials will no longer serve the interests of the private sector. This is why some new parties, such as Naguib Sawiris’s Free Egyptians Party, have a more clearly defined economic agenda. In contrast, most other newly founded political parties have not adopted an articulate economic vision that can appeal to a wide audience, including youth activists and labor unions. For example, establishing some independent think tanks to promote a fact-based debate is essential at this stage.

The private sector should embark on corporate social responsibility initiatives that address the problems apparent in areas such as garbage collection and public transportation. This would contribute to improving the image of the private sector in the eyes of ordinary Egyptians.

Government

The government’s top priorities should be to restore confidence, manage expectations, and reduce policy uncertainty. It must reduce policy uncertainty and minimize its intervention in the credit market. While it has taken some steps in the right direction, there are still areas where bold action is necessary. Chief among these is overall economic management, including responsible reduction of the fiscal deficit.

The government needs to start reforming public sector institutions that deal with investors. Sound economic management will require reforming and strengthening the institutions responsible for regulating markets, such as the competition directorate and the audit and anticorruption departments. This step is important to reducing formal and informal barriers to trade and would send the right signals to investors as well as the public at large. Another issue is the role of civil servants who interact with the private sector and the structure of their incentives. Incentives should be designed such that civil servants' career paths will depend on their success in promoting private enterprise within a framework of clear policies and good governance. This kind of incentive structure is necessary to improve the attitude of Egyptian civil servants toward the private sector.

To reassure investors and entrepreneurs, the government should reduce discretionary practices in the implementation of policies. Postrevolution governments have an opportunity to send the right signals and avoid the practices of the Mubarak regime, which were based on favoritism and diminished the importance of competition and creativity. In particular, it is extremely important that competition law be enforced through building institutional capacities and raising awareness.

Reforming and streamlining the bureaucracy responsible for supervising small and medium enterprises would also go a long way to increase investor confidence. There are at least five government institutions involved in this oversight process. In order to avoid overlapping and inconsistency, an interministerial coordinating body should be put in place under the authority of a high-level government office. It could function like a committee, chaired by the prime minister and with a focus on small and medium enterprises.

The government should adopt a proactive policy for information disclosure to restore confidence with the private sector and the public at large. For example, Egypt's supreme audit authority does not release its reports to the public. The budget and audit accounts of state authorities, public entities, and special funds are, for the most part, not published. Increasing transparency would boost the government's credibility and present a favorable contrast to the practices of the old regime.

Promoting decentralization will empower local communities and aid developing strategies to reach targeted and disadvantaged groups and areas. Moving away from highly centralized structures of governance, giving greater responsibilities to local authorities, and engaging the private sector in community building and public services will help accomplish these goals. A scorecard developed by some private sector stakeholders at the community level could be used and attached to the implementation of new projects. This would mark

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a new form of governance and could be applied to both private corporate social responsibility and public works projects as part of the inclusive, well-governed programs to be introduced. In the medium term, the private sector

can assist in reducing energy and infrastructure problems by taking the initiative for some of the government's proposed projects, according to clear private-public partnerships arrangements.

The government should immediately amend the labor code to accommodate collective action and social dialogue. This would institutionalize public protests and reduce their cost to the government and society. Moreover,

the government should end its role in existing private sector organizations and allow them to elect their own members and leaders rather than relying on government appointments and funding.

Lastly, the government must help the population make crucial distinctions between predatory business leaders who profited from widespread Mubarak-era corruption and the rest of the private sector. This can be achieved by launching a credible transitional justice process that takes economic crime into account.

Civil Society and Other Actors

Other actors, primarily civil society and nongovernmental organizations, tend to focus on socioeconomic issues. The primary goal of these organizations within the new Egyptian economy would be to facilitate an informed debate by providing reliable data on the economic challenges facing Egypt.

Although it will be difficult to reach consensus among the numerous organizations working in this field, they should be able to agree on a number of parameters to measure government performance. For example, the Morsi Meter is an initiative that was launched to measure the president's performance in the eyes of the Egyptian people throughout his first one hundred days in office.⁴⁴ The initiative polls Egyptian citizens, asking them how they evaluate the president's performance regarding some of the pledges he made during his election campaign.

Similar efforts to measure the degree to which the private sector adheres to good governance and environmental standards can be introduced, although caution must be exercised to avoid their misuse by some political parties. The risk could be mitigated by clearly selecting a set of parameters to be monitored in a transparent manner, thus limiting arbitrary forms of measurement.

Civil society organizations can promote informed dialogue by examining the economic agenda of political parties and providing the public with a summary of the main points covered, as well as key omissions. The summaries could focus on issues like subsidies, competition, poverty, and regional disparity.

These organizations can also help facilitate communication among local communities—especially in rural and poor areas—and the private sector on the needs that could be addressed by corporate social responsibility initiatives. In particular, initiatives targeting areas suffering from bottlenecks in education, water, and electricity provision would have an immediate impact and contribute to improving the private sector's image. Civil society should also emphasize the importance of empowering Egyptian consumers by, for example, encouraging the formation of consumer associations and raising awareness of standards and specifications. Firms in the private sector may find it in their interest to support such organizations, which would reassure the public about their willingness to adhere to competitive standards of practice.

There are other areas in which civil society organizations could help foster public discussion. For example, the findings of organizations such as the Egyptian Center for Economic and Social Rights, which documents labor protests in Egypt and provides some controversial perspectives on adopted policies,⁴⁵ should be the subject of a debate. So far, little effort has been made in this regard.

In the long run, partnerships between the public and the private sectors are needed to profoundly change the educational and training systems. In this context, the training fund mentioned in a 2003 labor law should be revised to set up an autonomous institution in charge of skill formation in the country as a whole, with the participation of the private sector. The prevailing wage structure should also be thoroughly overhauled. A clearer definition of occupations and linkages between wages and productivity should replace the present chaos of the wage policy.

Civil society organizations can work to press multinational companies to adhere to basic standards of labor rights. Many of these corporations with branches in Egypt have their head offices in European states, where they are bound to social responsibility standards such as the Organization for Economic Cooperation and Development guidelines on corporate social responsibility. These multinational corporations should also adhere to these international standards for the protection of labor rights in their dependencies abroad. In this way, they would set a good example for their Egyptian counterparts.⁴⁶

The stakes are high in this process. Progress on the political front is increasingly unlikely if the economic situation in Egypt continues to deteriorate. The private sector has an especially important role to play in averting such a crisis, but good will and active engagement are required on the part of all stakeholders. The failure to reach a national consensus on how to proceed in the economic arena will seriously undermine Egypt's fledgling democracy—a development that will only benefit the forces of extremism.

Notes

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