

# AFRICAN DEVELOPMENT BANK



## EGYPT

### COUNTRY GOVERNANCE PROFILE

REGIONAL DEPARTMENT – NORTH 1  
(ORNA)  
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## ACRONYMS AND ABBREVIATIONS

ANIMA	Euro-Mediterranean Network of Investment Promotion Agency
BRU	Banking Reform Unit
BSCI	Business Competitiveness Index
CAO	Central Auditing Organisation
CAPMAS	Central Agency for Public Mobilisation and Statistics
CASE	Cairo and Alexandria Stock Exchange
CBE	Central Bank of Egypt
CEDAW	Convention on the Elimination of all forms of Discrimination against Women
CIPE	Centre for International Private Enterprises
CMA	Capital Market Authority
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil Society Organisation
ECA	Economic Commission for Africa
ECB	European Central Bank
EIoD	Egyptian Institute of Directors
EMFTA	Euro-Mediterranean Free Trade Area
ESA	Employee Shareholder Association
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSF	Financial Stability Forum
G77	Group of 77
GAFI	General Authority for Investment and Free Zones
GAFTA	Greater Arab Free Trade Area
GATS	General Agreement on Trade in Service
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GFS	Government Finance Statistics
GFMIS	Government Financial Management Information System
GNI	Gross National Income
GOE	Government of Egypt
GRCI	Growth Competitiveness Index Ranking
GST	General Sales Tax
IAS	International Accounting Standards
ICT	Information and Computer Technology
IF	Cost/benefit to voting
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPO	Initial Public Offering
MCTC	Model Customs and Tax Centre
MEDA-Euro	Mediterranean Partnership Programme
MENA	Middle East North Africa
MIGA	Multilateral Investment Guarantee Agency
MOF	Ministry of Finance

MOP	Ministry of Investment
MP	Member of Parliament
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
NCHR	National Council for Human Rights
NCW	National Council for Women
NDP	National Democratic Party
NGO	Non-Government Organisation
NIB	National Investment Bank
NSGB	National Societe Generale Bank
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PBB	Performance Based Budgeting
PER	Public Expenditure Review
PFP	Public Funds Prosecution
RMC	Regional Member Countries
ROSC	Report on the Observance of Standards and Codes
SCJ	Supreme Council of Judges
SDDS	Special Data Dissemination Standards
SEZ	Special Economic Zone
SFD	Social Fund for Development
SME	Small and Medium Enterprises
TIFA	Trade and Investment Framework Agreement
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organisation

### **CURRENCY EQUIVALENTS**

**(March 2007)**

US\$ 1	=	EGP 5.6903
UA 1	=	US\$ 1.50472
UA 1	=	EGP 8.48149

### **FISCAL YEAR**

**(July 1 - June 30)**

## **EXECUTIVE SUMMARY**

### **I. INTRODUCTION**

1.1 The African Development Bank adopted a good governance policy with an aim to provide support and interventions that promote good governance in the Regional Member Countries (RMCs). The Bank believes that good governance is a necessary condition for the success of the Bank's core interventions to promote economic and social development in RMCs. The Bank Group's strategic plan for the period 2003-2007 also emphasizes the promotion of good governance in RMCs as one of the important building blocks of the poverty reduction programme. Governance embraces the affairs of government and role of private sector and civil society in national development. The basic elements of governance comprise accountability, participation, and transparency.

1.2 This is the first Country Governance Profile (CGP) prepared by the Bank for Egypt. The CGP provides an analytical background of the governance arrangements in Egypt and will serve as a key tool for dialogue with the government. The report highlights the potential areas for Bank's interventions to support governance improvements efforts. The CGP for Egypt was prepared in a participatory manner following a mission undertaken by the Bank in October 2005 during which discussions were held with government officials, the private sector, the civil society and other major stakeholders on key governance issues in the country. The findings of the study were validated with country stakeholders in August 2006.

### **II. THE GOVERNANCE AGENDA IN EGYPT**

#### **2.1 Accountability**

2.1.1 Egypt has taken a number of reform initiatives in improving the political, legal, economic, and financial accountability by enacting a number of laws and by undertaking institutional reforms. In the area of political accountability, amendment was made to the Egyptian Constitution that gave political parties the right to field candidates to directly contest presidential elections and the people to vote directly for the candidates contesting for the presidency, rather than have the candidates first vetted by parliament; and there was independent supervision of parliamentary elections that allowed more openness, increased demands for, and greater accountability by government officials and functionaries regarding the conduct of the affairs of the State, and the policies and programmes of the government. As a consequence of these significant strides, there is gradually emerging a new political culture in Egypt where political accountability is being accorded increasing prominence. The challenge for the government now is to continue the progress made towards greater political accountability and openness, amend those laws (the emergency law, the penal law, the non-government organization law, etc.) which are viewed as inconsistent with the government's initiatives for greater political accountability, and continue to give the people the opportunity to evaluate its conduct and make informed judgment on the direction of the government and the programmes it should be pursuing.

2.1.2 In the areas of economic and financial accountability, good progress continues to be made in improving the budgetary process and in structural reform initiatives aimed at transforming Egypt's economy into a private sector led economy to achieve the goals of reduced unemployment and poverty reduction. However, the government needs to take further action to improve its financial accountability by strengthening its budgetary institutions. The mandate of the Planning and Budget

Committee of the Peoples Assembly should be strengthened and the application of the pilot programme of the Performance Based Budgeting (PBB) started in health and education, water, and transport sectors should be widened to other areas. The government should also consider implementing the Medium Term Expenditure Framework (MTEF) that has been effectively used for improving budgetary accountability in other countries. Egypt's privatisation programme has been re-invigorated. However, a comprehensive system of corporate governance would be necessary for improved internal controls and governance to ensure that the economic gains from the privatisation programme indeed translate into improved economic conditions. The government should adopt the proposed corporate governance code and empower concerned institutions in ensuring that the code is adhered to. Further improvements are needed in governance of the financial and capital markets to ensure that public money is invested appropriately. Also related to this is the challenge of improving the standard of accounting education and the auditing profession. Efforts are being made by the Accounting Association to associate with international bodies such as the ACCA.

2.1.3 In its continuing efforts to reduce poverty amongst Egyptians, stated in 2004 to be close to 20%, the government has undertaken a number of programmes to increase access to education, combat illiteracy, reduce the gender gap in employment and education, and protect the vulnerable section of the population through social assistance programme that include cash transfers, food subsidies, and a Social Fund for Development. However, the benefits of the social assistance programme, intended for the poor, have not accrued to the greater number of people in the poverty category because the programmes have been limited in geographical coverage and ineffective targeting of those in the poverty category. There is need to rationalise subsidies to ensure that they are targeting those in need. Further, the government needs to ensure that the compulsory education law is enforced and that substantial portion of the Social Fund for Development is used for small and mini micro projects which are adequately coordinated and managed.

2.1.4 In addition, despite the government's commitment to reforms, Egypt still faces a number of challenges. One notable challenge relates to the scarcity of skilled human resources in the public sector. The public sector deficiency is traced primarily to the government past policy of guaranteed employment to every university graduate without regard to competence, merit, skills, and relevance to the needs of the developing Egyptian society. This resulted in a very large public bureaucracy. In addition, uncompetitive salary structure and time based promotion in the public sector have been demotivating. Although a mixture of talented people continue to be appointed to key cabinet and sub-cabinet positions and the government has designed and is implementing plans to improve the skills, performance and efficiency of the civil service, the service needs substantial trimming down and a much needed boost to cure the deficiencies and infuse the knowledge and skills demanded by the modernisation process that Egypt has embarked on.

2.1.5 The Egyptian judiciary continues to exhibit high levels of improvement in both competence and the exercise of judicial independence. However, it still faces a number of challenges. The emergency status<sup>1</sup> and the existence of exceptional courts<sup>2</sup> without the normal judicial framework continue to affect the jurisdiction of the judicial courts. The Ministry of Justice still retains authority to intervene in matters relating to the discipline of judges, to supervise the finances and budget of the courts, and to make assignment of judges to certain

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<sup>1</sup> There is a committee to draft Anti-terrorist/comprehensive Act hence the emergency status was extended by 2 years.

<sup>2</sup> Security courts which are assigned by the emergency status (they include two military officers)

courts. In addition, the courts continue to experience a shortage of adequately trained staff, and lack the appropriate equipment to speed up the disposition of cases. The challenges for the government include: (i) training more judges to operate the courts; and (ii) allowing competent females to membership of the Bench as a principle to ease workload of the courts. Legislation granting greater flexibility to public prosecutors to settle minor criminal matters by plea bargaining or other agreements with defendants, in which the defendants would confess guilt in return for fines rather than imprisonment, and thus avoid full, expensive, and time-consuming court litigation could also be considered. Recent declarations by the Egyptian authorities aim to establish permanently special/economic courts and confirm the will to reform the judicial system.

2.1.6 Egypt continues to improve its human rights record. Both the Ministries of Justice and Foreign Affairs have human rights divisions in order to encourage adherence to human rights principles. The People's Assembly also has a human rights committee with a view to monitoring the government's compliance with its human rights obligations. Furthermore, the creation of the National Council for Women (with an Ombudsman Office) and the National Council for Human Rights (NCHR) are commendable. Also worthy of commendation is the prosecution of security personnel who had abused and mistreated prisoners. The challenge for Egypt is to continue to address reports of human rights abuses and to build on progress made in promoting and ensuring adherence to human rights principles. In this connection, the government is encouraged to design a national human rights strategy that all public personnel can adhere to and which can be enforced.

## **2.2 Transparency**

2.2.1 Significant progress has been made in public access to information about government's activities, budgets, and the economy. However, this needs to improve significantly in terms of quality and timeliness of information to the public. While Egypt has made good progress in reforming the income tax and customs tariff, there is still scope in promoting more transparency. The establishment of the Model Customs and Tax Centre (MCTC) and the introduction of computerised self assessment of income tax are welcome steps. However these should be followed up by a more aggressive public awareness campaign.

2.2.2 Further, the current decentralised system of procurement exposes itself to the possibility of bureaucracy and malpractices partly due to discriminatory access to bidding opportunities and information. The procurement system therefore needs to be further strengthened to improve transparency. The transparency in the management of the public sector has improved as a consequence of the adoption of a series of measures that have included the creation of e-government and the "one-stop-shop" units to render service to the public. The government is revising the public service law similar to the labour law governing the private sector to make the work place more flexible, provide a new salary structure based on competence and area of qualification, initiate new retirement schemes, grant incentives for excellence and productivity, while at the same time ensuring greater adherence to performance, incentives and discipline.

2.2.3 Egypt has a number of public agencies dealing with issues of corruption. All the agencies report to the Department of Public Prosecution which is affiliated to the Attorney General's office. The Penal Code contains substantial anti-corruption articles Egypt is one of the countries that has ratified the UN Convention on Anti-corruption.

## **2.3 Stakeholders Participation**

2.3.1 Stakeholders participation remains crucial to Egypt's development. Currently, the country is divided into 26 governorates or provinces, headed by governors appointed by the president. Local councils are elected to assist the governors in carrying out their functions. However, the government is highly centralised and the local communities are not fully involved in determining the programmes and projects in their respective areas. Projects and budgets are determined by the central government and executed at the local levels. This has left local communities without the feeling of ownership of the projects and programmes. Hence, there is a need for decentralisation of decision making, services and resources so that the local people, through their councils and public meeting are fully involved in designing and implementing projects affecting their communities.

2.3.2 Egypt has signed several multilateral and bilateral agreements with a number of regional countries to promote trade and investment. Egypt is also participating in the trade liberalisation programme with countries outside Africa. She should continue to work on removing the export related hurdles to be able to take full advantage of market access it has gained through bilateral and multilateral treaties. For this purpose, the government should encourage participation of the stakeholders, particularly the private sector. There are signs of progress in this matter and General Authority for Investment and Free Zones (GAFI) has started a consultation programme with the investment forums on a regular basis.

2.3.3 Participation of women in politics and policy making is improving but is still less than satisfactory. The government needs to intensify its efforts in achieving gender equality. Non-governmental organisations such as Women in Law and the Centre for Empowerment of Women should be supported in their efforts of encouraging more women to enter politics and participate in policy decisions. The government should make conscious efforts to appoint more women as judges and state prosecutors. This would require strengthening the implementation mechanisms of the penalties prescribed by laws on gender discrimination.

## **III. SCOPE FOR ASSISTANCE BY THE BANK GROUP AND OTHER DEVELOPMENT PARTNERS**

3.1 Several potential areas have emerged where the Bank could intervene in partnership with the government in its governance improvement efforts. The government plans to reform and modernise its civil service so that it is well equipped to facilitate the implementation of the government's modernisation initiatives.

- (i) There is need for provision of expert advice for development of a suitable strategy for reforming the civil service and develop capacity building activities based on best practices. In this regard, the Government could be supported in the establishment of a National Institute of Human Resource Management and Development that would provide advice on how to implement meritocratic incentives and performance management regime. It would also be responsible for providing training programmes on a more sustained basis;
- (ii) There are many areas of revenue administration in which further improvement is required. The two key areas are administration of the new self assessment income tax system and property taxation;

- (iii) Decentralisation of resources and public services is one of the key government's agenda. The government would need help in development and management of a comprehensive decentralisation strategy, an area in which the Bank would be able to help;
- (iv) It is clear from the government's agenda that it is keen to expand and develop its infrastructure in key areas of housing, road, transport, water, and electricity. This would require a transparent and comprehensive procurement system as embodied in Law 89/1998 which was amended on 11 July 2006;
- (v) The Bank could also collaborate with Egypt in strengthening the public financial management, supervision of banks by the CBE, risk management, and pension fund reforms by providing capacity building measures; and
- (vi) Egypt has a large number of statutory laws, some of which maybe overlapping. Moreover, the practice of issuing presidential and ministerial decrees, which also have legal effect, has exacerbated the disharmony in and overlapping of many of the laws. Thus, there is a need to support the ongoing review of the existing legal framework.
- (vii) The Bank could also support the National Council for Women in implementing its women empowerment programme which aims at sensitising women of their rights for greater participation in the social and economic development.

3.2 The envisaged support in the area of governance would consist of both lending and grant financed activities. The Middle Income Countries (MIC) Trust Fund could be utilised in supporting institutional reforms and capacity building.

#### **IV. CONCLUSION AND RECOMMENDATION**

Egypt has implemented a number of reforms that have positively impacted on good governance. However, there is still room for improvement. It is therefore recommended that the Bank Group should extend its support and assist Egypt in its ongoing legal and institutional reforms that aim to enhance accountability, transparency, and participation for improved governance.

## **I. INTRODUCTION**

### **1.1 Background and Justification**

1.1.1 The concept of good governance is relatively new and is basically a response to the failures of the economies of countries in which massive development funds had been infused. While good economic policies may not necessarily be the result of good governance, good governance is a necessary component and prerequisite for long term, sustainable, and enduring economic success. It ensures that better decisions are made (including economic decisions), that the bases for those decisions are comprehensive and allows stakeholders participation, especially when the intent of those decisions is to overhaul a malfunctioning system. It ensures that there is transparency and accountability in both the economic and political processes and it entails respect for the rule of law and the proper operation of legal and judicial reform measures to protect the rule of law and those who are governed by the rule of law. It also minimises the incentives for corruption, and, by this and other measures of good public practice, helps to reduce the level of poverty in the society. And finally, it helps to ensure stability and long-term economic development and sustainability. These attributes were recognised by the Bank in the enunciation of the Bank's Group Policy on Good Governance, adopted in 1999.

1.1.2 The preparation of Country Governance Profiles provides the Bank with the opportunity to determine more critically the successes and failures of good governance in its regional member countries (RMCs), and to identify areas in which the Bank can make meaningful interventions.

1.1.3 The Governance Profile of Egypt highlights the key aspects of governance in the country, both as to the economic decisions and their evolving settings, and the legal (constitutional) and judicial (rule of law) frame in which those decisions are being made. It gives an analytical assessment of the background for an informed Bank strategy in support of Egypt as an RMC and provides a basis for future dialogue with core stakeholders in Egypt, including government authorities, private sector participants, civil society, NGOs, and development partners. Towards these ends, the CGP outlines the major economic and corporate governance issues in Egypt, identifies areas of strengths and weaknesses, and recommends core areas for Bank intervention.

### **1.2 Governance Arrangement in Egypt**

1.2.1 The Arab Republic of Egypt is a sovereign republic, declared by its Constitution to be a "Socialist Democratic State" with a political regime "based upon multi-party system." Its Constitution, adopted in 1971 and amended through 2005, provides the basic legal framework for its governance. Every action and every activity pursued by the government and its various institutions and constituencies, whether economic, political, social, religious or the like, are said to flow from or find justification in the provisions of that legal document, the Supreme Law of the Land. The Constitution states further that the "economic foundation" of Egypt is "the socialist democratic system based on sufficiency and justice, in a manner preventing exploitation, narrowing the gaps between incomes, protecting legitimate earnings and guaranteeing justice in the distribution of public responsibilities and expenditure"; that sovereignty is vested in the Egyptian people, and that they are entitled to the enjoyment of certain basic political, economic, social, human, and legal rights, amongst which are the following guarantees: freedom of belief, expression, press, association and peaceful assembly; the right to education, health and social security; the right to equality before the law, without discrimination as to race, sex, ethnic origin, language, and religion; the right to control the means of production, share in the national revenue, and constitute 50% of the membership of the board of directors of public enterprises; and the right to the presumption of innocence, defence counsel, fair trial, respect for human rights, and like safeguards.

1.2.2 The Constitution divides the government into three distinct independent branches: (1) The Legislative Branch (Parliament), which is divided into two chambers, People's Assembly and the Shura Council. The People's Assembly comprises 454 members, 444 of whom are elected by the people and 10 appointed by the President. The Shura Council comprises 264 members, two thirds of whom are elected by the people and one-third appointed by the President. The People's Assembly is vested with law-making powers and has accountability oversight of the Executive. (2) The Executive Branch, is headed by an Executive President who is also Head of State. The president is vested with the constitutional power to manage the public bureaucracy of the State and to appoint one or more vice presidents, a prime minister, deputy prime minister, cabinet ministers and other public functionaries responsible for the daily running of the public bureaucracy. The prime minister and the members of the cabinet constitute the Council of Ministers, which determines the policy direction of the country subject to the approval of the president. The prime minister and members of the cabinet can at their discretion contest parliamentary elections but membership of parliament is not a prerequisite for an appointment as prime minister or a member of the cabinet. (3) The Judicial Branch, comprises the various Common, Administrative, and Exceptional courts.

1.2.3 In addition to providing for an executive president, Egypt's Constitution also gives the executive parallel powers to appoint a certain number of the members of parliament and to create laws through executive decrees and regulations. The President also has the authority to appoint the judges to all the courts and to serve as chair of the Supreme Council for the Judiciary, the body that must be consulted before any laws are passed relating to the judiciary. Moreover, state prosecutors, who are under the administrative supervision of the Ministry of Justice, an agency of the Executive Branch, are considered to be members of the judiciary.

1.2.4 The Constitution also divides the country into 26 Governorates, each headed by an executive authority (a Governor) appointed by the President and subject to dismissal by him. The Governorates are divided further into districts, cities and villages. The Governors are assisted by councils elected by the local communities. However, the administration of the country is highly centralised and all policies and decisions are made by the central government and implemented through the relevant minister overseeing a particular area of authority. The Governorates and their subdivisions exercise little power, but mostly rely on central government for political direction, and administrative and budgetary support and revenue generation.

1.2.5 In July 2005 the Egyptian Constitution was amended to open the presidential election contest to multi-party participation that allowed all registered political parties that met certain stipulated conditions to field presidential candidates.

### **1.3 Good Governance and Poverty Reduction**

1.3.1 The poverty rate in Egypt in year 2004 was officially stated to be around 20%. According to official estimates, approximately 10.7 million Egyptians are poor, with a poverty gap index of 2.97%. When the upper poverty line is combined with the lower poverty line, the poverty rate rises to 42%, bringing the number of poor to almost 27 million. Surveys show the distribution of the poor to be uneven. The rural areas account for 22.1 per cent, with 34.2% or 5.8 million people in the Upper Rural Region (which is actually the South of Egypt). That region contributed the most to the nation's poverty figure (54.4%) even though its share of the population was only 26.7%. Amongst sectors, agriculture accounts for 22.1%, manufacturing 11%, and services 8%. The official unemployment rate (2005/2006) is placed at 10%, being higher for women and younger people.

1.3.2 In its continued attempt to address its poverty problem, Egypt is pursuing high economic growth, improvement in the education sector to enhance greater access of the poor to education, improvement in health facilities and medical personnel and training, and continuing key subsidy programmes. Also, in 2004, the Egyptian Government with the support of the World Bank, developed a poverty reduction strategy which identifies three key areas for attention: (1) Growth: maintains or exceed its current growth rate of 5.1% that could translate into increased earnings for its people and more employment. (2) Education: train people in market oriented skills, enhance access to and reduce costs of education, and combat illiteracy, so as to enhance chances for increased earning capacity. (3) Social Safety Nets: protect the most vulnerable of the Egyptian people through cash transfers, food subsidy, and the Social Fund for Development.

### ***Poverty Reduction Issues and Challenges***

1.3.3 The 2004 poverty strategy report is a major first step at poverty reduction in Egypt, as a part of an overall development strategy. However, in addition to the measures outlined above the Government could take a number of additional actions. These include: (i) improving the targeting of the safety net programmes so as to focus it on the poor and ensure greater geographical coverage;<sup>3</sup> (ii) ensuring that the Social Fund for Development is used to promote small and micro businesses for poor people; (iii) ensuring that adequate data and analysis are undertaken so that targeted persons qualify for government assistance, particularly in rural areas, that would translate into jobs (administrators, teachers, nurses, etc.) in those areas; (iv) ensuring enforcement of mandatory education law; (v) establishing adequate information on labour force database to inform citizens of job opportunities; (vi) training and equipping civil servants with skills in areas relevant to new public sector programmes and private sector needs; (vii) engaging the private sector more to contribute to the government's training programmes;<sup>4</sup> and (viii) increasing efforts to combat corruption and using the savings to increase the government's poverty reduction programmes.

## **II. AN ASSESSMENT OF MAJOR GOVERNANCE ISSUES IN EGYPT**

### **2.1 Accountability**

2.1.1 There are six aspects of the existing framework for accountability in Egypt that this section reviews. These are: (i) political accountability; (ii) public sector management, (iii) public finance and budget accountability, (iv) public enterprise management, (v) financial and economic sector accountability, and (vi) corporate governance.

#### **A. Political Accountability**

2.1.2 Under Egypt's system of accountability, both the president and the members of parliament must periodically seek new mandates from the people through the electoral process. In the last several years the Government of Egypt has been transforming its political system into one where there is increasingly greater political accountability. First introduced for the parliamentary elections in 2000, Egypt now ensures that its parliamentary elections are fully supervised by the judiciary. This action ensured that the process was relatively free and fair, and that it involved competitiveness in which the government had to justify to the people a political and economic record that warranted its re-election. In order to further strengthen the process of political accountability, the Government,

<sup>3</sup> Because there were errors in the management of the social net system, in many cases benefits accrued to persons who were not entitled to government assistance. In the case of the baladi bread subsidy, 66% of poor people benefited, but 75% of non-poor people also benefited; and in the case of cash transfers by Government, 85% of the people who benefited were non-poor.

<sup>4</sup> See [egyptiancabinet.gov.eg/Cabinet\\_Programme/](http://egyptiancabinet.gov.eg/Cabinet_Programme/) and the website of the Office of the Prime Minister, which outlines the various government programmes to create over one million new jobs.

in 2005, initiated an amendment to the Constitution, under which the election of the president no longer depended on the nomination of parliament. Under the amendment, every registered political party was accorded the right, conditioned on fulfilling certain prerequisites, to field candidates for the presidency by the direct election of the people. As a consequence of the open competitiveness, 11 political parties fielded candidates to contest the presidency, each being accorded the opportunity to criticize the record of the government and to demand greater openness and accountability by the government for its years in office.

2.1.3 Moreover, in addition to publishing the budget, parliamentary debates on that matter and others have been televised. The government has also continued to encourage its agencies to establish websites to inform the public of their various activities and performance. These actions engendered extensive debates in the electoral process, and, as demanded by the citizenry, enabled the government to give further account on issues relative to its conduct of the nation's affairs. More NGOs, Civil Society Organizations, professional bodies, and individuals were able to review the government's records and request information and/or explanation of the governmental affairs in all areas---political, economic, social, etc. as a basis for requesting accountability from public functionaries.

### ***Issues and Challenges in Political Accountability***

2.1.4 The actions taken and the progress made are commendable and continuation of the process is healthy for Egypt. In this regard, the challenge for the Government will be to continue to ensure that political accountability remains a core part of its agenda. It is encouraged, therefore, to review provisions of the law which could set back the progress made in the last several years, as for example, the 5% parliamentary membership requirement as a condition for a political party to field a presidential candidate. That provision was suspended for the 2005 elections.

### ***Electoral System and Accountability***

2.1.5 The indications are that Egypt is increasingly approaching democratic transformation and that competition in the electoral process has entered a new phase, being opened more to greater national political participation by opposition candidates and parties, the press, and political activists. Further, in this increasing new atmosphere of political openness, the government has shown greater tolerance of criticism from political activists, academicians, the press, and NGOs, all of whom are becoming key players in and making impressive strides in sharpening the course of public political awareness. Both the president and the prime minister promised open political transparency in the elections and other social developments, and gave assurances that Egypt's 24.7 million registered voters would have the fair opportunity of the choice of their free will. The challenge for the government is to maintain the momentum which has revitalized the political scene and reduced citizens' apathy towards the electoral process. The government also needs to continue refining the system so that complaints of electoral irregularities are minimized and greater monitoring of the elections is tolerated.

## **B. Public Sector Management**

2.1.6 The present government of Egypt, inherited a massive, overstaffed, and largely inefficient public bureaucracy regulated by over 54,000 statutes and decrees, many of which are either repetitive, overlapping, and outdated. Harmonising these statutes and reducing the size of the state bureaucracy is a major governance challenge for the government. Egypt's public service sector currently comprises 30 ministries and more than 100 general authorities, of which 44% operate in

the economic sector and 56% in the service sector. In terms of personnel numbers, the service has grown from a size of 357,299 in 1952 to over 5.7 million in 2005 (not counting the military and paramilitary forces), 2.8 million (almost 50%) of whom work in local government administration. With an unemployment rate of over 9.5% and about 700,000 new entrants to the job market each year, the government is hard pressed to continue to increase the size of the public bureaucracy. About 77% of government expenditure goes to public administration covering salaries, retributions, bonuses, and recurrent costs,<sup>5</sup> while only 22% accounted for investment expenditure to cover government buildings, maintenance, furnishing, and vehicles.

2.1.7 Several factors account for Egypt's oversized bureaucracy. Firstly, the policy of recruiting all Egyptian university graduates resulted in a massive increase in the number of civil servants. Secondly, the civil service law allows assignments to posts without reference to specialisation or areas of competence. It permits promotions on the basis of longevity or seniority rather than merit and does not allow the dismissal or other severe disciplinary actions against inefficient, unqualified, or indisciplined employees. Hence, the system grew larger and increasingly more inefficient. Thirdly, because of poor remuneration, many civil servants sought second employment in order to keep up with the increasing costs of living. This action undermined the level of motivation and productivity in the service. Studies conducted by the Al-Ahram Centre for Political and Strategic Studies showed that civil servants chose the public sector because of the low hours of work (54%), permanent income (25%), low obligations (12.9%), minimal responsibility, easy work, and low competition.

2.1.8 The Government of Egypt has attempted to deal with the problem of an oversized and less than efficient public service by adopting a number of measures. Firstly, with regard to Ministries whose mandates have expired, the Ministry of State for Administrative Development (MSAD) is undertaking a review of their operational structures with the view to effecting reforms. This will involve in part transferring employees to other agencies and into areas of relevance. Some of the employees will be offered early retirement or given packaged severance payments. Secondly, the MSAD has drafted a new civil service law which is currently before parliament for passage. Under the proposed law, employees will be placed into different categories according to their profession which is currently not the case. Performance will be measured and procedure will be prescribed for dismissing employees. Severe sanctions will be permitted and programmes of evaluation will be introduced so that employees who do not improve can be severed from the service. Opportunities for incentives will be provided for and salary scales will be established. Hiring and firing will be made easier and a new retirement plan will be put into effect.<sup>6</sup> Employees of local governments will be separated from employees of the central government amongst others.

2.1.9 A third measure contemplated by the government is the outsourcing of some of the services performed by government agencies to the private sector. In order that the privatised sectors are not turned into monopolies, the appropriate agencies of the government will ensure that investors fully comply with the recently passed anti-trust law of Egypt<sup>7</sup> which is supervised by the Ministry of Trade and Industry. In addition, extensive training programmes to close the capacity gap in the service will be undertaken. In the past, insufficient attention was given to training managers relevant to the service and sectors needs; hence, economic reforms undertaken by the government were not correspondingly matched with institutional reforms. The MSAD is currently organising the training of about 7,000 civil servants to upgrade their skills and make them relevant to the needs of the

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<sup>5</sup> The Ministry of State for Administrative Development, the agency responsible for the civil service, reports that around 11 million Egyptian families are on some government subsidy, partly as a result of the low salary pay.

<sup>6</sup> The MSAD does not have a final version of a new pension law which it is writing, but it hopes that it will be completed soon and ready for passage and implementation.

<sup>7</sup> Law No.3/2005 on the Protection of Competition and Prohibition of Monopolistic Practices

public and private sectors, and is contemplating a training process for the more than 200,000 teachers needed for the public schools.

2.1.10 Furthermore, the government has fully operationalised an e-government programme that is being utilised to have investors and citizens gain easy access to government information and institutions which provide electronic services to the public. It has also established “one-stop shops” under a programme in which the public no longer has to physically go to government ministries and agencies connected with a particular service; instead, the ministries and agencies have representatives at the “one-stop shops” where required services are performed, saving time and reducing bureaucratic bottlenecks.

2.1.11 Lastly, the government is contemplating a decentralisation programme in which certain of the administrative authority, service delivery functions, and other prerogatives of the centralised public bureaucracy will be delegated to local government bureaucracies. The measure is already under serious consideration amongst a number of government agencies, and a few have commenced pilot programmes in that respect. Further, to ensure that better skills are acquired by persons graduating from the various levels of higher education throughout the country, the Ministry of education is establishing an Authority to regulate the standards for schools.

### ***Issues and Challenges in the Public Sector***

2.1.12 The Government has stated as a goal for improving the civil service the training of members of the service to provide them with managerial skills to be able to implement the evolving programmes of the nation and the efficient delivery of public service. The government had embarked on a number of training programmes over the last several decades to improve the output of the service, without much success. Some critics have pointed to several mistakes, including: (i) that the programmes were not based on accurate needs assessment and were not linked to a more comprehensive civil service reform programme; (ii) that the training sessions were patterned on seminar and lecture style, designed to convey information and knowledge but not skills and attitudes; (iii) that the programmes were packaged on imported formats rather than being linked to actual job requirements; (iv) that evaluation of the programmes was seldom based on objective criteria; (v) that in most cases the managers, rather than using some objective criteria, were prone to selecting for training negligent or lax employees in order to drive them out of the offices; and (vi) rather than concentrating solely on the transfer of specific skills, the programmes needed to allow for the trainees to be sent abroad for actual experience. The challenge for the government is to ensure that the new training programmes are relevant and take into consideration the needs assessments of the appropriate government agencies.

2.1.13 Also, while the measures taken by the government to improve public service delivery will engender some measure of reform, a number of other steps could also be taken. For example, the new civil service law should not become an addition to the existing 54,000 laws affecting the public service, but that rather it should lead to the repeal of those laws, and create a central civil service mechanism, and ensure a unified standard for civil servants. A Law Reform Commission, fully competent to undertake the task, should be given the responsibility of reviewing all of the existing laws affecting or relating to the service to ensure their conformity with and incorporation into the new law and that, as appropriate. The Commission would not be set up for the sole purpose of reviewing the civil service laws, but would be a permanent agency that would work in reforming all of the sector laws of Egypt. The Ministry of State for Administrative Development could be given responsibility to design regulations for the service, ensure that government agencies abide by the laws and regulations, and deal with disputes involving employees of the service.

2.1.14 The government has the additional challenge of discontinuing employing civil servants on the basis of university graduation and focusing more on assessment of needs and competence in both the public and private sectors and on the qualification of the applicants. The MSAD indicates that the process for recruitment of university graduates is targeted for government recruitment. In addition, the Government should engage the private sector to participate both in the training and employment, of persons coming into the job market. Also, in that light, the Government could work with universities to ensure that their programmes maintain an acceptable standard and are geared to fulfilling the evolving needs of Egypt's developing economy and service requirements.

### **C. Public Finance and Budget Accountability**

2.1.15 There has been increased interest in the link between fiscal sustainability and budgetary institutions because of occurrences of a number of financial crises in the last decade or so. It has been now well established that the lack of transparency and accountability are main causes for financial crises. As a consequence, besides budget consolidation and fiscal decentralisation, the agenda for fiscal reforms has increasingly stressed on fiscal transparency and accountability. A recent World Bank report (2003) defines accountability as a core value of good governance that rests on two pillars: transparency and contestability. Internal accountability includes checks on executive branch of the government exercised by the judiciary or the legislature by monitoring government performance. External accountability is enhanced when the recipients of public services or other groups of citizens can hold the service providers and policymakers accountable. Thus good budgetary institutions are critical in ensuring internal accountability and satisfactory delivery of public services.

#### ***The Budget Process and Control***

2.1.16 Egypt has relatively well-developed budgetary institutions. The key players in the budgetary process include (i) the Prime Minister's Office, which is responsible for the overall economic development and for setting sector priorities and the accompanying budget allocation; (ii) the Ministry of Planning (MOP), which prepares the investment budget; (iii) the Ministry of Finance (MOF), which is responsible for the preparation and implementation of fiscal and budget policies; and (iv) the line ministries, who are responsible for implementing sector policies within the budget resources allocated to them. The budget process goes through five stages which include negotiation, consolidation, modification, implementation, and review. In the first stage, negotiations are conducted at the governorate level, line ministries, and the MOF and this is completed by the end of December each year. In the second stage, the Cabinet undertakes the process of consolidating the budget and submission to the People's Assembly by the end of April each year. The budget is discussed and debated and any changes or modifications are done before it is finally approved by the People's Assembly by the end of June. A key institutional issue is that government spending agencies such as ministries, economic authorities, and local authorities prepare their proposed budgets without pre-specified limits within an overall fiscal framework and usually the budget proposals of spending agencies are based on past budget allocations that are adjusted for inflation. However, this will change with the establishment of a Macro fiscal Unit in the Ministry of Finance. The budget for 2006/07 will include medium-term projections and fiscal sustainability analysis. Governorate budgets are based on individual proposals made by the line ministry representatives in the governorates in coordination with their respective central ministries. The investment plans are prepared by the Ministry of Planning and by the National Investment Bank (NIB) in consultations and in consistency with the overall economic development goals and priorities. At the People's Assembly, the budget is presented for discussion, debate and approval.

2.1.17 One of the strengths of the budgetary institution in Egypt is that the roles of the executive, legislature and other judicial departments of the government, are clearly defined in the constitution. Roles and responsibilities of the governorates, local authorities, and other entities who receive budget support are also well defined. The legal and administrative framework for the budget provides the basic principles of fiscal management, compliance, and actions required for ensuring fiscal transparency in general government operations. The government has taken the steps in this matter and the budget for the fiscal year 2005-06 has been prepared according to the International Monetary Fund (IMF) 2001 Government Finance Statistics (GFS) classification. Under the new system, budget lines have been reclassified. For instance, indirect petroleum subsidies are now explicitly treated as budget lines. The new classification system makes explicit distinction between the economic, administrative and functional classification. There is a clear distinction between revenues, expenditures and financing transactions as well as between transfers and exchange transactions. The new classification system would enable the government to monitor the fiscal policy on the basis of the cash surplus/deficit and the overall fiscal balance.

2.1.18 In Egypt, the Planning and Budget Committee of the People's Assembly reviews the budget and development plans. Though similar in spirit to Public Accounts Committee (PAC) in other countries, the Planning and Budget Committee operates with significant differences.<sup>8</sup> The committee does not appear to have the mandate for exercising control by questioning and disciplining the members of parliament or the ministers who violate the budget limits or do not comply with the financial regulations. According to the law, formal approval for any expenditure and for a change in budget allocations from one item to another is required from the MOP in case of capital projects and MOF in case of recurrent expenditure. The MOF exercises *ex-ante* control by appointing financial controllers in all spending agencies. The implementation of the investment plans is supervised by the Ministry of Planning. The committee does, however, prepare its own report on the budget for submission to the People's Assembly. The Committee's membership is wide and members include the opposition parties representatives. The recommendations of the Committee are reviewed and approved by the General Assembly.

### ***Public Revenue Collection and Expenditure Review***

2.1.19 Egypt collects tax revenues by applying direct and indirect taxes. Direct taxes include the personal income tax and corporate income tax, and real estate tax. Indirect taxes include sales tax, customs duty, stamp duty, recreation tax, and social insurance. In Egypt, the tax laws were complex because of many different types of exemptions that were ambiguous and gave rise to non-transparent behaviour in tax determination and collection. Tax reforms have thus been long awaited. Consequently, in 2004, with the help of USAID, the government initiated the tax reforms. A new law amending the 1991 General Sales Tax (GST) was approved. The new law replaced the highly non-uniform GST which ranged from 5-25% with some exceptionally high rates for certain goods such as beverages and cigarettes. The law imposed a GST of 10% that will be progressively transformed into a Value Added Tax (VAT). With the aim of simplifying the income tax system and raising voluntary compliance, the government introduced a new Tax Law 91/2005. As a consequence, corporate taxes have been reduced from 42% to 20% and individual tax rate bands have been simplified.<sup>9</sup> The system of tax determination has been changed from estimation to self assessment from 2005. General Tax Authority is responsible for administration and collection of

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<sup>8</sup> The Planning and Budget Committee considers a wide range of matters including, the budget, economic policy, monetary and credit matters, remuneration, pricing, insurance, loans policies, domestic trade, provisions, distributions, consumption, cooperative consumption, foreign trade, economic and commercial agreements, and other matters within the competences of the ministries and organs specialising in economy and economic cooperation.

<sup>9</sup> For annual income under LE20,000, the tax rate is 10%, for income above LE20,000 but below LE40,000, the tax rate is 15%, and for income above LE40,000, the tax rate is 20%.

income tax and stamp duty. The general Tax Authority has 32,000 employees with 227 offices throughout the country which are managed by 39 regional offices. As a part of the ongoing tax reforms, the government has launched a pilot project for the establishment of a Model Customs and Tax Centre (MCTC). The MCTC now operates as one stop shop for three revenue departments, income tax, customs, and sales tax. The MCTC has simplified customs clearance and tax payment procedures. Customs clearance now only takes about a day compared to about seven days or more previously. Although the MCTC opened its doors in June 2003, it only has a few very large tax payers.

2.1.20 The public expenditure has been increasing over the years with expansionary budget policies adopted by the government. In 2004/05 the revenue were expected to increase by 7.4 %, whereas the expenditure was estimated to increase by 11.2%, mainly because of increased wage expenditure, direct subsidies (which almost doubled) and interest payments. The budget for the year 2005/06 continues to be expansionary with an estimated 17.3 percent increase in the public expenditure as opposed to 10.9 percent growth in revenues.<sup>10</sup> Food, transport, education, health, and energy subsidies provided by the government have contributed to the increase in public expenditure. Subsidy for oil products and food is estimated to cost about LE 28.5 billion or approximately USD5 billion a year. Energy subsidies have kept the fuel, heating oil, domestic and industrial gas prices artificially low. However, the current government has initiated remedial measures by increasing the cost of diesel fuel and introducing high-octane vehicle fuel which is 40% more expensive. It has also modernised tax and customs duties.<sup>11</sup> The government has also decentralised public expenditure and revenue mobilisation since 2004 in four sectors namely, education, health, water, and transport. In 2005, the World Bank completed its Public Expenditure Review (PER) covering these sectors.

2.1.21 The government of Egypt has systems of accountability intended to ensure proper allocation, use, and control of public spending. The organisation, management, and scrutiny of public finances in Egypt are governed by a number of laws and statutes. The Central Auditing Organisation Law 144/1988 (as amended by 157/1998), The Companies Law 159/1981, the Capital Market Law 95/1992, and the Law on Public Sector Organisations and Companies 97/1983 mainly provide the regulatory framework for public accountability in Egypt. The basic framework for the accounting and auditing requirements and Central Bank's guidelines for all banks is provided by the Banking Law 163/1957. However, a new law of the Central Bank, The Banking System and Monetary Law 88/2003 has been passed by the People's Assembly.<sup>12</sup>

2.1.22 The Central Auditing Organisation (CAO) is mandated with the powers to exercise financial and legal control of the Public Sector organisations. Articles 2 & 3 of the Central Auditing Organisation Law (1988) lay down the details of powers and jurisdiction of the CAO. Under these provisions, the CAO is authorised to carry out detailed financial and operational audit of entities belonging to the government including the local government, public corporations, public sector companies, public sector banks, labour and professional syndicates and unions, political parties, national and partisan press agencies, all units subsidised, funded or guaranteed profits by the government, and any such entity which is within the jurisdiction of the CAO. Under article 4 of the law, the CAO is also authorised to audit and examine the work and accounts of any other entity that may be assigned to it by the President of the Republic, the People's Assembly, or the Prime Minister. The CAO has wide ranging powers that allows it to review not only the financial

<sup>10</sup> Extracted from the Fiscal Statement on the Financial Year 2005/06 State Draft Budget Statement of the Finance Minister.

<sup>11</sup> The partial and full tax exemptions for 5-20 years previously offered for newly established businesses has been removed. Further, the government has offered a tax amnesty to the companies in the hope that businesses in the informal sector will voluntarily come forward and register. The government expects to create additional 500,000 new tax payers as result of the tax reforms.

<sup>12</sup> See, <http://www.cbe.org.eg/public/Banking>

performance of public sector entities but also their operational performance. It is highly unusual for a central audit agency to engage in detailed performance reviews which is normally considered as a responsibility of the concerned ministry, authority or the government agency. For these reasons, the CAO is considered as a very powerful government agency not least because the head of the CAO is nominated by the President of the Republic and approved by the People's Assembly. The CAO audits government's accounts and for this purpose, the Ministry of Finance is required to provide the CAO with the final accounts of the government with detailed data and a compliance report. The CAO performs the *ex-post* review and prepares its audit report within a period of two months from the date of receiving final accounts from the Ministry of Finance. The law requires the CAO to present its report on the government entities to the People's Assembly by auditing their accounts, financial position and balance sheet according to the Egyptian Accounting Standards to ensure that the accounts reflect correct and fair representation. However, it is important to note that the CAO's report only highlights any accounting irregularities resulting from wrong accounting treatments rather than on issues relating to the efficiency and effectiveness of the budget execution and delivery of public services. By the end of March the audited government accounts together with the report of the CAO are submitted by the Ministry of Finance to the assembly where these are discussed and approved.

2.1.23 The process of reforming budgetary institutions is continuous even in countries that are widely regarded as being relatively advanced in this field. This is partly due to the need to continuously adapt to new developments in technology and new management ideas, and standards. However, it is possible to compare Egypt's public expenditure management programme with some well established themes of public management for improving financial management. Table 1 provides an overview of the public expenditure management system in Egypt in terms of its compatibility with the well established themes. It is interesting to observe that Egypt's public expenditure management system meets some but not all of the well established areas for sound financial management. For instance, Egypt seems to have systems in place that meet the requirements for specification of resource ceilings and results for policy improvements. Egypt also meets transparency theme in so far as improvement in budget classification, frequent publication of financial statements, and frequent publication of data through electronic media is concerned. In terms of the accountability theme, Egypt seems to have well defined role of the legislature, budgets and committees, and the CAO. However, Egypt does not appear to fulfil some of the key requirements. For instance, a system compatible with the Medium Term Expenditure Framework (MTEF) would have allowed the government to link its expenditure to the outcomes of the plan. The most important attribute of the MTEF is that it helps in prioritisation of expenditure and integrates plans with budgets. This feature of MTEF allows outcome based planning and budgeting. However, Egypt has launched a Performance Based Budgeting (PBB) pilot system in selected sectors. Another important area in which work needs to be done is introduction of performance contracts and establishment of oversight bodies with specific mandate for improved accountability. Also, there are no explicit policies that seek to reduce the financial risks. There is also a need for organisational restructuring that will allow establishment of task oriented agencies and improve internal controls. Egypt is in the process of implementation of an integrated financial management system that aims at linking planning, budgeting, accounting, and reporting. The Ministry of Finance is in the process of implementing an Integrated Automation Project (MOFIA) which includes Automated Government Expenditure System (AGES). Both MOFIA and AGES should eventually be subsumed with the framework of a Government Financial Management Information System (GFMIS). This will create efficiency and minimise corruption. It is also developing an electronic payment system for employees

### *Issues and Challenges in Accountability*

2.1.24 While there are clear rules for budget preparation, management and review, the regulations are not necessarily consistent with long-term fiscal stability, value for money in public expenditure and integrated development objectives. On the other hand, the focus is on management of short term financial flows and compliance with rules. Another issue relates to the discretionary scope that exists in budget preparation. Since the regulations do not impose an overall ceiling, spending agencies do not prioritise their initial financial plans. This encourages spending agencies to inflate their financial requirements since they are aware that their original budget would be reduced during the negotiations. There is a lack of clarity on how the budget relates to government's development objectives and whether or not budget allocations led to the accomplishment of government's development goals. Instead the focus is on the financial aspect of the budget. This reiterates the need for making the budget preparation exercise more meaningful by making explicit link between the outcomes and the money spent on development programmes. Further, the government has not yet developed a strategy that will enable it to monitor expenditure with Governorate's development objectives. This problem is overcome in other countries where they have adopted Medium Term Expenditure Framework (MTEF) which enables establishment of a clear link between budget and medium term planning and priorities.

**Table 1**  
**Mapping Egypt's Public Expenditure Management System**  
**for Improved Financial Management**

<b>Major Themes For Public Management</b>	<b>Financial Management Improvements</b>	<b>Whether Present/ Used in Egypt</b>
<b>Policy Improvements</b>	Medium Term Expenditure Planning (MTEF)/Performance Based Budgeting (PBB)	Partly yes
	Risk Management	No
	Specification of Resources Ceilings and Results	Yes
<b>Organisational Restructuring</b>	Establishment of Task Oriented Agencies	No
	Improved Internal Control System	No
	Establishment of Treasury Divisions	Yes
<b>Transparency</b>	Improved Budget Classification	Yes
	Data on Costs and Performance	Partly Yes
	Frequent Publications of Financial Statements through both Print and Electronic Media	Yes
	Financial Management Initiatives for Reorganising Internal Information Systems	Currently no, but being developed
<b>Accountability</b>	Performance Contracts	No
	Role of Legislature, Budget, and Finance Committees	Partly yes
	Strengthening Supreme Audit Institutions	Partly Yes
<b>Application of Electronic Technology</b>	Integrated management systems covering financial planning, budgeting, accounting, and reporting	Currently no, but being developed

Source: Adapted from Premchand (1999) as cited in Allan, Banerji & Nabli (2004)

2.1.25 Yet another weakness that exists in the budgetary process is that often substantial revisions are made in the budget during the year causing changes to the planned expenditure with old expenditure being replaced by new expenditure. This undermines the original priorities set by the legislature. This is not uncommon and many other countries also face this problem. However, because of the lack of an overall budget constraint in the Egyptian system, line ministries feel encouraged to negotiate new spending plans throughout the year. As an example, additional subsidies on basic commodities were introduced at a cost of LE1.4 billion during 2003.

#### **D. Public Enterprises Management**

2.1.26 The Ministry of Investment is responsible for monitoring public enterprises under the Law on Public Sector Organisations and Companies 488/1985 (as amended by Law 109/1987).<sup>13</sup> The public enterprises are managed by the ministry through a decentralised structure. There are nine Holding Companies (HC) and each manages portfolios of companies in different industrial sectors.<sup>14</sup> Each holding company is responsible for the operation and performance of companies included in its portfolio. There are three types of arrangements. The first is where government owns majority shares and therefore the Minister of Finance presides as the chair of the general assembly. Second, where the government's share is less than 50%, the board of directors include representatives from the private sector. In the third type of arrangement, the companies are joint ventures where the government and the private sector run the public enterprises through a public/private sector partnership. The responsibilities for the management of the public enterprises in all three cases rests with the board of directors who are responsible and are accountable to the general assembly.

#### ***Public Enterprises Reforms and Privatisation***

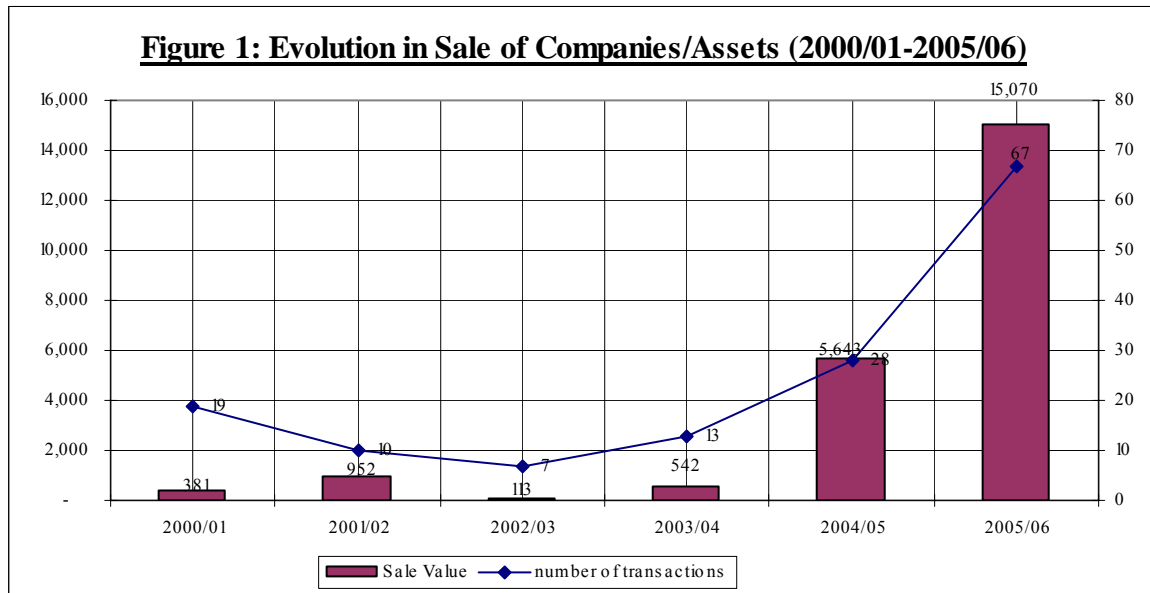
2.1.27 The public enterprises reform programme started in 1991 with the promulgation of the Law 203/1991 that provided the legislative powers to the government to sell the assets for the purpose of restructuring of the public enterprises and make them financially viable. Public sector companies from across a variety of sectors, including agriculture, real estate and construction, food and beverages, milling, pharmaceuticals, cement, chemicals and fertilisers, engineering, retail and tourism have been put up for sale. The government has initiated reforms with the aim of encouraging public enterprises to be run on commercial principles and to reduce their dependency on the government. The government's reform policy provides for different forms of private sector participation and recognises the importance of using the private sector as engine for future economic growth, employment generation, and poverty reduction. In the past, the government has been reluctant to privatise certain sectors that were considered as core sectors. However, in the recent past, the new government has shown the renewed commitment to speed up the privatisation. For instance, in 2005/06 there were 67 transactions amounting to LE 15.07 billion compared to the privatisation proceeds of LE5.6 billion in 2004/05 (see Figure 1). The 2005/06 figure includes the sale of a 20% stake in Telecom Egypt which was worth about LE5.12 billion. The government has used a variety of methods in privatisation of public enterprises including outright sales of its share to

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<sup>13</sup> The Ministry of Investment is a newly established ministry which was created about 15 months ago. Besides being responsible for the overall supervision of the management of the public enterprises, the ministry handles many important areas; restructuring and privatisation of public enterprises, domestic and foreign investment, supervision of non-banking financial institutions which include the insurance sector, capital markets, and mortgage financing. The ministry also supervises investment authority whose primary aim is to promote Egypt as potential investment destination for investment. Special Economic Zones (SEZ) are also under the remit of this ministry. The ministry has been actively involved in launching initiatives for corporate governance and has played a key role in establishment of the Egyptian Institute of Directors (EIoD). The EIoD office is located within the premises of the ministry perhaps because the minister of investment chairs the Egyptian Institute of Directors.

<sup>14</sup> The nine holding companies are, Holding Company for Spinning & Weaving, for Trade, for Metallurgical Industries, Chemical Industries, Pharmaceuticals, Chemicals & Medical appliances, Food Industries, Building & Construction, Tourism & Cinema, and Maritime & Inland Transport.

private investors, sale of its stakes to the Employee Shareholders Associations (ESA), floating shares on the stock market, liquidations and joint ventures, and minority. Now, every year holding companies put forward a plan to the Minister of Investment that includes privatisation proposals for public sector industries under their portfolio. These are publicised on the website of the ministry.



Source: Ministry of Investment (<http://www.investment.gov.eg>)

2.1.28 Following the cabinet reshuffle in July 2004, new impetus was given to the privatisation programme. The new minister changed the way the ministry approached public-sector reform, subdividing efforts into restructuring, sales/privatisation, and enforcing good corporate governance principles. The programme includes (i) transferring excess land and idle assets to the relevant holding company before offering any company for privatisation with an aim to downsize the company thus making it more attractive; (ii) streamlining the process of asset valuation by valuing land according to the market value and other fixed assets at their net book value; (iii) transfer of the outstanding debt to banks and other liabilities to the holding company; and (iv) transfer of the surplus of profitable companies to the budget of the holding company to cover the restructuring debt service obligations thus allowing for cross financing. With the aim of boosting foreign direct investment flows, in 2005 the government offered to sell 170 state-owned companies regardless of whether or not they were profitable. All public sector industries are considered as candidates for restructuring/privatisation including the insurance companies and banks.<sup>15</sup> The government aims to sell 92 public companies, including 45 joint ventures before the fiscal year ends in June 2006. The sale of the Bank of Alexandria in 2006 signaled that state-owned banks are no longer immune to privatisation. The government also intends to privatise the public insurance companies. A steering committee has been formed with the specific task of making recommendations for privatisation of insurance sector. Outright sale of public sector companies is seen as the best option by the government given the huge costs involved in restructuring of these companies.<sup>16</sup>

<sup>15</sup> Some 64 companies which were formerly categorised as 'strategic' to remain under state control until 2007 have been re-categorised and are being offered for sale. (source: MOI website <http://www.investment.gov.eg>)

<sup>16</sup> In survey of 28 privatised public enterprises done by the Public Enterprise Office in 1998, sales and profits of 19 companies showed improvements and in 27, salary per worker increased. Also in 23 of these privatised companies, short and long terms loans declined. This shows that privatisation programme has been largely successful.

2.1.29 The ministry has used different schemes for protecting the interests of public sector employees made redundant because of restructuring/privatisation. This includes early retirement scheme, employee options, reemployment in the newly privatised company, etc. The Minister for Investment has formed a special committee by decree No. 21, 2005 to study the current early retirement system and to recommend solutions. The committee comprises the legal advisor to the Minister, the advisor to the Minister of Social Affairs, Industrial and Labour Relations Unit, an actuarial expert from the Insurance Authority, members of the labour unions, and representatives from the nine holding companies. Further, the ministry has directed that employees should be part of any restructuring/privatisation negotiations. The government has received donor support in its restructuring endeavour.<sup>17</sup>

### ***Issues and Challenges for Public Enterprise Reforms and Privatisation Initiatives***

2.1.30 Despite the economic, legal, and institutional reforms and considerable efforts in streamlining of the bureaucratic procedures for speeding the privatisation programme, there are still a number of obstacles in attracting private investment. Inefficient and slow dispute settlement, absence or inefficiency of support services like training centres, laboratories that issue quality certificates and certificates of origin, the delays in connecting to utilities such as water, electricity, and gas, and higher labour costs, are some problems that have acted as barriers in attracting private sector investment. Further, delays in the speed of execution in completing privatisation deals are caused by the wavering attitude of the management of the Holding Companies. The Holding Companies are often reluctant to sell Affiliate Companies within their portfolio because it diminishes their power. It is worth noting here that the idea of establishing holding companies was originally meant to be temporary. However, over the years, holding companies have tended to maintain their status quo and this raises the possibility of ‘conflict of interest’ in the mechanism currently used by the government for privatisation.

2.1.31 Even though the public sector reform started in 1991; the pace of implementation has not been fast enough. The privatisation programme was aimed to be completed by 2002. However, mining, electricity, financial services and insurance are mostly public owned. The public sector remains highly centralised with powerful administration, excessive and cumbersome bureaucracy, complex and time consuming administrative procedures. According to the World Bank’s 2007 Doing Business Report, the average number of days required to transfer and register a property title from the seller to the buyer was 193 days in Egypt compared with the regional average of 49.4 days and OECD average of 31.8 days in 2006. However, a new law (Law No. 13/2006) which is expected to facilitate the registration of property was approved in June 2006.

2.1.32 Since the more profitable enterprises were the first to be privatised, loss making enterprises constitute a large share of the present portfolio. It is estimated that there are more than 50 loss making public enterprises. These public enterprises are characterised by declining revenues, high debts and bank overdrafts, surplus labour, and obsolete assets. Thus, privatisation of loss making public enterprises poses a real challenge. Moreover, the resources required to maintain these public enterprises are eroding the benefits of privatisation.

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<sup>17</sup> An agreement was signed with the European Union on the 30<sup>th</sup> September 2004 granting the Ministry of Investment € 80 million to restructure the Cotton and Textile sector to improve companies’ performance. A major part of that grant is directed towards employee development and restructuring. In March, 2005, the Minister of Investment signed an agreement with the Social Fund for Development (SFD) which enabled the Holding Company for Cotton, Spinning and Weaving to review the labour situation in its affiliated companies. Some employees who volunteered to retire early did so with full financial benefits. Younger employees wanting to move to other jobs were transferred to Labour Pools under the supervision of the SFD. They will be given training and advice on how to move to other jobs and on how to start their own businesses.

2.1.33 The existence of a number of laws for investment promotion creates confusion and needs to be simplified. Further, the general perception that the existing Labour Laws<sup>18</sup> in Egypt do not favour the management and it is difficult to fire an employee together with a shortage of skills in information technology, accounting, finance and law pose major challenges for the development of private sector. Egypt now has a comprehensive competition and anti-monopoly law. A regulatory body to implement the law has also been established. It is affiliated to the Prime Minister's Office. Also, Egypt has only partially opened its service sector through commitments under the WTO and GATS agreement on construction and related engineering services, tourism and travel related services, financial services and maritime transport services, with several limitations on market access and national treatment.

## **E. Financial and Economic Sector Accountability**

### **Macro-economic outlook**

2.1.34 Egyptian economy has shown good macroeconomic stability despite the fact that the growth was mere 3.2% between 2001 and 2003. However, the growth has risen to 4.2 in 2003/04 and 4.6 % in 2004/05 and 6.9% in 2005/06. The economy is diversified with services contributing about 25% of GDP, manufacturing 17% of the GDP, mining and agriculture 15% and 14% of GDP respectively in 2005/06. The gas sector was the fastest growing at about 50% during 2005/06. Growth is being driven by domestic demand and the external sector because of increased export receipts, increased receipts from Suez Canal and buoyancy in the tourism sector, the contribution of domestic demand to economic growth was strong. Reflecting rising confidence inspired by the reform programme, investment increased by 13.3% in 2005/06 compared with 10.3 % in 2004/05 and private consumption went up by 6.4% in 2005/06 compared with 4.8% in 2004/05. Average inflation which had fallen to 4.2% in 2005/06 from 11.4% in 2004/05 has accelerated to 12.4% in December 2006 reflecting increases in food prices as well as adjustments to some controlled prices.

2.1.35 However, the unemployment situation has not improved because the economic growth was not significant enough to create sufficient jobs. Egypt has a population of 71.3 million and more than half a million job seekers enter the labour market each year. The unemployment rate was estimated at 10.9% 2005/06. The government estimates that the projected unemployment rate will fall to 5.24% by 2006/07. However, this would only be possible if the economic growth picks up to around 6%. It is worth taking note that in the last four years, average unemployment rate has been 10.3%. Given this scenario the government's unemployment rate targets are ambitious.

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<sup>18</sup> A new Labour Law has been passed for the private sector to make the sector more robust, and a new labour law was seriously under consideration for the public sector so that recruitment, salary structure, promotion, benefits and other incentives are based more on merit, and to award civil servants on the basis of their qualification and performance rather than longevity, as is currently the case. The new law will allow dismissal and other serious disciplinary action against civil servants for ineffectiveness, efficiency and other violations, which is presently not the case. It is hoped that this new programme will aid a sagging public service that is increasingly losing the nations best minds to the private sector.

**Table 2**  
**Selected Macro-economic Indicators**

Real Economy	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
GDP at Market Prices (LE billion)	595	644	752	507	581
Real GDP at Constant Prices (LE billion)	355	366	381	399	426
Real GDP Growth Rate	3.2	3.1	4.2	4.6	6.9
Real GDP Growth Rate (per capita)	1.1	1.1	2.1	2.5	4.8
Unemployment	9.2	10.5	11.1	10.5	10.9
Average Annual Inflation *	2.4	3.2	4.9	11.4	4.2
Total External Debt (USD million)	28,118	29,179	29,787	28,834	29,504
Total Public Debt (LE million)**	270,263	316,623	358,237	409,436	..
Public Debt / GDP (%)	54.3	58.4	60.4	60.3	64.8

*Source: Ministry of Finance, The Financial Monthly, January 2007 (<http://www.mof.gov.eg/english/monthly/>)*

2.1.36 Another worrying trend is the continuous fiscal deficit which was 8% of the GDP in 2005/06. The deficit is caused by a number of factors, including the implementation of a large number of large scale national projects, most notably Toshka Agricultural and Land Reclamation Project; ongoing trade liberalisation that has affected customs receipts; food and fuel subsidies; and domestic debt servicing costs which is one of the single largest expenditure items accounting for nearly 7% of the GDP. The government's estimates suggest that the fiscal deficit is likely to remain between 7% and 8% of GDP for 2006/07. The high budget deficit together with very high level of domestic debt that has reached 64.8% of the GDP in 2005/06, pose major macroeconomic challenges to the Egyptian government.

### ***Monetary Policy Formulations***

2.1.37 The Central Bank, Banking Sector and Monetary System Law 88/2003 authorises the Central Bank of Egypt (CBE) to formulate and implement the monetary policy. The monetary policy's main aim is to ensure price stability. The CBE intends to implement a formal inflation targeting framework which will enhance the predictability and transparency of the monetary policy. In the interim period, the CBE aims to meet its inflation targets by steering short term interest rates in view of the developments in credit and money supply market and other factors influencing consumer prices. The Monetary Policy Committee (MPC) in February 2007 decided to maintain the overnight lending rates at 10.75% and deposit rate at 8.75%.

2.1.38 Monetary policy decisions are taken by the CBE's (MPC). The MPC has nine members comprising, the Governor of the CBE, two Deputy Governors, and six members of the board of directors. The monetary policy decisions are implemented through a set of policy instruments and procedures. The CBE uses overnight lending and overnight deposit standing facilities as its main policy instruments thereby providing the range for fluctuations in overnight interest rates. The CBE manages the market liquidity through the open market operations. The MPC meets on Thursdays every six weeks for deciding interest rates and following the conclusion of the meeting, communicates its decision to the market.

2.1.39 Prior to the pegging of the Egyptian pound to the US dollar, the official, exchange rate was set by the government which did not reflect market forces. This gave rise to a black market for foreign exchange transactions. The continuous leakage of foreign currency out of the official market

prompted the government to take drastic measures and in March 2003, the Prime Minister issued decree number 506 that introduced foreign exchange surrender requirements compelling all exporters to sell 75% of the foreign earnings to the domestic banks at official rates and keep remaining 25% in the banking system<sup>19</sup>. This decree, along with some other measures such as the prevention of foreign exchange dealers to quote their own rates, is considered as a form of market distortion that should only be enforced in extreme situation.<sup>20</sup> Despite these defects, the new foreign exchange policy is expected to have a positive impact on the economy because of the stabilisation of the regional political climate and the likely increase in exports with favourable exchange rates. Egypt has now abandoned the adjustable peg regime and adopted a floating exchange rate. Under this regime, the Egyptian pound moves to a free float which means that the central bank intervenes only in cases of major imbalance or sharp fluctuations in the exchange rate.

### ***Issues and Challenges in Macroeconomic Management***

2.1.40 One of the main challenges in the monetary management is institutional. Even though an Inter-bank market has been established, it is still in an infancy stage and often the banks have to quote a single, often client based bid-ask spread. The government also needs to maintain the discipline in the management of its fiscal policy since higher fiscal deficits are likely to undermine the market's confidence in the Egyptian pound. This is also critical in maintaining the inflation rate which is the main anchor of the government's monetary policy.

### **Foreign Direct Investment**

2.1.41 Investment Law 8/1997 and Companies Law 3/1998 are the two key laws that regulate the investment environment in Egypt. Law 8/1997 repealed Investment Law 230/1989 and grouped some 20 exemptions and incentives under one law, and specified activities that would automatically accrue benefits to the investors. The law allows 100% foreign ownership of ventures and guarantees the right to remit income earned in Egypt and to repatriate capital. Key provisions of this law include, the guarantee against confiscation and nationalisation; the right to own land; the right to maintain foreign currency bank accounts; freedom from administrative attachment; the right to repatriate capital and profits; unrestricted hiring of Egyptian staff, absence of price control or restrictions, exemption of foreign expatriates' salaries from income tax if they reside in Egypt for less than a year, and equal treatment regardless of nationality. Law 3/1998, amending Law 159/1981, covers investors in any sector not covered by Law 8/1997; including shareholders, joint stock, and limited liability companies and representative and branch offices. The Law allows for automatic registration of a company upon presentation of the application to the Companies Department at the Ministry of Foreign Trade and for acquisition of legal status 15 days after appearance in the Commercial Register, with some exceptions. These exceptions include non-compliance with procedures or violation of other laws; or lack of qualifications requisite to operating a business. The Law also provides for the right of petition for denial of incorporation, removes the restriction that 49% of shareholders must be Egyptian, allows 100% foreign representation on the board of directors, and redefines accounting standards. Further, the 1999 Commercial Law covers commercial contracts, banking transactions and bankruptcy while the Law 83/2002 for special Economic Zones provides for establishment of Special Economic Zones (SEZ). The companies operating in the SEZ are exempt from customs duties, sales tax and fees on capital assets and intermediate goods. There are eight SEZs in Egypt with nearly 750 companies operating in these eight zones.

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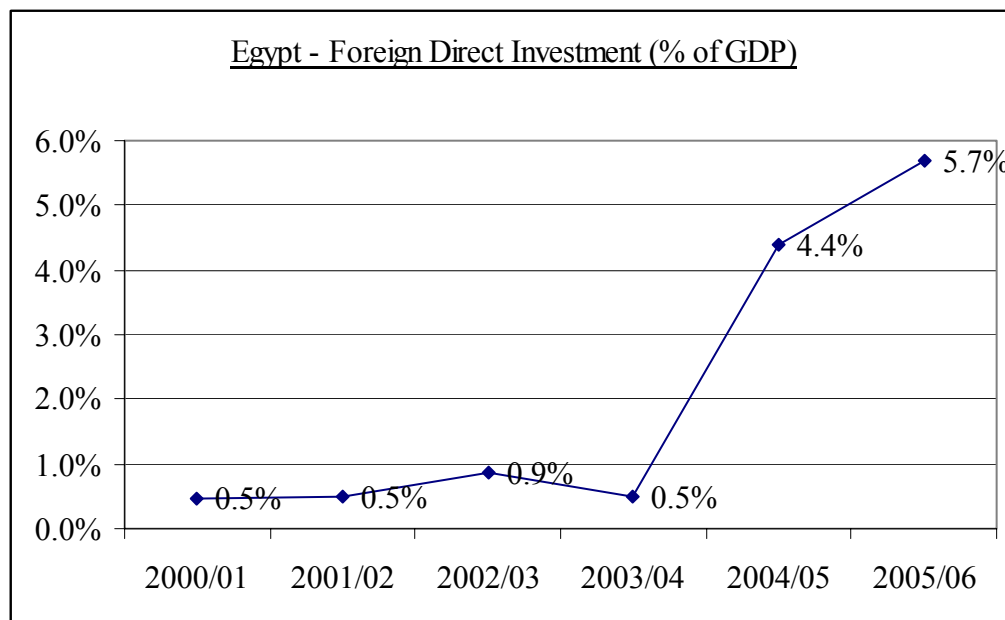
<sup>19</sup> These and some other foreign exchange restrictions were revoked towards the end of 2004.

<sup>20</sup> See Egypt Country Profile, The Road Ahead to Egypt, FEMISE, December 2004.

2.1.42 The Government has undertaken a number of institutional reforms for improving business investment environment in Egypt. In 2004, the government set up a new ministry for specifically streamlining the process for attracting foreign direct investment in Egypt. Ministry of Investment (MOI) oversees investment policy, coordinates among various ministries with investment-related areas of responsibility, and provides dispute settlements services for investors. GAFI is the principal government authority under the MOI which is concerned with regulating and facilitating investment and offers assistance to the foreign investors worldwide. GAFI is currently broadening its scope from the traditional regulatory framework into a more effective and proactive investment promotion agency with the help of the World Bank's Multilateral Investment Guarantee Agency (MIGA). GAFI acts as a 'One Stop Shop' for investment by facilitating coordination with different ministries and approving agencies on behalf of foreign investors and also act as the investment promotion agency. GAFI has its own budget and by the special provisions, is allowed to retain its profit for further development. GAFI coordinates with various investment associations in formulating its investment policy and development plans.

2.1.43 The net inflow of Foreign Direct Investment in Egypt has shown a positive trend. The net FDI in Egypt during 2002/03 were USD700.6 million (0.9% of GDP) but declined to USD407.2 million (0.5% of GDP) in 2003/04. However, in 2004/05, the FDI increased dramatically to USD3.9 billion (4.4% of GDP) and USD6.1 billion in 2005/06 (5.7% of GDP). This can be attributed to the government's recent economic reforms which have created a favourable environment for foreign direct investment and a strong rise in investment in the petroleum industry and the privatisation programme (see Figure 2). Majority proportion of the total FDI during the past decade has been invested in chemical, food and beverage, engineering, and the tourism sectors. The US is the largest investor with over 50 percent share in the total FDI, followed by the EU, the United Kingdom, France, and Germany. The combined investment of Arab countries in Egypt ranks second to the US.

**Figure 2**



Source: Central Bank of Egypt (<http://www.cbe.org.eg/>)

### ***Issues and Challenges in Egypt's Competitive Position in Attracting FDI***

2.1.44 Egypt has, in the past, not been able to fully exploit its FDI potential mainly due to heavy administrative procedures, bureaucracy, and inefficiency of the judiciary. Egypt's overall Growth Competitiveness Index Ranking (GCI) improved from 62 in 2004 to 53 in 2005.<sup>21</sup> Its ranking on the Global Competitiveness Index was 52 among 117 countries. However, Egypt's ranking in terms of Business Competitiveness Index (BCI) fell from 66 in 2004 to 71 in 2005. The GCI ranking captures the ability of the world economies to attain economic growth over the medium and long term by taking into account three important factors: macroeconomic environment, public institutions, and technology. The BCI ranking is designed to capture the microeconomic elements of competitiveness of the business environment and factors conducive to increased productivity at the enterprise level. Egypt's low ranking in terms international competitiveness raises a number of important issues.

2.1.45 First, one of the main reasons for Egypt's low ranking relates to weaker basic human resources and hence an inadequately educated workforce. The report reveals that Egypt's education system is not meeting the needs of the economy. Other factors include business sophistication and innovation. Second, in terms of the Egypt's business environment, the main challenges identified as having negative impact to its business competitiveness relate to outstanding structural and micro-economic reforms. These are: (i) access to financing especially for SMEs; (ii) tax regulations and tax rates; and (iii) inefficient bureaucracy. The government has started implementing reforms of the tax system. It has also initiated labour market reforms. In terms of labour competitiveness, there is need for improvement. Although Egypt's has one of the lowest levels of labour costs in the Middle East and North Africa (MENA) region reaching almost one fourth of the MENA's labour cost average, the labour productivity in Egypt is one of the lowest in the region. Thus, in terms of unit labour cost, Egypt's labour costs are almost the same as the MENA average. The implication of this is that Egypt has limited competitive advantage in labour intensive industries which is working against the government's explicit policy of reducing unemployment. It also indicates that Egypt's domestic technological capabilities are insufficiently exploited to reap the benefits of the current wave of ICT revolution driving the global economic growth. Further, foreign entities are often discriminated by restricting employment of non-nationals as a ratio to hired nationals (one to nine) which is often embodied in the labour or contract law. This coupled with the economic needs test carried out by the authorities before approving the establishment of subsidiaries or new businesses, affects a number of services sectors, such as consulting and financial services, insurance and tourism.

### **Banking Sector Solvency**

2.1.46 A well developed and sound financial sector is a prerequisite for sustainable economic development. Banks play a crucial role in this process and hence the performance of the banking sector is critical for the economic development of Egypt, which is in the process of economic transition. Fortunately, the financial sector is at the centre of the new government's reform agenda not least because banking sector represents more than 62% of the aggregate financial assets of the total Egyptian financial sector in 2003. In 2003, total assets of the Egyptian banking system amount to LE498 billion representing 120% of the GDP while the domestic credit accounts for nearly 54% of the GDP. The business and households account for nearly 53% of the total bank credit. The government enacted a new Law of the Central Bank, Banking Sector and Monetary Sector 88 of 2003 which gives the mandate to the Central Bank of Egypt (CBE) to achieve price stability, develop and implement banking policies, and supervise compliance with capital adequacy ratio requirements.

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<sup>21</sup> See The Egyptian Competitiveness Report 2005-2006, published by the Egyptian National Competitiveness Council.

2.1.47 In Egypt, there are 43 banks, 23 of which are commercial banks and 17 are investment banks. There are 3 specialised banks. In terms of ownership, 3 are publicly owned banks, and 20 are private or joint venture banks. Out of the 17 investment banks, 10 are private or joint ventured banks while remaining 7 are off-shore banks. The 3 specialised banks are publicly owned and provide medium and long-term loans to the agriculture, industry and real estate sectors. However, the distinction between investment banks and commercial banks is artificial since both offer similar range of services. Moreover following the 2003 banking law, the artificial distinction has been modified. Thus the banking sector is dominated by the publicly owned banks. The publicly owned banks have a significant market share in retail and corporate banking services. On the other hand, private sector banks play a less dominant role in the providing term loans but concentrate more on trade financing. However, because of the dominance of the public sector banks, the banking sector is highly concentrated and less competitive.

2.1.48 The Egyptian banking system was undercapitalised during 1990s but a cash injection of LE1.3 billion by the government helped the banking system to meet the Basle I capital adequacy ratio of 10%. It is important to note that generally the private sector banks have stronger credit selection system compared to the public sector banks. Given this scenario, there is a higher capital risk in case of public sector banks in Egypt. The government injected a further LE4 billion in March 2003 in order to help public sector banks to meet the new 10% risk-weighted capitalisation ratio. The new banking law has significantly raised the minimum capital requirements from the previous level of LE100 million for domestic banks and USD 15 million for foreign owned banks to LE500 million and USD50 million respectively.

2.1.49 The CBE is aiming to change its approach to supervision of banks from a compliance based approach to a risk based approach. The CBE is receiving help from the World Bank, USAID, EU and the European Central Bank (ECB) in capacity building and financing of skilled staff. A Banking Reform Unit (BRU) within the CBE has been set up. The BRU has prepared a plan to address four main issues; (i) mergers, privatisations and weak banks;(ii) non performing loans; (iii) financial and managerial restructuring of the public sector banks; and (iv) upgrading of CBE's banking supervision capabilities. As part of restructuring, the CBE has approved two proposed mergers between Egyptian Arab Land Bank with Housing and Development Bank and Mohandess Bank with National Bank of Egypt. The Bank of Alexandria has been privatised. The divestiture of the state-owned banks shareholding in 12 joint venture banks has been completed. Bank Misr and Banque du Caire have been merged to improve their risk management and information technology capabilities. Further, a detailed plan has been prepared with the help of the World Bank that focuses on enhancing the quality of human resources in public sector banks.

### ***Cairo and Alexandria Stock Exchange***

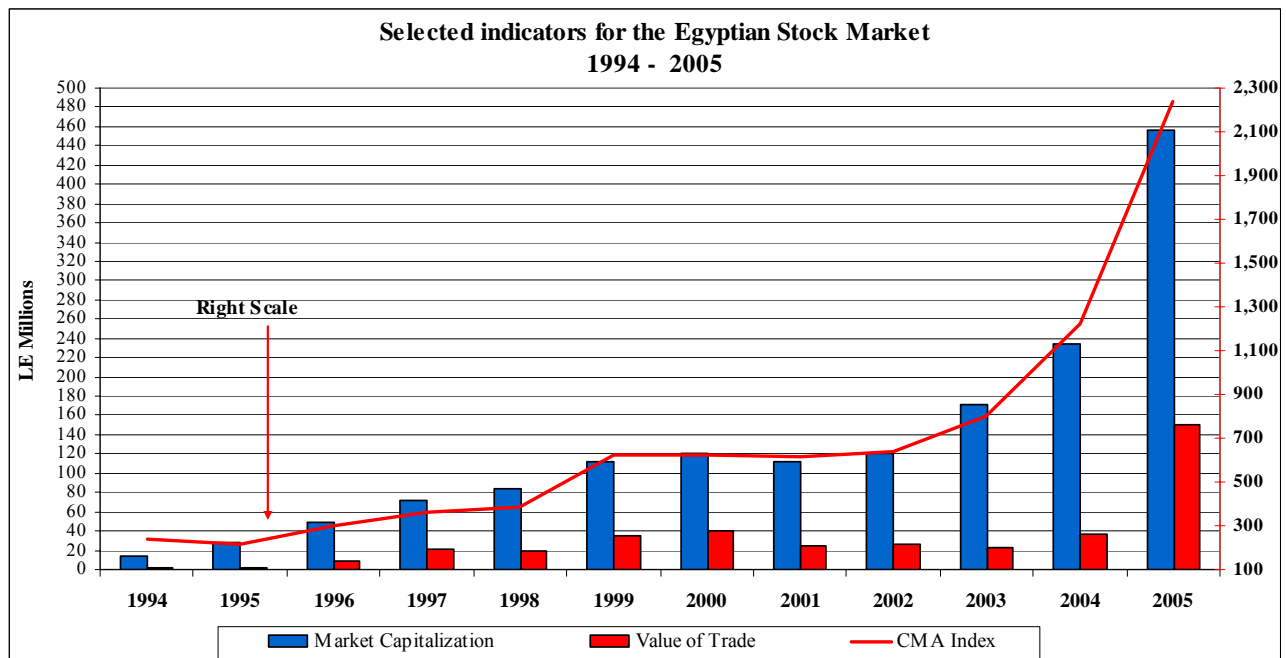
2.1.50 The Capital Market Law 95/1992 and Depository and Central Registry Law 93/2000 provide the regulatory framework for the stock exchange activities.<sup>22</sup> The Cairo and Alexandria Stock Exchange (CASE) is one of the oldest and largest stock exchanges in Africa. It has been modernised over the last decade that has made it as one of the most modern stock exchanges. The number of listed companies (which need to be traded at least once every six months) fell to 595 by December 2006, from 1151 in December 2002 as many companies that had listed to take advantage of the government's tax incentives decided to de-list following the withdrawal of the tax incentives by the

<sup>22</sup> A proposed new Capital Market Law aims at creating a balance between enhancing supervisory powers and simplifying participation. It deals with several major aspects including the Capital Market Authority (CMA) as the supervisory authority for overseeing the operations of CASE. The law stresses CMA's independence and paves the way for the Cairo and Alexandria Stock Exchange to develop into a self-regulating organisation.

government in 2003/04. Out of the 595 listed companies, stocks of about 407 companies were traded actively. As at the end of 2006, the market capitalisation had shown a consistent rising trend reaching LE534 billion compared with mere LE112 billion in 2001. The total value of trading increased from LE31.8 billion in 2001 to LE287 billion in 2006 (See figure 3).

2.1.51 Egypt's WTO financial services commitment in the securities sector provides for unrestricted market access and national treatment for foreign companies. International investors are permitted to operate in the Egyptian stock market largely without restriction. Several foreign brokers, including U.S. and European firms, have established or purchased stakes in brokerage companies. In May 2002, the Minister of Finance issued a decree to establish the Primary Dealers System which started operating in July 2004. The new system allows financial institutions that are registered with the Ministry of Finance, currently including 13 banks, to underwrite primary issues of government securities and to activate trading in the secondary market through sale, purchase and repurchase of government securities. The government is using the primary dealers system to manage its public debt.

**Figure 3**



Source: *Capital Market Authority & Cairo & Alexandria Stock Exchange*

### ***Issues and Challenges***

2.1.52 One of the main challenges facing the capital market is the development of the non-cash section of the market through the introduction of new products such as futures and options, margin trading, securitisation, and index-linked trading. However, before more sophisticated and complex market products can be introduced, the regulatory and supervisory framework needs to be upgraded together with the capacity of the Capital Market Authority (CMA) as the regulator. Other challenges facing the capital market include: (i) improving the quality of the listed companies on the stock exchange through the introduction of stricter standards and rules for exchange listing, requiring more disclosure and transparency; (ii) improving the quality of market participants (advisory services, research, etc.) including fostering the entry of qualified asset managers and regulation of the investment management profession; (iii) improving market structure (reduce volatility and concentration); and (iv) addressing ownership of market institutions, particularly the CASE. The

CMA has started the reform process. However it is faced with the shortage of required skills and expertise.

## **F. Corporate Governance**

2.1.53 The Corporate Governance Principles developed by the Organisation for Economic Co-operation and Development (OECD) have become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The principles provide specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries. The Financial Stability Forum (FSF) has designated the Principles as one of the key standards for sound financial systems because it is increasingly recognised that corporate governance is one key element in improving economic efficiency and growth. The Principles emphasise that corporate governance should promote transparent and efficient markets, be consistent with rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The Principles further stress that the corporate governance framework should protect and facilitate the exercise of shareholders' rights. A good corporate governance framework ensures timely and accurate disclosure on all material matters regarding the corporation, its financial situation, performance, ownership, and governance of the company. However, corporate governance is much more than simply a checklist of duties and mere existence of policies does not on its own ensure good corporate governance. For this reason, enforcement and monitoring of good corporate governance practices is a must.

### ***Corporate Governance Situation in Egypt***

2.1.54 Egypt began to pay attention to the issue of corporate governance following the liberalisation and deregulation programme that started in 1990s with privatisation of some of the public sector companies. At present, the Company Law 159/1981, the Capital Market Law 95/1992, and the stock exchange listing rules provide the legislative framework for corporate governance in Egypt. Further, the Central Depository Law 93/2000 regulates shareholder record keeping, clearing and settlement. However, there is a need for a more purposeful and comprehensive enabling corporate governance legislation. In this regard, the new Egypt Code of Corporate Governance with Guidelines and Standards has been developed through the combined efforts of General Authority for Investment and Free Zones (GAFI), Cairo and Alexandria Stock Exchange (CASE) and the Centre for International Private Enterprises (CIPE). Leaders in the local accounting, auditing, and general business community were consulted in preparation of this new code which is largely based on the OECD Corporate Governance Principles and Standards.

2.1.55 The proposed code on corporate governance has developed guidelines on key principles of corporate governance aimed at encouraging the Egyptian corporations to voluntarily comply with the rules in promoting responsible and transparent behaviour in management of the corporations. The code includes a comprehensive set of guidelines on key matters of conduct of general assembly, operations of the board of directors, internal audit committee, appointment and independence of external auditors, and disclosure of social policies. One of the most significant recommendations is with regard to strengthening of the internal audit departments within the corporations. The code suggests establishment of an internal audit committee with representation from non-executive directors and appointment of an Internal Audit Manager with a specific responsibility for ensuring compliance with internationally accepted corporate governance principles and practices. The internal audit committee would be expected to review the financial statements and give its report. The committee will also assess the qualification, performance and independence in nominating the external auditor. The code requires that the annual report should disclose the remuneration, allowances, real privileges, stock options, and any other benefit of financial nature that is received

by the board members. The code demands that the corporations should include in its annual report, the degree of compliance with the guidelines and standards of the Egyptian Code of Corporate governance.

2.1.56 The CMA has developed a corporate governance checklist (see CMA Annual Report for 2000) and has started to look at corporate governance compliance issues in the companies listed on CASE. With an aim to improve transparency, the CMA requires listed companies to comply with the rules of disclosure according to securities listing requirements and Egyptian Accounting Standards. Under the rules, companies have the legal obligation to disclose any information which may lead to insider trading. The companies are also obligated to disclose any urgent material events that may have tangible effects on the shares of the company. The CMA is able to draft new secondary regulations which can be issued as decrees of the Minister of Foreign Trade. In past couple of years, the CMA has issued new executive regulations and rules to address issues relating to disclosure practices, stock exchange listing, tender offers, and securitisation. CMA has also taken steps for protecting the rights of the minority shareholders by suspending General Assemblies' resolutions that are issued for the benefits of certain categories of shareholders. Apart from this, in 2003, the CMA issued a draft decree to establish an Investors Protection Fund for protecting shareholders from non-commercial risks and has started investor awareness programme by organising seminars, issuing publications, and training of brokers and intermediaries.

2.1.57 In 2004, a new initiative to set up the Egyptian Institute of Directors (EIoD) was approved through the Presidential decree 231/2004. The main aim of the EIoD is to increase the awareness and promote the principles of Corporate Governance among Egyptian Corporations, financial institutions, and other stakeholders. The EIoD is established in collaboration with the World Bank, IFC, and CIPE. The EIoD has four main areas of activities; awareness, training, advisory services, and research and policy advise. The EIoD aims to design and deliver a variety of training courses covering all areas of Corporate Governance. For this purpose, the EIoD has an agreement with the World Bank and University of North Carolina for training and capacity building in the area of Corporate Governance. For ensuring that corporate governance principles are applied in practice in the Egyptian corporations, the EIoD will offer research and advisory services on how the level of compliance with Corporate Governance can be improved. Once active, the EIoD aims to conduct regular research in Corporate Governance covering both Egyptian as well as international companies for studying the impact of the application of good corporate governance practices.

2.1.58 The government has taken some specific steps towards improving corporate governance in the public enterprises by empowering managements and enhancing the role of the general assemblies. The government intends to appoint two deputy chairmen with financial and technical backgrounds in each company. For the first time, the minutes of general assembly meetings are being posted on the new portal of the Ministry of Investment. The Institute of Directors is being involved and their members are being invited to apply corporate governance principles and skills to public enterprises.

### ***Issues and Challenges in Corporate Governance Practices***

2.1.59 According to the 2004 World Bank's Report on the Observance of Standards and Codes (ROSC), Egypt has made significant progress in strengthening corporate governance regulations through a number of major reforms, mostly incorporated in the new stock exchange listing rules. In its report, the World Bank suggests that most of the OECD Governance Principles relating to the rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board are either observed or

largely observed (see Table 3). Only in the matter of easing of the voting process and discussions on the corporate governance roles and responsibilities in the matters of revisions in the investment funds laws, the OECD principle (IF) is not materially observed. However, principles relating to the prohibition of insider trading, timely disclosure of financial statements, audit oversight body, legislative guidance on duty of care and duty of loyalty to the shareholders, and appointment of independent directors were only partially observed. Despite this, Egypt could do more to ensure that all OECD principles are well understood by the board of directors of the corporations and are followed in practice. Corporate governance principles on timely disclosure of financial statements, audit oversight body, duty of loyalty to the shareholders, and appointment of independent directors are some of the areas, where progress should be made. Some other key challenges include legislative reforms that will reform existing laws for greater compliance with the OECD governance guidelines, strengthening of institutions like CMA and CASE that will allow rigorous monitoring and enforcement of good corporate governance practices, and increasing the relevance of the potential role the Egyptian Institute of Directors in increasing awareness on the role, duties, and functions of the board of directors.

2.1.60 Also, Egypt needs to make further progress on protection of minority shareholder's rights. The company law does not include adequate provisions for protection of shareholder's rights. Oversight of management, independence of board, and voting are some other areas of concern. There are also concerns in the matter of full compliance with disclosure requirements by banks. Egyptians banks are generally reluctant to disclose more information than what is available in their published balance sheet. Most banks and companies publish summarized financial statements and do not disclose risk related information. Although the government is in the process of enacting a new Companies Law, there is still some work to be done in ensuring that the private or the public enterprises are managed in a transparent and accountable manner. Structural weaknesses in institutions, lack of enforcement of regulations and inadequate supervision may hamper in realising the full benefits good corporate governance. For Egypt to successfully implement corporate governance agenda, it should start investing in capacity building of the human resources working in the institutions that have the responsibility for enforcing corporate governance regulations. At the macro level, governance environment in Egypt could still be improved.

### **Public and Private Accounting and financial reporting**

2.1.61 During the past few years, Egypt has made significant progress towards development of accounting and auditing regulations in consistency with the International Accounting Standards (IAS). As a consequence, improvements have been made in the accounting and disclosure practices. Although not yet approved, a new Accounting Practice Law has been prepared in consultation with various stakeholders. The new law was prepared under the sponsorship of the Ministry of Finance and two important accounting bodies, Syndicate of Accountants in Egypt, and the Egyptian Society for Accountants and Auditors.<sup>23</sup> The new law seeks to ensure compliance with the internationally accepted accounting, auditing, and financial reporting standards and also incorporates important provisions for improving current corporate governance practices in Egypt. However, despite the urgency, the draft of a new Accounting Law has not been approved as yet. This has adversely affected the pace of the progress in modernisation of accounting and auditing practices.

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<sup>23</sup> The Syndicate membership is open to all graduates with a major in accounting. However, the Society membership is restricted to only professionally qualified accountants holding ACCA or CPA professional qualifications or to those graduates who have had at least three years of training in one of the accounting and auditing firms of members of the Society and has passed the final examination conducted by the Society or to those who hold a PhD degree in Accountancy.

2.1.62 At present the accounting and auditing profession is governed by the Accounting Practices Law 133/1951 which is old and outdated. According to this law, individuals wishing to practice as accountants only need a bachelor degree with a major in accounting and three years of work experience as accountant in any firm and a registration with the Ministry of Finance. The trainee qualifies for the first level registration as accountant after completing three years of professional work with an accounting firm or equivalent. After acquiring three years of work experience, the individuals are allowed to practice as auditors and after an additional five years of work experience as auditors, they are allowed to audit joint stock companies. The MOF has a list of more than 30,000 registered accountants some of whom are providing auditing services under the supervision of auditing firms.

**Table 3**  
**Summary of Observance of OECD Corporate Governance Principles<sup>24</sup>**

PRINCIPLE	O	LO	PO	MO	NO	Comment
<b>I. THE RIGHTS OF SHAREHOLDERS</b>						
IA. Basic shareholders rights	X					• Basic rights observed. Some compliance gaps clearing and settlement
IB. Rights to participate in fundamental decisions		X				• Shareholders participate in most fundamental decisions with 66/75percent supermajority.
IC. Shareholders AGM rights		X				• No major reported problems. Notice period 15 days.
ID. Disproportionate control decisions		X				• Companies disclose at 5 percent level. Most ownership reported formally and informally well understood.
IE. Control arrangements should be allowed to function		X				• Very limited takeover rules. CMA informally enforcing mandatory bid rule.
IF. Cost/benefit to voting				X		• At present, uncommon for institutional investors to have voting policies and some don't vote.
<b>II. EQUITABLE TREATMENT OF SHAREHOLDERS</b>						
IIA. All shareholders should be treated equally		X				• Share voting info may be difficult to obtain. Slow court system. CMA is powerful redress mechanism.
IIB. Prohibit insider trading			X			• Insider trading not specifically addressed in law, but is administratively enforced.
IIC. Board/Managers. Disclose interests		X				• Accounting standards follow IAS 24. New listing rules add to RPT disclosure requirements.
<b>III. ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE</b>						
IIIA. Stakeholders rights respected	X					• Stakeholders have a number of legal protections. Employee board representation relatively rare.
IIIB. Redress for violation of rights	X					• Stakeholder have access to legal process to obtain redress.
IIIC. Performance enhancement	X					• Company law grants employees automatic rights to 10 percent profit sharing. Employee share ownership in some privatised companies.
IIID. Access to information		X				• Employee, bondholders, others have rights to information by law.
<b>IV. DISCLOSURE AND TRANSPARENCY</b>						
IVA. Disclosure standards			X			• Annual and quarterly reports. Some missing non-financial disclosure (forward-looking MD&A, risk factors, governance)
IVB. Standards of accounting and audit		X				• Standards generally close to IAS; compliance uncertain
IVC. Independent audit annually			X			• No audit oversight board (but included in draft accounting law). New listing rules require audit commit, but slow adoption.

<sup>24</sup> Report on the Observance of Standards and Codes (ROSC), Corporate Governance Country Assessment, World Bank and IMF report, March 2004

IVD. Fair and & timely dissemination		X				<ul style="list-style-type: none"> <li>• Many channels of information</li> </ul>
<b>V. RESPONSIBILITIES OF THE BOARD</b>						
VA. Acts with due diligence, care		X				<ul style="list-style-type: none"> <li>• Single tier boards. Frequently Chairman and CEO are same person. Two members can be appointed “experts”.</li> </ul>
VB. Treat all shareholders fairly			X			<ul style="list-style-type: none"> <li>• Limited legislative guidance on duty of care and duty of loyalty, but some jurisprudence.</li> </ul>
VC. Ensure compliance w/ law		X				<ul style="list-style-type: none"> <li>• Company law requires board to take interest of employees into account.</li> </ul>
VD. The board should fulfil certain key functions			X			<ul style="list-style-type: none"> <li>• In practice, boards of most companies do not play central/strategic role, and are not clearly different from management.</li> </ul>
VE. The board should be able to exercise objective judgement				X		<ul style="list-style-type: none"> <li>• No rules that govern independence. Few companies appoint independent directors.</li> </ul>
VF. Access to information.	X					<ul style="list-style-type: none"> <li>• Most directors are insiders and have access to information. Can be more difficult for non-executives sometimes, because information is not available.</li> </ul>

2.1.63 While the Company Law 159/1981 (as amended by 3/1998) regulates joint stock companies, the Capital Market Law 95/1992 requires companies listed on the stock exchange to prepare their financial statements in accordance with the Egyptian Accounting Standards.<sup>25</sup> However, the law suggests that in the absence of Egyptian Accounting Standards for any particular accounting treatment, the IAS rules should be used. The Capital Market Law requires all listed companies to file half yearly audited financial statements and quarterly financial statements with the CMA and the stock exchange. The quarterly reports are not required to be audited but do require a limited review by the auditors. The law also requires companies to publish their summarized financial statements in newspapers. However, there is no requirement for publishing detailed financial statements with notes. The new Capital Market Law (2001) which is currently under consideration includes provisions for penalties and administrative sanctions for violations of financial reporting and disclosure requirements. Under the provisions of new Accounting Law, individuals would be required to pass the professional qualification exams before being allowed to practice as accountants. The individuals would have to pass Level I exams of the Egyptian Society for Accounting and Auditors and would need a minimum of 3 to 5 years experience before they are allowed to audit small firms and partnerships. Further, to be able to audit the accounts of companies, the individuals would be required to pass Level II exams with a minimum of five years of accounting experience. Establishment of an accounting oversight body has also been proposed under the new law. This supreme council of accounting and auditors would be headed by the Ministry of Finance and will have members from other agencies including the Central Accounting Organisation (CAO), the CMA, the CBE, Tax Authority, and members from the Syndicate and the Society. The proposed oversight body will regularly review the accounting practices and standards and will have the authority to disqualify any accountant found guilty of non-compliance and/or violation of the accounting and auditing regulations.

2.1.64 The accounting and auditing regulations concerning banks are governed by the Banking Law 163/1957. The law requires all banks to comply with the accounting and auditing requirements as laid down by the CBE. The Central Bank requires all banks to file annual, semi-annual and quarterly reports including financial statements prepared in accordance with the Egyptian Accounting

<sup>25</sup> Originally, the Capital Market Law required all companies to follow the International Accounting Standards (IAS) but this was changed following a Ministerial Decree 503/1997 issued by the Ministry of Economy and Foreign Trade which was the supervising Ministry of the Capital Market Authority. The name of the Ministry has been changed to the Ministry of Foreign Trade, which continues to issue accounting and auditing requirements for all companies which fall within the regulatory framework of the CMA.

Standards. The Central Bank appoints two licensed auditors who have the responsibility of auditing accounts and preparing financial statements. The Central Bank has a special register of approved accountants who are generally professionally qualified. The auditors are not allowed to audit more than two banks per year.

2.1.65 The accounting profession in Egypt is controlled by the Syndicate of Accountants in Egypt and the Egyptian Society of Accountants and Auditors. The latter is perceived as an elite body of accounting professionals because it restricts its membership to those who are professionally qualified as accountants. The Society has around 1200 members and around 700 of its members are actively involved in auditing practices. However, the Society does not function as a self regulatory body as required by the International Federation of Accountants (IFAC) since it does not have a disciplinary committee with powers to ensure that its members comply with the rules of professional conduct. As opposed to the Society, the Syndicate has a much larger membership because it does not require its members to be professional qualified. Because of its larger membership, the Syndicate is able to exert political influence in matters concerning the accounting profession. According to the existing laws, the Ministry of Finance is responsible for registering professional accountants and auditors.

2.1.66 A permanent committee for Standards in Accounting and Auditing chaired by the chairman of the Capital Market Authority and comprising nine members representing major accounting associations, the CAO, the CMA, the CBE, and the GAFI was set up in May 1997 through a Ministerial Decree 478/1997. Although the committee has the formal responsibility for setting the accounting and auditing standards, in practice, the Egyptian Society for Accountants and Auditors remains responsible for setting new accounting and auditing standards. The Society has a special committee which selects an international standard and converts it into Arabic language. This then becomes the basis for drafting of an Egyptian standard that reflects specific requirements under Egyptian laws and regulations. The draft standard is then submitted to the Permanent Committee for discussion and adoption.

2.1.67 Although the new Accounting Law includes provisions for continuous training and education of practicing accountants, currently there is no formal requirement for continuous training and education of accounting graduates. As a consequence, large international professional accounting firms such as KPMG have their own induction courses where they virtually re-teach accounting. The trainees are required to pass an 'end of the programme' exam to be able to qualify for the job in these international accounting firms. Accounting graduates from private universities who study with English as a medium of instructions are generally of better quality but the experience shows that high quality graduates with English language capabilities do not generally join the accounting profession primarily because of the lack of competitive remuneration structure in Egypt.

### ***Internal Audit and Control***

2.1.68 Although not yet approved, a new Egyptian Code of Corporate Governance contains provisions for establishment and conduct of internal auditing procedures within Egyptian corporations. The code requires establishment of an Audit Committee in each company comprising of at least three non-executive board members, one of who should have financial and accounting expertise. The audit committee would be primarily responsible for ensuring that accounting procedures are followed in conformity with the Egyptian Accounting Standards. With an aim to increase transparency in the decision making and independence of the external auditor, the audit committee would have the mandate to assess the qualifications and performance and nominate the

names of the external auditors for approval in the general assembly. The proposed code also requires appointment of an Internal Audit Manager whose primary task will be to ensure compliance with the accounting and auditing regulations.

### ***Issues and Challenges for Improving Accounting and Auditing Standards***

2.1.69 At present, there is a gap between the auditing standards and the actual compliance with these standards. The main reasons for non-conformity include the lack of experience and expertise in the profession, the weaknesses in the required apprenticeship, low standards of accounting education, the lack of competitiveness in the profession in terms of salaries and incentives. Besides, there are other factors that have contributed to non-compliance. First, the quality of auditing process is determined by assigning and changing auditors. In principle this power rests with the shareholders but in practice the decisions are made by the management. Second and perhaps more important is that there are no effective control mechanisms for imposing sanctions on auditors who fail to comply with the accounting and auditing standards. The problem of non-compliance is further exacerbated due to lack of understanding of the laws and standards amongst the auditors. A study has found that majority of the auditors who were interviewed agreed that the lack of standardized measures for audit quality, the lack of legal protection, and absence of an independent organization that could guarantee the rights of the auditors are some of the factors that have contributed to non-compliance.<sup>26</sup> Further, the current Egyptian Auditing Standards only addresses the presentation of the final audit report, which may improve the final report without necessarily improving the whole of the audit process, rendering the current standard setting process as less than satisfactory. There is a lack of clarity in responsibilities and this together with delays in approval of new standards, leads to undermining of the standards by the practicing auditors.

2.1.70 The current regulation requires only a bachelor's degree with a major in accounting to register as trainee accountant. The lack of requirement for professional qualification to practice as auditors has resulted in the lack of professional competence in the auditing practices in Egypt. There is a need for a code of ethics for professional accountants and auditors in accordance with IFAC Code of Ethics. The code of ethics developed in 1958 and Syndicate's Law 40/1972 discusses ethics violation criteria for accountants but in practice many accountants and auditors have not reviewed these requirements for implementation. In practice, therefore, there is little or no awareness among many practicing auditors of international best practices concerning conflict of interest, independence, and corporate governance.

2.1.71 Thus, there are serious challenges in terms of increasing the effective implementation of accounting and auditing standards and practices that are in conformity with the internationally accepted standards and practices. For instance, the 2002 annual report of the Capital Market Authority shows that there have been many instances of accounting and auditing malpractices confirming that many auditors have not complied with disclosure requirements. It is worth noting that according to the current legislative framework, only licensed individuals are allowed to act as auditors and therefore in practice, companies appoint individual partners of audit firms as auditors. In case non-compliance or violation by the auditor, the audit firm cannot be held liable by the company. However, individual auditors can be sued by the company.

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<sup>26</sup> See Auditing in Egypt: A Study of the Legal Framework and Professional Standards by Wahadan, M.A., Spronck, P., Ali H.F., Vassen, E., Van den Herik, H.J.2004.

## 2.2 Transparency

### *Political Transparency*

2.2.1 Freedom of information is generally the proper basis for transparency. Egypt's Constitution guarantees freedom of expression "within the limits of the law" and of the press, but there are no provisions guaranteeing freedom of information or obligating the government to provide information to the public. Concerns had also been expressed about the continued existence of the Emergency Status of 1958 (renewed in 2003 for another three years), the Non-Governmental Organisation Law, the Press Regulation Laws, and provisions of the Penal Law which are seen inhibiting transparency and accountability. However, and in spite of these laws, transparency is gradually becoming an important part of Egypt's culture. The Information and Decision Support Centre, the government think-tank group for the cabinet, has undertaken and published the results of opinion polls of the public on their evaluation of the government. Furthermore, the supervision of the parliamentary elections by the nation's highly respected core of judges added to the new air of transparency.

2.2.2 Freedom of assembly and of the press is more openly allowed and has enabled political candidates to hold public gatherings, meet constituents, and debate issues surrounding the government's programmes and policies and criticise its accounting and explanations on its governance of the country. Although the government owned and controlled much of the press, the public and opposition candidates, still had measured access to the media to communicate with the public and put forth their policies and programmes for governance of the country and while there were a number of violent incidents, the elections remained relatively transparent. Further, the supervision of the parliamentary elections by the nation's highly respected core of judges added to the new air of transparency. There is a current Committee on reforming the Criminal Procedures Act which is headed by the former Attorney General. The criminal procedure law has already been amended with respect to protective custody and judges are charged with the responsibility of monitoring everything.

### *Issues and Challenges in Political Transparency*

2.2.3 The system of political accountability can still be improved further. More records could be released to the public regarding the government's actions and programmes; more debates of the budget and other government programmes are still desirable; greater access to the media will translate into greater transparency; and the abolition of laws which are incompatible with the government new experiment with transparency will generate more healthy public exchanges. For example, the imprisonment sentence of journalists has now been abolished and punishment is limited to a fine. Government agencies are now using the internet extensively, establishing websites on which they are actively engaging the public and providing information on government programmes and policies to the wider community. The government's challenge is to allow those reforms to continue and to provide a platform for people of differing ideas, including those not shared by the government, to exchange those ideas with the broader community.

### *Public expenditure review*

2.2.4 Public expenditure reviews are critical in ensuring accountability and transparency in public expenditure allocations and budgetary provisions. Public expenditure reviews enables the government in evaluation of budget performance, review effectiveness of public expenditure, identify budget constraints and form guidelines for the future budgetary exercises. The PER work is also consistent with ongoing pilot project for introduction of Performance Based Budgeting (PBB) in

education, health, water, and transport sectors. The government has introduced structural amendments to the classification and state budget's inputs and the effect of their analysis on the economy with an aim to improve the transparency in government's public expenditure allocations. For this purpose, some provisions of the law of the state budget 53/1973 have been amended. These changes will increase the number of headings of public expenditure from four to eight for more transparency and accuracy in estimating and reporting of allocations and expenditure. The new classification system will facilitate an analysis of the impact of public expenditure on the state budget and in determining how the fiscal deficit has been financed.

### ***Budget Transparency***

2.2.5 Transparent and participatory budget systems are the building blocks for good governance. As a consequence, a number of governments have placed the issue of budget transparency and participation at the centre of their good governance agenda. Good governance dictates that government operations and decisions should be made openly, and with the active participation of the stakeholders because budget is the primary economic policy document of the government. Indeed, it can be argued that the public has the *basic right* to information about the budget and to have its views considered in budget decisions. Elected representatives are more likely to act in a responsible manner if their decisions are open to public scrutiny since this enables a check on corruption.

2.2.6 The government of Egypt has taken important steps in improving the budget transparency by allowing the live telecast of the budget presentation and debate in the people's assembly and publishing the booklets on government budget for public distribution. Egypt has also taken steps to improve the collection and dissemination of statistical information by deciding to subscribe to the International Monetary Fund's (IMF) Special Data Dissemination Standard (SDDS).<sup>27</sup> Egypt's decision to follow SDDS would facilitate compliance with the international best practices on data dissemination. According to the 2005 IMF Article IV Consultation report Egypt's institutional support for dissemination of data to public is generally good. Most macroeconomic statistics are of satisfactory accuracy and reliability and generally follow international standards. However, authorities do not provide advance notice of major changes in methods, source data, and statistical techniques. Also, internal governmental access to government finance statistics and real sector data before their release is not sufficiently publicised. Except for balance of payments and monetary statistics, data are not released simultaneously to all interested parties and contact information and support services to users are limited. The government has also taken steps to improve the transparency of the privatisation process by disclosing information on companies that are up for sale and by making available, the minutes of the proceedings of the general assembly meetings of the nine holding companies on the ministry of investment's website. The minutes contain information on any decision that is made in the general assembly about asset management programme including sale and performance evaluation of the board of directors.

2.2.7 The National Accounts Department in the Ministry of Economic Development is responsible for compiling the national accounts. However, there is no single law that defines the legal and institutional environment for the national accounts and the ministry's legal mandate to receive data derives from its involvement in the national plan preparation. Instead a series of laws and legislative decrees define the legal and institutional environment for compilation of statistics by Central Agency for Public Mobilisation and Statistics (CAPMAS) including the data on consumer and the whole sale price index. The MOF has a legal and institutional environment that assigns it the responsibility for the collection, compilation, and dissemination of fiscal data and provides authority

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<sup>27</sup> The Prime Minister issued a decree number 1578 on 28 September 2003 and appointed Ministry of Planning as SDDS country coordinator.

for mandatory reporting. The legislation also sets out the terms and conditions under which MOF collects and disseminates the data to the public.

### ***Transparency in the procurement Process***

2.2.8 The procurement system in Egypt is governed by the Tenders Law 89/1998 which replaced the old legal framework provided by the Law 9/1983. The law requires that procurement procedures are carried out on the basis of competitive bidding. The new law mandates that technical factors, not just price, be considered in awarding contracts and that the preference shown to public sector companies should be diminished. The procurement process is decentralised with each ministry being allowed to procure required goods and services according to their needs provided that one of the methods explained below is used by the ministry.

2.2.9 There are two ways in which the procurement of goods and services occurs namely: (i) Public Tender; and (ii) Public Practice (negations). The tenders are open to both national and international suppliers. The tender is publicised in the newspapers in Egypt and abroad. However, under exceptional circumstances, government is allowed to obtain the necessary decree from the competent authority and procure goods or services using one of the four methods: (i) limited tender; (ii) local tender; (iii) direct agreement; and (iv) limited practice (negations). Limited tender method is used in cases where the nature of the product requires participation by selected suppliers, both national and international. Local tender procedure is applied where the procurement value does not exceed LE200,000. Generally this procedure is used in cases of local suppliers from within the governorates. In exceptional circumstances, procurement is done by Direct Agreement with the suppliers. In such circumstances permission is obtained from competent authority, governor or the ministry. However, under this system goods or services only up to the value not exceeding LE100,000 can be procured. This system is commonly used by the Defence Ministry and other Defence agencies. Finally, Limited Practice (negotiations) which involves private discussions with selected suppliers is used when the nature of the product is such that it is available from only specific suppliers in Egypt or abroad and the technical nature of the product makes it necessary to procure it directly from the suppliers. Goods or services required for the purpose of national security are often procured using limited practice (negotiations). However, procurement under this method requires that tenders are examined by a procurement committee. The composition of the committees varies depending on whether the bids involve domestic or foreign suppliers. However, participation of the Ministry of Finance is mandatory if the tender value exceeds LE250,000 and participation of the legal advisor if the value exceeds LE500,000.

2.2.10 Under normal circumstances, the Public Tender method is used. Public tender and negation practice requires offers to be submitted in two sealed envelopes. One envelope should contain technical specification and the other should include financial details. Under the system, the technical specification of the tender is considered first and subsequently only those offers which meet the technical specifications of the tender are short-listed for further consideration. If the tender value is LE50,000 or below, a single committee is allowed to examine and approve the bid. However if the tender value is more than LE50,000, two procurement committees are required to consider the bids. If the procurement value exceeds LE250,000, the procurement committees must include representatives from the Ministry of Finance. Finally if the procurement value exceeds LE500,000 the procurement committee must include representatives of the Ministry of Finance and a competent legal advisor from the council of the state. The tender is awarded to lowest bidder.

### *Issues and Challenges in Procurement Process*

2.2.11 Although the new tender law is more comprehensive than the old law; it continues to provide considerable discretion to the government in procurement matters. Moreover, since most procurement is based on the lowest price, 15% preference to Egyptian suppliers gives an unfair advantage to the domestic suppliers over the foreign bidders. Although, under the law, this preference only applies when the bid of a publicly owned firm is within 15 percent of other bids, the preferential treatment leads to inefficient procurement often at prices higher than the prices in the international markets. However, the current system is an improvement over the system under the Law 9/1988 where public sector suppliers always received the preference in procurement matters.

2.2.12 Though, the existing law protects some Contractor's rights such as speedy return of their bid and an explanation of why a competing contractor won the bid, many concerns about transparency remain. For example, the Prime Minister can authorise the method of tendering for specific entities according to terms, conditions, and rules that he determines.<sup>28</sup> Moreover, there is no independent entity with the oversight responsibilities. Egypt is not a signatory to the WTO Agreement on Government Procurement, however, the US and Egypt have a working group on government procurement established under the U.S.-Egypt Trade and Investment Framework Agreement Council aimed at improving transparency in government procurement.

2.2.13 The World Bank prepared a Country Procurement Assessment Review (CPAR) for Egypt in 2005. While noting significant progress made in Egypt over the past few years in the area of public procurement, the CPAR made some key recommendations for improvement including:

- (i) The development of National Procurement Guidelines to provide consistent and clear interpretations of the Law and Executive Statutes;
- (ii) The development of Standard Bidding and Contract Documents, to reinforce the introduction of consistent and clear methods in soliciting, submitting and evaluating bids;
- (iii) The development of Public Service Standards in Procurement, against which all procuring entities would be measured;
- (iv) The development of a Human Resources Strategy, including an effective procurement training program, in order to address the acute scarcity of procurement specialists as well as upgrade the skills of those in service; and
- (v) The development of Public Procurement Assistance for Small and Medium Enterprises, in order to increase their participation in public procurement.

2.2.14 Standard Bidding and Contract documents were developed in 2005, with all Government entities legally required to utilise the documents, while the National Procurement Guidelines are currently being prepared. A major initiative of the Government is e-procurement, involving the automation of most procurement processes, and their availability on-line. This is expected to assist in bringing efficiency and transparency into the public procurement process. Overall, public procurement processes in Egypt are generally in line with international practices, and the Bank would continue its dialogue with the Government on further improvements to the processes.

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<sup>28</sup> However this is changing and in August 2004 the newly appointed Prime Minister issued a decree stipulating strict adherence by all government ministries to the provisions of the Tenders and Auctions law that limits direct orders to cases of national security or emergency.

## 2.3 Stakeholders Participation

2.3.1 Stakeholders' participation is a major governance concerns and the Egyptian society and government are becoming increasingly conscious of the need for public participation in charting the country's policies, programs and projects, especially as they relate to local areas. The highly centralised bureaucracy has meant that local peoples have played only a minimal role in determining the projects and programs for their communities. Decentralisation has been emerging as an increasingly viable alternative. In addition, pressures for greater participation by the local communities in identifying, planning and designing projects and programmes for their communities and generating the revenues to underwrite the costs of those projects and programmes, have contributed to a new evolving decentralisation policy strategy. More public participation at the lowest level gives a sense of ownership to the communities and challenges them to efficiently deliver the required services. The UNDP "Egypt Human Development Report 2004" notes that "the diminishing quality of public service in Egypt, the increasing bureaucratic bottlenecks and the ineffective use of limited resources provide a strong case for decentralisation as a mechanism for reform."

### *Decentralisation*

2.3.2 Egypt's Constitution of 1971, Law 43 of 1979, and other laws established a complex network of systems and structures for the administration of the State. They divide Egypt into 26 Governorates. Each Governorate is headed by a governor appointed by the President.<sup>29</sup> The Governors are accountable to the Prime Minister. The affairs of the local administrations are administered by a Minister of State for Administrative Development who is in charge of local councils/municipalities and whose responsibilities include ensuring harmonisation between the central government and the local councils/municipalities. Each Governorate is divided into smaller administrative units comprising districts, cities, and villages<sup>30</sup> each with governing structures that combine elected representative councils and executive organs. The Prime Minister appoints the heads of the districts and cities while the Minister of Interior appoints the chiefs of the villages. Although the Constitution provided for the gradual transfer of some functions and powers regarding the design and execution of local programmes and projects, to the local councils, the process has not gone as well as had been expected. This has been due in part to enactment of other laws by the national parliament, such as Law 57 of 1971<sup>31</sup>. The law not only reduced the role of the local councils to one of recommending, as apposed to approving projects, but it also abolished the right of the local councils to question the executive on its performance in implementing local projects. A new Act to govern the local councils is under preparation. There is also the Governors Council which is presided over by the Prime Minister, which harmonises Government policies at the level of Governorates.

2.3.3 Currently also, the system of local administration runs top to bottom and bottom to top. In the case of top to bottom, the central government decides on the projects or programmes which are then passed to the local administration for implementation, through the relevant government line ministries. Those projects are funded directly from the central government budget and must be processed through the relevant central ministries or agencies. In the case of bottom to top, the local communities, through their elected local councils, recommend projects to the Executive Councils for approval and upward transmission to the relevant ministries and agencies, all the way to the

<sup>29</sup> Art. 161.

<sup>30</sup> The Constitution gives the government the power to create other smaller unit as necessary. Art. 161

<sup>31</sup> Law 57 introduced the concept of Executive Councils, headed by the governors and restricted the powers of the Popular Councils to recommending projects for approval of the governors or the executive Councils. In addition, the right of Popular Councils to question the executive on its performance or the implementation of projects was abolished, thereby further weakening the Councils.

parliament (in many cases) for endorsement before there can be implementation or funds made available for such implementation. But the Central government lacks both the resources and the internal coordination to adequately meet the increasing demands for services at the local level. The result of the dual processes is inadequate service at the local level, and can be seen in the context of a number of interrelated problems. Chief among these are the insufficiency and centralisation of revenues; the centralised provision of services by line ministries which are poorly coordinated; and the inability of local government to generate resources. Mechanisms for enhancing participation in community decision making, and for fostering and institutionalising local resource generation, are also lacking.

2.3.4 Local government employees represent 61% of all government employees and their share of wages amounts to 46% of total government expenditure on wages (82% of expenditure conducted at the local level).<sup>32</sup> Although Local Government Units (LGUs) account for 48% of current revenue, non-wage current expenditure amounts to only 8% of the government's budget, with investment at the local level being restricted to mostly the upkeep of Ministry of Planning and Local Development (MOLD) administrative units. Because of the substantial effective control over local government budgets, local administrations have come to depend mostly on the central government to finance development projects in their areas. Indeed, only 9% of the total government investment expenditure is decided at the local government level. Under the present centralised system, although Local Government Units (LGUs) collect 42% on behalf of the central government, the collection attributed to local governments account for only 3.1% of the central government revenue. This is partly because the local governments have very little taxing power in their communities, most of those being reserved to the central government. Correspondingly, they have an even lesser role in expenditure for development projects targeted for local communities, these being exercised by line ministries in the central government. While local communities have been given the right to collect certain fees and taxes for the support of local programmes, these account in the aggregate for only 15% of the funds needed; the other 85% has to come from the central government. The local government aggregate share of expenditure is only 15% of the local budget while the central government provides the remaining 85%. Law no. 43 of 1979 and amendments authorise LGUs to receive a share of sovereign taxes collected locally, including a tax on agricultural property, real estate, and entertainment houses. It authorises a Common Fund for LGUs accruing from sovereign taxes on imports/exports (2% of customs), movable property (2%), industrial and business profits (2%), motor vehicle, and duties on local services. And it authorises the elected local Councils to secure credits up to 40% of the value of local revenue and retain 50% of any additional revenue exceeding budget estimates of local revenues to finance local investment, as well as to establish and maintain special accounts and funds (about 30% of local government revenue) outside the national budget to supplement their fiscal resources and finance provision of services. But these have basically fallen into disuse as much of these funds have been used to supplement the central government expenditure on local investment projects. All of these have created a dependency syndrome by the local governments on the central government.

2.3.5 The Ministry of Local Development is responsible for the local administration of the various localities. A new conceptual framework has been designed for administrative decentralisation and that a new proposed law is being drafted for submission to parliament. Under the proposed law, Governors will retain their positions as heads of the Executive Councils, but the local councils will have more legislative-type prerogatives than they currently have. There are three phases contemplated by the Ministry. First, greater flexibility and more powers to the elected local councils with regard to investment budgets would be given. In this phase, funds would be given by the central government to the governorates which will decide on the priorities. However, the central

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<sup>32</sup> UNDP "Egypt Human Development Report 2004, pp. 54-55.

government will still retain the power to decide how much will be spent in each sector. In the second phase, the governorates will be empowered to decide on how much to spend on each priority. In the third phase, it is envisioned that the governorates will control their own resources, but will be required to contribute certain portions of those resources to the central government. The Governors and directors will be accountable to both the central government and the local elected councils.

### ***Issues and Challenges in Decentralisation and Local Government Administration***

2.3.6 A major functional approach to decentralisation is to have the various executive appointed positions, from the governorship to the village heads, transformed and opened to a multi-party competitive elective process. In addition, the Government needs to consider having the local councils play a key role in “local public choices” and return to them the parliamentary prerogative of questioning executive officials on their conduct of the affairs of the local communities. LGUs should be given authority to implement investment projects which should be determined by local communities, leaving the line ministries to formulate policy guidelines and deal with fiscal responsibility law. This would engender increased accountability at the local level for public service failures. Furthermore, the Governors and the councils could be empowered to control more of the resources generated within their jurisdictions and given greater authority to decide on projects and programmes that directly affect their communities. Part of this authority would be the levy of taxes and increased control over collection of taxes (including property tax), recruitment for local public service personnel, and control of certain services. In that respect the Housing Law enacted in the 1950s should be amended. Under that law, rent is set at a fixed rate. In 1995 a new law was enacted to deal with rent, but it is only applicable to new quarters that are constructed and not to quarters existing prior to the passage of the law. The Government has not repealed the old law because of its sensitivity with the public and fear of a backlash, given the low salaries of civil servants, and the high unemployment rate. Yet, the issue should be addressed and could be a firm source of revenue generation for local administrations. Local government should therefore be given the power to set and collect such taxes.

2.3.7 Moreover, decentralisation must be undertaken in coordination with civil service reform. This will involve a transfer of power from top to bottom and the interchanging of roles at two levels: The policy-making role and the service delivery role. The former should involve itself with setting standards and regulations to guide the system while the latter should have the power to do the actual service delivery and be accountable for its conduct. At this level, recruitment is more likely to be based on competence and efficiency rather than political party affiliation. The further challenge to the Egyptian government for success of any fiscal decentralization program must involve granting to the local government (a) autonomy in different spending decisions, both as to current and capital expenditures, (b) freedom to allocate public investment across different services, (c) authority to make decisions on how community priority needs can or should be met and (d) provide incentives and encouragement to local government units to strengthen their financial independence, including rewarding them for high performance in tax collection and other revenue generating undertakings.

### ***Gender Issue***

2.3.8 Egypt is one of the North African countries that has an active programme for the promotion of gender equality. It has one of the most highly intellectualised female population, a large percentage of whom hold the highest attainable academic and professional degrees. As much as 33.4% of university graduates in the area of science and technology are women (up from 28% in 1981/1982); 50.3% of graduates from theoretical universities are women, and 36% of the teaching

faculty are women. Also, there has been a significant increase in the number of women occupying high managerial posts and other decision making positions that were previously closed to them, including such posts as university presidents, judges, cabinet ministers, deputy ministers, chairs of city councils, etc. The appointment of women to decision making positions reached 34.6% in 2002, compared to 15.3% in 1996, and women now constitute over 22% of the work force, compared to 18% in 1984. More than 25.6% of public sector employees in urban areas are women, and 37.8% of the total number of registered voters nationally is women, with the percentage being as high as 50% in some governorates.

2.3.9 Egypt's Constitution states that the State shall guarantee equality of opportunity to all Egyptians (Article. 8), considers all equal before the law, and considers women equal to men in political, social, cultural and economic spheres (Article. 11), with equal public rights and duties without discrimination due to sex, ethnic origin, language, religion or creed. (Article. 40) In addition, Egypt has subscribed to the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), and in 2000, the President issued decree No. 90 establishing the National Council for Women to promote gender equality. Already the Council has initiated the creation of equal opportunity units in each government ministry and agency; established 27 branches in all of the governorates to sensitize women to their rights; established an Ombudsman Office to deal with discrimination in the work place, personal status law, domestic violence, inheritance issues, and complaints from women regarding gender discrimination; set up a Political Centre for the Empowerment of Women to conduct training programmes to sensitize women to the need to be actively involved in political life; and developed a Socio-economic National Plan for Women (2002-2007) with gender-sensitive indicators to monitor the implementation of the Plan.

2.3.10 In addition, the Government established a National Council for Human Rights (NCHR) to further deal with rights' issues, including gender, and the Council for Motherhood and Children in Egypt to protect women and children's rights. Moreover, the Family Law was amended in 2000 to grant women, for the first time, the right to secure a divorce even if they could not prove that their husbands had committed harmful acts toward them; a new Nationality Law (No. 154 of 2004) gave the offspring of Egyptian women and foreign fathers, for the first time, the same rights to Egyptian nationality as the offspring of Egyptian men who had marital relationship with foreign women; new family courts were established, under a Law No. 10 of 2004, to deal with personal status matters and to safeguard the human rights of women and their children. A new Law No. 11 of 2004 created the Family Insurance Fund to provide alimony to women until personal status cases are resolved and judgments enforced; Ministerial decree No. 3936 of 1996, which stipulated that a wife should obtain her husband's prior approval before she is issued a passport and allowed to travel, was abolished; a new Family Tribunal Law is in effect; and tremendous investment and improvements have been made in human capital to close the gender gap in health, education, economic participation, inheritance, ownership of land, equality in employment, salary, promotion, and other social areas.

2.3.11 Yet, Egypt continues to experience serious gender problems. The present People's Assembly has only 9 female members or 2.9% of the 454 members of parliament, 4 of whom were appointed by the president from the 10 members which he has the constitutional authority to appoint. The Shura Council, the second parliamentary body, has only 1.9% compared to 3.3% in 1980 out of its 264 members. Out of the 5,414 candidates fielded by all political parties contesting the last parliamentary elections (2005/06), only 40 females were put forward. None of Egypt's 26 Governorates has a female Governor. The judiciary has only 4 women judges out of several thousands; and there are no women public prosecutors. Almost 56% of the adult illiterate Egyptians are women, compared to 33% male. Women constitute only 22% of the labour force; and women are paid just over 76% of men's wages in the private sector and 86% in the public sector while 19%

of women are unemployed, compared to 5% male. Rural women own only 6% of the land even though they constitute 20% of the agricultural working force. Female genital mutilation continues to be extensively practiced. The First Lady is sponsoring a campaign forbidding non-licensed doctors from doing it. Egypt's Penal Law prescribes a higher penalty and a different standard for women who commit adultery than for men who commit the same offence and domestic violence remains a problem.

### ***Issues and Challenges in Gender Inequality***

2.3.12 The challenges for the government are enormous in this area. It should amend those statutes which directly violate the constitutional directive for equality; Laws that provide greater assurances of equality in the work place and impose rigid penalties for violations should be enacted. The new public service law should ensure equality in public employment, promotion, salary, decision-making positions, etc., It should enforce more rigorously the sex abuse law, as well as the law against female genital mutilation. There is need to appoint more females as judges. Educational equality must remain its focus and its goal of eradicating poverty must simultaneously address issues of gender equality at that level.

### **Non-Governmental Organisations (NGOs)**

2.3.13 Non-Governmental Organisations (NGOs) and Civil Society Organisations (CSOs) play a key role in the national development of countries. In the case of Egypt, there are more than 16,000 NGOs and CSOs, most of them in small communities and not concerned with national issues. The NGOs are governed by Non-Governmental Organisations Law which vests in the Ministry for Social Solidarity (MSS) the authority to supervise NGOs. The number of NGOs continues to grow and to exhibit independence. Indeed, they not only played a key role in promoting transparency in the recent elections, but they also monitored the results, although they were not allowed in all instances to play that role in specific circumstances. While the MSS has not used the powers vested in it to undertake any widespread action against NGOs or to intimidate them, an amendment of the act to delete provisions which in themselves are perceived as intimidating to NGOs will promote Egypt's image and its commitment to human rights.

### ***Economic Cooperation and Regional Integration***

2.3.14 Egypt has signed several multilateral and bilateral agreements with a number of regional countries to promote trade and investment. One of the most important treaties that Egypt has signed in June 2002 is with the EU. The treaty is about establishment of a free trade area within next 12 years during which Egypt will have to gradually phase out all tariff and non tariff barriers against manufactured imports from the EU (except for Automobiles which will be liberalised after 16 years). Egypt has also signed the Greater Arab Free Trade Area (GAFTA) in 1997 which aims at full elimination of tariffs and non tariff barriers within 10 years with 10% reduction each year starting in 1998.<sup>33</sup> GAFTA comprises 12 Arab countries including Egypt, Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia & Emirates. Egypt is a part of the Common Market for Eastern and Southern Africa (COMESA) that aims to facilitate the removal of the structural and institutional weaknesses of member States so that they are able to attain collective and sustained development to create and maintain a Free Trade Area guaranteeing the free movement of goods and services produced within COMESA. Egypt has also signed taxation treaties for avoiding double taxation with 31 countries. Egypt is a member of the Euro-Mediterranean Free Trade Area (EMFTA) which is to be established by 2010. It is a very important

<sup>33</sup> Recently GAFTA decided that the transitional period of 10 years should finish by 2005 instead of 2007.

agreement that will give Egypt market access to EFTA zone that will include some 40 States and 600-800 million consumers. The Euro-Mediterranean Association Agreements provides for the gradual implementation of bilateral free trade in manufactured goods and progressive liberalisation of trade in agricultural products. Egypt has established a free trade area with the 'traiid' (Jordan, Tunisia, and Morocco) and is a member of a three year Euro Mediterranean Network of Investment Promotion Agencies (ANIMA) programme funded by the European Union (EU). ANIMA is a part of the Euro- Mediterranean partnership programme (MEDA) between the European Union and 12 partner states to the South and East of the Mediterranean (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, Turkey). ANIMA aims at increasing foreign direct investment in the Mediterranean by developing a co-operation between European investment promotion agencies (EU IPAs) and Mediterranean agencies (Med IPAs) in promoting Mediterranean region as investment destination.

2.3.15 Egypt has also developed partnerships with countries outside of Africa. Egypt is one of the key members of the World Trade Organisation (WTO). Egypt is also a member of the Group of Fifteen (G15) which was established in 1989 for promoting South-South Cooperation and North-South dialogue in trade, investment and technology in order to pursue collaboration on economic issues and to strengthen negotiating status of developing countries. Membership of the D-8, allows Egypt to exert its influence in policy formulations for improving developing countries' positions in the world economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at the international level. The D-8 comprises co-founders Egypt, Iran, Turkey, Pakistan, Bangladesh, Indonesia, Malaysia, and Nigeria. Egypt is also a member of the Group of 77 (G77) which is the largest Third World coalition in the United Nations, The group of 77 provides the means for the developing world to articulate and promote its collective economic interests and promote economic and technical cooperation among developing countries. The US- Egyptian Partnership for Economic Growth and the US Trade and Investment Framework Agreement (TIFA) are some other arrangements Egypt has made for promoting bilateral economic and trade relations.

2.3.16 Egypt has to continue to work on removing the export related hurdles for it to be able to take full advantage of market access it has gained through bilateral and multilateral treaties. Moreover, Egypt does not have its own non-preferential rules of origin scheme, instead Egypt has adopted a number of different schemes of preferential rules of origin in the free trade area it has joined. For example, with EU, Egypt has adopted Pan European rules and with COMESA, it has adopted a 45% value added scheme. Egypt's major trading partner is the EU and Asia. (See Table 4).

**Table 4**  
**Egypt's International Trade in 2006**

Region	Exports	Imports
European Union	35%	23%
Asia	28%	32%
Eastern Europe	5%	11%
Africa	5%	7%
North America	10%	8%
Latin America	0.2%	4%
Other	16.8%	15%

Source: Ministry of Foreign Trade, *Monthly Economic Digest*, September 2006 (<http://www.mfti.gov.eg/>)

## 2.4 Legal and Judicial Systems

2.4.1 The legal framework designed by a nation to respond to its economic, political, and social needs. The constitutional mechanisms it puts into place for the enforcement of its laws and the protection of rights and the respect it shows for the operation of its legal institutions and for the rule of law are crucial to the sustainability of its economic development programmes. At the centre of this legal framework is the nation's judiciary. The competence, strength, honesty and independence of the nation's judiciary, and consequently the judiciary's ability to deliver on the resolution of core issues relating to transparency, accountability, political participation, corruption, and the protection of human and fundamental rights are important indicators of the nation's governance.

2.4.2 The Egyptian Constitution vests the judiciary with the power to protect the rights and freedoms of the people and of the institutions of that society. It sets out the authority of that branch to ensure that the country's laws are upheld and it prescribes that the judiciary is to be independent. It provides further that judges are subject to no authority except the law. The retirement age for judges is 68 years and they cannot be removed except under exceptional procedure and that the executive is prohibited from interfering in lawsuits or the affairs of justice. It creates an elaborate complex judicial structure comprising several layers of courts which are governed by the Judicature Law. The judges of these courts are appointed by the president.

### *Judicial Framework*

2.4.3 The Constitution states that Islamic Jurisprudence shall be the principal source of Egyptian law. This notwithstanding, Egypt's Judicial Code also relies on the Napoleonic Code and French Civil Law as sources of Egyptian law. Until the 1952 Revolution, there was a separate system of religious courts that applied Egypt's law of personal status (marriage, divorce, and inheritance). The Sharia courts had jurisdiction over Muslims while the Christian minority had its own courts to resolve their family disputes. However, under the republic, religious courts were abolished and the functions previously exercised by them transferred to the secular court system.

### *The Judicial Structure*

2.4.4 The Egyptian judiciary comprises a complex structure that operates five different sets of courts: The Supreme Constitutional Court; the Common or Ordinary Court System; the Administrative Court System; the Security Court System; and the Exceptional Court System.

2.4.5 *The Supreme Constitutional Court:* At the apex of Egypt's judicial structure is the Supreme Constitutional Court, established by Egypt's Constitution as an independent judicial organisation having the limited exclusive jurisdiction to determine matters relating to (a) the constitutionality of laws, decree-laws issued by the president or under his name, and actions by the government, (b) interpret laws passed by parliament; (c) settle conflicts of jurisdiction amongst subordinate courts, and (d) settle disputes between the judiciary and other government authorities. The Court is composed of a president, 15 vice presidents and 80 justices.

2.4.6 *The Court of Cassation:* The Court of Cassation is the highest court of appeal in the Common or Ordinary Court System. The jurisdiction of this court is limited to hearing appeals based only on legal issues, as for example judgments of lower courts which are deemed to have breached the law or is based on error in the application or construction of the law, or if the judgment is invalid *ab initio* or as a matter of procedure. The Court consists of 363 members and is headed by a chief justice. There are 34 divisions, each of which is headed by the chief justice or one of his

deputies or a senior justice. Each division deals with specialised areas of the law. The members of the court are not civil servants and report only to the Judicial Council made up of other sitting judges. The court judgments are issued by at least five justices. Attached to the Court is a Public Prosecution, comprising 155 members, regarded as members of the judiciary.

2.4.7 *Courts of Appeals:* There are 8 courts of appeals throughout the Arab Republic of Egypt, each composed of a chief justice and a sufficient number of justices, deputy chief justices, heads of divisions, and justices. The Courts of Appeals are located in the major cities and hear appeals from civil, commercial and personal status cases decided by the Courts of First instance, as well as cases involving major crimes, the penalty for which is death or imprisonment with hard labour or between three and twenty-five years. The judgments of these courts are issued by three justices. In every court a number of divisions are established which are responsible for handling specific types of cases. For example, the Cairo Court of Appeals has 169 divisions. The Court also hears misdemeanours committed by newspapers or other methods of publishing against a public servant, a person of public representative character, or a person performing a public service.

2.4.8 *Courts of First Instance:* There are 26 courts of First Instance in Egypt, one located in the capital of each governorate, with a few exceptions. Each court is headed by a president who is a justice of the Court of Appeals located in the same circuit as the court. Each court has several divisions, each headed by the court's president or any one of the court's judges. For example, the North Cairo Court of First Instance has 281 divisions responsible for the review of specific cases. The Court sits with a presiding judge and two other judges. It handles labour and commercial matters and appeals from the Summary Courts, including matters of a civil and commercial nature, and misdemeanour criminal offences.

2.4.9 *Family Courts:* There are 224 Family Courts with a total of 1200 judges and hundred of counselling experts. The Family courts operate at the same level as the Courts of First Instance and have exclusive jurisdiction over the more than one million cases filed yearly relating to the family, including divorce, alimony, child care and custody, paternity, inheritance, etc. Their various departments of the courts deal substantially with resolving family issues and providing counselling to the parties, with full court litigation being the last option. There are no women judges in these courts since judges in Egypt are recruited primarily from the ranks of senior public prosecutors and since no women have been admitted into the public prosecution system to date as would make them eligible to appointment.

2.4.10 *Summary Courts and Juvenile Courts:* Within the area of jurisdiction of every court of first instance there are a number of Summary Courts. The Summary Courts deal with minor civil and criminal matters, and matters that are urgent (e.g. injunctions), and matters relating to individuals (e.g. inheritance). They also have jurisdiction over petty criminal matters as misdemeanours. The court is presided over by a single judge who issues out the court's judgments. Juvenile courts comprise three judges. Two specialists assist each court, one of whom is required to be a woman. The presence of these specialists at the trial procedures is mandatory. Judgment is appealable to the court of appeal sitting as three judges at every Court of First Instance. The court has jurisdiction to hear cases related to children where the child is charged in connection with a crime or becomes a deviant.

2.4.11 *Administrative Courts/ Council of State:* The Administrative Courts constitute the judicial section of the Council of State, regulated by Law No. 47 of 1972, and have exclusive jurisdiction over all administrative disputes involving the government and government employees, or to which the State or any of its agencies is a party, except for claims relating to sovereignty. The

administrative courts are amongst the most developed in the region. Appeals from the Administrative Courts go to the Council of State which is vested with the power to declare invalid and to revoke illegal, arbitrary or abusive administrative decrees issued by government officials and ministries. These courts are not within the normal judicial court hierarchy.

*2.4.12 Exceptional Courts (Military Courts, Court of Value, Political Parties Court, State Security Court (Emergency):* Egypt also has a Court of Value which deals with claims submitted by the socialist attorney general; Political Parties courts which deal with appeals relating to the organization of political parties; State Security Courts (Emergency) which deal with matters referred to them by the president under the state of emergency; Military Courts which deal with matters involving the armed forces. However, these courts are not formed or operated within the ordinary judicial framework.

*2.4.13 The Public Prosecution:* The Public Prosecution is the nation's prosecution machinery vested with the authority to bring criminal actions and prosecute them. The function of the Public Prosecution, except before the Court of Cassation, is performed by the Attorney General or anyone of the assistant attorney generals, first solicitors general, solicitors general, chief district attorneys, their deputies, assistants, or aides. The Minister of Justice has administrative oversight of the Public Prosecution, but it is the Attorney General that is entrusted with the prosecution of cases. He is a member of the judicial branch, and like judges who serves in that branch, he cannot be removed from office. He is also a member of the Supreme Judicial Council and holds judicial and administrative authority over members of the prosecution. He can assign any prosecution member to perform any function on his behalf. He is assisted by several assistant attorney generals, 8 First Solicitors General (takes part in disciplinary councils for court personnel), 45 Solicitors General, and 3441 members of the prosecution throughout the country. These Public Prosecutors are also members of the judiciary and not administrators.

### ***Independence of the Judiciary***

*2.4.14* The independence of the judiciary is generally recognized as core to sustaining the rule of law and to the protecting basic rights guaranteed by constitutions. Judicial independence is critical to the promotion of good governance in three critical respects: (a) it ensures not only the protection of human rights and human values but holds all political and social actors accountable to legal and constitutional protection; (a) it facilitates transparency, political stability and fairness; and (c) it is critical for the development of healthy and sound economies.

*2.4.15* The Constitution of Egypt does not merely prescribe to the judiciary the role of settling disputes; it also vests in it the obligation to guarantee the protection of all constitutional rights and freedoms. It sets out clearly that the Judiciary and judges shall be independent and immune, have secured tenure, and not be interfered with by any of the other branches in the resolution of judicial disputes. However, although Egyptian judicial courts continue to exercise an increasingly high level of independence, there are still a number of constraints which deter from the full realisation of that independence: (a) the Constitution provides for the creation of administrative, exceptional, emergency state, and military courts which operate independently of the judiciary and are not subject to ordinary judicial rules or oversight; (b) there is a Supreme Council of the Judiciary headed by the Chief Justice of the Court of Cassation which handles matters of appointment and promotion of judges. In addition, appointments and promotions can only be effected by presidential decrees after the approval of the supreme judicial council; and (c) the Judiciary has control over its budget, finance, and a number of other administrative matters as bonuses, allowances, benefits, etc for judges, all of which are effectively supervised and controlled by the Ministry of Justice.

### *Issues and Challenges in Judicial Independence*

2.4.16 In 2002 the government abolished the state security courts. This still leaves the emergency state courts in operation but the president has indicated a resolve to lift the state of emergency and thereby also effect the dissolution of these courts as well as preclude the trial of civilians by military courts. Furthermore, an amendment to Judicial Law No. 46 of 1972 by Act 142/2006 has been issued to transfer the responsibility currently exercised by the Minister regarding judicial inspection to the Supreme Judicial Council

### ***Human Rights***

2.4.17 The respect for basic human and fundamental rights is deemed important to a nation's practice of good governance. Egypt's Constitution provides the basic framework for the protection of human rights. It guarantees freedom of speech, the press, religion, peaceful assembly, a fair trial, association, provision against torture, and the like. The Constitution also forbids censorship except during a state of emergency, and it provides the mechanisms through which those rights are to be protected. Egypt has human rights divisions in several key ministries, including the ministry of justice, and foreign affairs. A National Council for Women has been created as well as an independent National Human Rights Commission established to monitor the government's human rights programmes. Both the Ministry of justice and the Ministry of Foreign Affairs have human rights departments within the agency.

### *Issues and Challenges in Human Rights*

2.4.18 The country could still improve in the area of human rights and there are still laws which infringe on rights guaranteed by the Egyptian Constitution. The Penal Code, the Press Law and the Publications, the Non-Governmental Law, and the Emergency Law are cited as a few of the laws with negative implications for Egypt. In the new political environment opened by the Government, serious consideration could be given to amending or repealing some of those laws, so that the atmosphere of political competition is fully portrayed and enjoyed. The NCHR shows great promise, openly reporting incidents of human rights abuse by various agencies of the government and undertaking programmes not only to improve the consciousness of the people to their human rights but also informing the government of abuses committed by its security or other personnel. The challenge for the government is to vest in the NCHR the power to investigate and prosecute human rights violations to demonstrate the government's serious commitment to addressing expressions of concerns for its human rights records.

## **2.5 Combating Corruption and Money Laundering**

### ***Framework for Combating Corruption***

2.5.1 It is generally recognised that corruption, if not rigorously combated hinders economic development. It discourages accountability and transparency, weakens core democratic values, structures and institutions, fosters an environment of uncertainty, unpredictability, and disrespect for constitutional institutions and authority. Furthermore, it can lead to directing public resources away from programmes that impact directly on the level of poverty, thereby exacerbating income inequality, creating discontent, tensions and conditions for suppression reducing social services and causes calculated infringements on fundamental and human rights and freedoms and negatively affects the rule of law.

2.5.2 In the context of the Egyptian society, efforts continue to be made to combat corruption but as acknowledged by the Egyptian government additional efforts are required in this area. Transparency International 2006 Corruption Perception Index (CPI) ranked Egypt at no. 70 out of 163 countries with a score of 3.3 from a range of 0-10.

2.5.3 Egypt has a number of agencies that have the responsibility to fight corruption and promote transparency. These include the Central Auditing Organization (CAO), responsible to Peoples Assembly, and vested with the authority of auditing the books and accounts of all government agencies and state entities and any institution in which the government or state entity holds a 25% stock; the independent anti-corruption watchdog, the Administrative Control Authority (ACA), which is empowered to receive complaints, conduct inquiries and investigate financial and administrative offences of government officials, the ministries, and public corporations. It reports its findings to the prime minister who decides what to do with the information, but it lacks jurisdiction to investigate corruption against certain categories of state employees. The Peoples Assembly is also a monitoring body, to which the executive and its various components are accountable. In like manner, Civil Society Organizations (CSOs) and NGOs are situated to play an important role in helping the government combat corruption. All the agencies report to the Prosecutor General's Office for Public Fund Crimes, the only agency that can investigate and prosecute.

2.5.4 A third government anti-corruption agency is the Administrative Prosecution Authority (APA), established under Law 48 of 1954, which investigates civil servants and employees of public corporations and companies in which the government or a state enterprise has a minimum of 25% of the capital stock. The declared purpose of these investigations is to protect public funds. There is also the Public Funds Prosecution (PFP) which is responsible to investigate crimes of bribery, embezzlement of public funds, misfeasance, forgery, falsification, smuggling, and inspection and control. And there is also an Administration Against Illegal Profits, established under Law 62 of 1975, which has responsibilities that include investigating high level public officials in the executive and legislative branches.

2.5.5 Egypt has signed and ratified the anti-corruption convention. According to Article 1.51 of the Constitution, it became part of the national legislation and it is compulsory for the courts to apply. However, a separate comprehensive part of the Egyptian Penal Code covers different types of corruption crimes with severe punishment including imprisonment, fines and confiscation. Egypt has taken a number of bold steps to address the problem of corruption. The president and the prime minister have acknowledged that there is a serious corruption problem and that the government intends to deal with it. In August 2002, the Ministry of Administrative Development, in an apparent attempt to reduce the red tape and petty corruption and "streamline transactions" created the "citizens service centres" where citizens and investors could go do their government business without going to the relevant ministries; in November 2002, the government appointed new chief executives to four of the major public sector-banks and required that each establish an audit committee comprising three non-executive board members; in September 2002 the immunity of the powerful head of the economic committee of the People's Assembly was lifted and he was shortly thereafter arrested and charged with corruption for giving out loans as head of a joint-venture bank; and in 2002 also 48 businessmen and senior government officials were convicted of influencing peddling, misappropriation of funds, and abuse of office. These included a former attorney general, a former governor of Giza, and some members of parliament. In addition, a new public service law that would address many of the issues that generate corruption at the lower levels of the public sector has been formulated for passage, and a new administrative decentralization law is under serious consideration, with pilot projects having already commenced. All of these efforts are commendable but there is still need for bolder steps.

### ***Anti-Money Laundering***

2.5.6 In May 2002 the People's assembly passed Egypt's first ever money laundering law (Law 80/2002) as amended by (Law 78/2003), giving the government powers to track and freeze funds and assets and to report suspect financial transactions to foreign governments and financial agencies and authorising the setting up of an independent Anti-Money Laundering Unit within the Central Bank of Egypt. The Unit receives reports submitted by financial institutions regarding suspicious laundering, investigates transactions, provides information to state supervisory agencies, and passes evidence to the appropriate prosecuting agency for action.

### **III. EGYPT GOVERNMENT'S GOVERNANCE AGENDA**

3.1 The government of Egypt is committed to its economic and financial sector reforms to attain its objective of reducing unemployment and poverty through increased participation of the private sector and a better management of the government's safety nets. The government's governance agenda is based on six main pillars which are embedded in the Government's ten-point programme namely: (i) Employment and Investment; (ii) Improving Incomes and Subsidies within the Framework of a New Social Contract; (iii) Improving the Standard of Living of the Citizen and Upgrading the Services Offered; (iv) Upgrading the level of education and scientific research; (v) Upgrading the health and population services; and (vi) Civil Service Reform. The other elements of the ten-point programme relate to the protection of natural resources, developing the political and legislative environment, and building an information society. The government has drawn up detailed action plans for implementing this agenda.

#### ***Employment and Investment***

3.2 The government aims to reduce unemployment by increasing the confidence in the Egyptian investment climate and attracting new investment (foreign and domestic). The government intends to achieve this by increasing transparency, reforming the investment regulations and procedures, by undertaking customs, sales, and income tax reforms, developing the infrastructure, and privatisation. The government is implementing a separate programme for accelerating employment by developing sectors such as tourism, agriculture, petrochemicals, and information and communication technology sectors which are characterised by direct and indirect investment opportunities.

#### ***Subsidies, Prices and Market Discipline***

3.3 The government aims to continue to subsidise basic commodities while making improvements in the system of subsidy allocation. Currently, the food and fuel subsidy allocation does not differentiate between the wealthy and the poor. The government aims to introduce smart card technology which is currently used on a pilot basis in Suez to ensure that subsidy is limited to the needy groups thus releasing additional resources. The government aims to continue the process of legislative reforms to create a competitive and private sector led economy. Towards this, the government has drafted the competition and anti-trust law and the consumer protection law aimed at curbing monopolistic practices and encourage competition.

#### ***Improving Standard of Living and Basic Public Services***

3.4 The government has drawn a comprehensive programme for improvement of public services throughout Egypt. The programme aims at improving availability of basic utilities such as water, sanitary drainage, electricity, transport, and housing. The government also aims to activate the

building and construction sector by building 85, 000 houses every year over a period of 6 years and subsidize part of the cost of private sector built residential units. It plans to modernize the rules of operation in the construction sector through a new unified law including the drafting of the new real estate law and developing regulations for resolving problems of the contracting sector. The government aims to install water and sanitation services in villages, provide electricity to ten thousand *feddans* of new land owned by small entrepreneurs, resume the construction of pavement and roads and restructure transportation services with special focus on supporting limited income groups. The development strategy is coupled with the restructuring of sectors, monitoring the construction, utilisation and maintenance of services through decentralised planning, management, and implementation.

### ***Enhancing Economic Performance***

3.5 The government's philosophy is to continue expansionary policies to achieve higher economic growth rates. Thus, the government wants to encourage private sector investments by reducing customs tariffs, corporate and individual income tax, privatise and restructure public enterprises and banks, steer the monetary policy for ensuring low inflation, reform the investment and capital market regulations, and strengthen the non-banking institutions such as the insurance and real estate mortgage financing by activating the role of the mortgage finance institutions to boost facilities for financing and buying homes. In particular, the government is keen to restructure the public sector banks, improve public confidence in the banking and finance sectors by strengthening regulation and supervision performed by institutions like the Capital Market Authority, Cairo and Alexandria Stock Exchange, and the Central Bank of Egypt. With an aim to attract foreign direct and portfolio investments, the government wants to develop corporate governance, internal control, and financial reporting and auditing standards that are consistent with the internationally accepted best practices. The government also wants to activate the role of the capital market authority to provide the needed funding for the business sector.

### ***Developing Education and Scientific Research***

3.6 The government recognises human resources as one of the main components of the economic development programme. The government aims to improve Egypt's competitiveness by developing qualified and cost effective labour force. The government now wants to focus on improving the quality of education rather than concentrating on providing universal education. For this purpose, the government intends to improve the capacity of public education by increasing the number of schools, improving education curricula, provide the society with a variety of educational opportunities including free education to those who demand it, expand university education by creating more independent universities, and decentralise the education services by transferring the authority to governorates to increase local participation. The government also wants to encourage the civil society and the private sector to participate in enhancing the provision and quality of education. The government has also developed plans for improving the scientific research that will directly benefit the industry.

### ***Developing Health Services and Controlling Population Growth***

3.7 The government wants to increase the provision of Family Medical System which is currently applied in five governorates. The system aims at providing medical and preventive treatment and healthcare services to the family. The government also wants to develop secondary healthcare services by improving public, central, and village hospitals, nursing schools, and technical health institutes while at the same time improving the availability and supply of the

medical equipments. Modernisation of the health insurance scheme is on the government's agenda. The intention is to unify all laws governing health services and separate the provision of health services from funding. Modernisation of government funded medical treatment is also on the card. The government aims to control the population growth by increasing the number of family planning clinics, setting up reproductive health units in governorates, strengthening the role of civil society and NGOs in providing family planning services, and by launching a mass media family planning campaign.

### ***Developing the Civil Service***

3.8 Modernisation of civil services with an aim to reduce bureaucracy and corruption and improve the speed of work is one of the top priorities for the government. For this purpose the government aims to restructure and rationalise the civil service and improve provision for training and development of the civil servants that would enable them to develop work practices and ethics consistent with the international best practices. In addition the government is to electronically connect all government entities in improving the government services through E-governance and outsourcing of some services to the private sector. The government also wants to deepen decentralisation by transferring powers from ministries to the governorates in managing and monitoring resources thereby encouraging greater social participation. Moreover, the government aims to restructure the relationship between the public employee and the government in a framework of competitiveness, quality, and creating the proper atmosphere for work through a new law for public jobs for improving the performance of government employees and evaluate government spending on government cars, government inventory, etc.

### ***Protection of Natural Resources***

3.9 Egypt wants to protect the wealth of natural resources it is endowed with. It intends to accomplish this by rationalising Nile water consumption through expansion of modern irrigation system and protect the agricultural land by preparing a twenty year plan aimed at achieving a balance between agriculture land and land requirements for urban development. The government is also preparing an agriculture development strategy which aims to enhance the role of Agriculture Fund in subsidising agriculture production, expand the cultivation of fruits and vegetables for exports, etc. The government wants to make optimal use of the petroleum and energy resources by increasing the production of high value derivatives and by connecting Egypt's unified electrical network with those of Arab and African countries to benefit from different peak hours. The government aims to increase the observance of pollution control laws and encourage vehicles to use natural gas as an alternative fuel.

### ***Developing the Political and Legislative Environment***

3.10 The government has initiated steps towards achieving democracy and encouraging political participation. The government aims to continue the political reforms by encouraging participation of the youth and women in the political and economic activities, raising public awareness, stopping discrimination against women, encouraging education of girls, and improving women health. The government is also improving a number of laws related to political activities, labour unions, public institutions, and local administration with an aim to increase participation through democratic process. The Ministry of Justice is implementing a comprehensive project involving administrative and technological development of all court levels to simplify judicial procedures and enhance the issuance and enforcement of judgements.

### ***Building an Information Society***

3.11 The President launched the Egyptian Information Society whose aim is to increase the use of electronic technology in various sectors including, education, health, and communication sectors. The government aims to invest in the information technology with an aim to build an information based society.

3.12 Overall, Egypt has an ambitious economic agenda. The government of Egypt is committed to continue its agenda of financial sector reforms. The government views this as a prerequisite for implementing its economic reform programme aimed at improving the development of the private sector and increasing employment for achieving the ultimate objective of poverty reduction.

### ***Donor Support and Intervention***

3.13 There are a number of development partners assisting Egypt in strengthening democracy and governance. The areas of focus, *inter alia*, include: (i) legal and judicial reform; (ii) local government and decentralisation; (iii) elections; (strengthening civil society); (iv) media and communication information technology; (v) accountability and anti-corruption; and (vi) protection of human rights. A detailed summary of projects being supported and funded by various donor agencies is provided in Annex 1.

## **IV. SCOPE FOR BANK GROUP INTERVENTIONS**

4.1 As the previous discussions have demonstrated, there are quite a number of development partners who are providing support to Egypt in implementing its government's agenda. The support ranges from infrastructural development, health, education, economic reforms, privatisation, as well governance related issues. The ADB has been actively engaged with the government of Egypt in implementing its reform agenda. This CGP identifies some further areas where Bank's intervention will be welcomed by the government in Egypt (See Annex II).

### ***Civil Services Reforms and Development***

4.2 It is clear from the government of Egypt's governance agenda that modernisation of civil services is one of the top priorities. The government wants to restructure and rationalise the civil service and improve provision for training and development of the civil servants that would enable them to develop work practices and ethics consistent with the international best practices. At present, other donor agencies have supported the government of Egypt in capacity building of its civil services on need based basis. However there is need to develop a strategy for reforming and modernising the civil services. The Bank could help the government of Egypt by providing expert advice on development of a suitable strategy for reforming the civil services and develop capacity building measures based on its experience in other African countries.

### ***Revenue Administration***

4.3 There are many areas of revenue administration where the government of Egypt needs help. The government has launched widespread tax reforms and now wants to match this by improving its tax administration capabilities. One of the key areas is the administration of the new self assessment income tax system where Egypt would require assistance. The government intends to expand the computerised administration, determination, and collection of income tax and in this regard, the Bank could extend its assistance by providing loan/grants and capacity building in implementing the

information technology infrastructure. The other area is property taxation. It is clear from the government's agenda that the government wants to develop its real estate market. The CGP has highlighted in Egypt that majority of the real estate is unregistered which means that the government is losing out on the revenue that it could otherwise generate from taxing the properties. The Bank could help in developing a plan for property registration and in devising an appropriate property taxation system.

### ***Development and Supervision of Financial Market and Banks***

4.4 Egypt is implementing an ambitious financial sector reform agenda. However, it is faced with a serious challenge of knowledge and skills required to develop and implement financial intermediaries such as the mutual funds and venture capital and creation of institutional support in the area of risk management. The other donor agencies have helped Egypt in this area. However, there is vast scope for the Bank in developing institutional support, capacity building in the public sector banks, and helping the Central Bank of Egypt in the area of risk of management and supervision, and Pension Fund Reforms. For instance, the Bank could finance the salary of consultants who provide expert advice and support in these institutions. The Bank envisages to provide support to the government in the financial sector reforms.

### ***Financing of Economic Reforms***

4.5 The government of Egypt faces a serious challenge in the management of its short term financing needs of its economic reform programme. The challenge is to ensure that in implementing its economic reform agenda, the government is not left with the problem of huge public debt which is already high by international standards. The Bank could think of developing a financing strategy that will help the government of Egypt in continuing its reform programme without running high levels of budget and fiscal deficits.

### ***Development of Political Environment***

4.6 Egypt has initiated political reforms towards achieving democracy. The government's agenda specifically emphasises on the participation of youth and women in the political reform process. The Bank could help the National Council for Human Rights by sponsoring workshops to highlight the relationship between human rights and investments and provide assistance in developing a Content Analysis of Educational Curricula which would highlight individual liberties in elections, education, work, freedom of belief, expression, etc. In the same spirit, the Bank could extend help to the National Council for Women in implementing the women empowerment programme which attempts to sensitise women of their rights and help to integrate them into the economic sector.

### ***Legislative and Law Reforms***

4.7 Egypt has a large number of laws. Moreover, the practice of issuing Presidential and Ministerial decrees has created a very large number of regulations some which are overlapping and confusing. Thus, there is a need for rationalising number of laws and decrees by undertaking a thorough review of the existing legal framework. The Bank could support establishment of a Law Reform Commission to integrate and bring consistency to its laws. This will help alleviate the confusion generated by Egypt's inconsistent bodies of law. Further a full examination could be made of alternative resolution dispute mechanisms that can be utilized in preference to going to court, and Egyptians must be discouraged from resorting to court on every matter where resolution

could be obtained otherwise. Thirdly, the judicial and all related organs could be reviewed so that an attempt could be made to develop consistency and remove lengthy procedural bottlenecks which are costly in finance and time to both the courts and the litigants. In this respect the Bank could help establish alternative dispute resolution mechanisms. Finally, an important potential area of Bank Governance assistance is helping GoE to integrate its various anticorruption laws and organs.

### ***Improving the Procurement System***

4.8 It is clear from the government's agenda that it is keen to expand and develop its infrastructure in key areas of housing, road, transport, water, and electricity. However, the CGP analysis shows that the current procurement system is decentralised and suffers from a number of weaknesses which provide the potential for corruption. For these reasons, many international donors use their own procurement systems in implementation of projects funded by them. Thus, for Egypt to be able to implement its development agenda, it would require a comprehensive procurement system and a professionally staffed and independent Procurement Regulatory Agency that would facilitate the implementation of the procurement system. The Bank should help Egypt by providing its expertise in developing a procurement system and funding for establishment of a procurement regulatory agency.

### ***Employment and Investment***

4.9 The Small and Medium Sector Enterprises (SME) account for about 75% of private sector employment in Egypt and hence the sector plays a crucial role in government's policy of reducing unemployment. However, only about 10% of micro enterprise and SME financing needs are currently met. Despite the recent government initiatives to improve access to credit, the estimated financing gap is still significant and estimated to be LE8.5 billion. Support to the SME is critical if the government wants to empower private sector in leading the economic development in Egypt. Therefore the government needs to develop a comprehensive integrated industrial policy that should include the resource needs of the SME. The Bank has already prepared a Small and Medium Enterprise Support Project (SMESP) in 2005 which will support the development of the SMEs, the private sector and employment creation.

### ***Development of Corporate Governance System***

4.10 Egypt is one of the largest and most influential countries in the Arab and Mediterranean region and has the ambition to provide the economic leadership in the region. For this purpose Egypt will need to create an environment conducive for private sector development and for attracting the Foreign Direct Investment (FDI). At present, Egypt is not able to fully exploit its potential in both of these crucial areas if it were to succeed in its ambition. A good regulatory framework for compliance with internationally accepted standards on corporate governance will enable the government in ensuring that the wealth created through investments provides the economic benefits to its people and enable the government to reduce unemployment and poverty. Egypt has already made some progress in developing a corporate governance code and establishing an Egyptian Institute of Directors. The Bank could offer assistance to the government in capacity building by providing training programme for the senior managers and directors of the public and private sector corporations. Another important area of possible Bank intervention is assisting the government with its anti-monopoly/competition law.

### ***Strengthening the Public Financial Management***

4.11 The Government of Egypt aims to strengthen its budgetary institutions and enhance the accountability and transparency of the budgeting process. For this purpose, the government would need to reform the Finance and Budget Committee such that it will have powers to engage the line ministries in serious debate on the objective implementation of the state budget. The government also wants to expand the ongoing pilot project for introduction of Performance Based Budgeting (PBB) in education and health in all other sectors. The Bank could assist the government in improving the financial management capacity by providing expert advice and assistance in developing a strategy for implementation of the PBB based on its experience of MTEF used in other African Countries.

### ***Decentralisation***

4.12 The government's agenda clearly identifies the need for decentralisation for ensuring effective delivery of public services such as education, health, water, sanitation, etc. However, as the analysis points out, there are serious challenges in implementing the decentralisation agenda. Decentralisation requires bottom-up planning. The central government lacks both the resources and internal coordination to adequately meet the demand for the services at local level. But above all, in spite of substantial donor assistance in this area, the government does not appear to have a well planned and comprehensive decentralisation strategy. Technical assistance could be provided to assist the government in development and implementation of a decentralisation strategy and offer its expertise in capacity building of the local community in generating financial resources.

## **V. CONCLUSIONS**

The Government of Egypt has made tremendous strides in developing a programme for good governance in the economic and financial sector. It has also made gains in the political and legal sectors and needs to continue its reform programme to match the improvements made in the economic sector. Egypt is faced with challenges that will demand bold decisions in improving the quality of its civil services which has a mixture of highly qualified and capable civil servants with a dynamic vision to transform Egypt. Egypt should continue the progress it has made in improving the political transparency and accountability by reforming the legislative framework and strengthening the civil society and NGOs. With the conclusion of elections in the executive and legislative branches, the Bank can assist Egypt in facilitating the passage of laws that are pending approval of the legislature. The Bank has a vast scope in making meaningful interventions in Egypt's development process.

## **VI. RECOMMENDATION**

It is recommended that the Bank should continue to support the Government of Egypt's efforts to implement its good governance agenda and the findings of the CGP with a view to designing a programme that would support key Governance issues in the country. This would require maintaining dialogue with the authorities and other development partners.

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## ANNEX I

EGYPT GOVERNANCE PROFILE  
INTERNATIONAL PARTNERS GOVERNANCE INVENTORY CHART

PROGRAMME COMPONENT	STAKEHOLDERS	ACTION INVOLVEMENT	PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS
LEGAL AND JUDICIAL REFORM  THE JUDICIARY  LEGAL REFORM	Higher Courts  Commercial Courts  Ministry of Justice	<ul style="list-style-type: none"> <li>● Institutional strengthening and Capacity Building</li> <li>● Training of judges and court staff</li> <li>● Assist establishment of commercial courts and training of judges in laws for such courts</li> <li>● Law and justice (central government administration</li> <li>● Training police officers and other law enforcement officers, etc.</li> <li>● Upgrading of electronic equipment, facilities and materials</li> <li>● Enhancing public awareness</li> <li>● Reforming the Judicial system</li> <li>● Improving efficiency and effectiveness of civil courts, improve management of judicial panels and courtroom procedure, integrating women into judiciary, and assist law schools in development of comparative curriculum</li> <li>● Strengthening rule of law and access to legal services for disadvantaged groups</li> </ul>	<p style="text-align: center;">UNDP</p> <p style="text-align: center;">USAID World Bank USAID</p> <p style="text-align: center;">USAID</p>
THE EXECUTIVE	<p style="text-align: center;">Egyptian Government</p> <p style="text-align: center;">Ministry of Public Works and Water</p> <p style="text-align: center;">Ministry of Agriculture and Land Reclamation (2004-2006)</p> <p style="text-align: center;">Ministry of State for Administrative Development</p> <p style="text-align: center;">Ministry of Reconstruction</p> <p style="text-align: center;">Ministry of Labour</p> <p style="text-align: center;">Ministry of Agriculture</p>	<ul style="list-style-type: none"> <li>● Institutional and Capacity Building</li> <li>● Assistance for Control and Monitoring Brown Rot in Potatoes</li> <li>● Irrigation and private sector development; building structures</li> <li>● Water sector projects</li> <li>● Civil Service/Public Administration Reform</li> <li>● Water drainage, sanitation, health</li> <li>● Improving labour market</li> <li>● Training personnel, assisting agricultural production, improving technology</li> </ul>	<p style="text-align: center;">EU</p> <p style="text-align: center;">EU</p> <p style="text-align: center;">EU, USAID, World Bank</p> <p style="text-align: center;">EU/USAID</p> <p style="text-align: center;">UNDP,/Government of Egypt, World Bank USAID, World Bank World Bank</p> <p style="text-align: center;">USAID</p>
CIVIL SOCIETY	National Council for	● Strengthen capacity of	EU

PROGRAMME COMPONENT	STAKEHOLDERS	ACTION INVOLVEMENT	PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS
	Child-hood and Motherhood and NGOs active in child care.	implementing agencies and NGOs; improve situation of children at risks, disabled children, working children, girls at risk for female genital mutilation. ● Strengthening the Federation of NGOs	UNDP
DECENTRALISATION LOCAL GOVERNMENT	<p>Ministry of Industry and Technological Development</p> <p>Governorate of South Sinai (2005-2010)</p> <p>Governorates</p> <p>Governorates (2005)</p> <p>Local Administration</p>	<p>●Development of decentralized Technical and Vocational Training Programmes and national support and regulatory institutions; financial and investment sector co-operation in rural development.</p> <p>●South Sinai Regional Development Programme to support stability and sustainable local development, environment, cultural heritage, social development, equipment and capacity building and public awareness.</p> <p>● Business Enterprise Support Tools</p> <p>● Building National Strategy for Microfinance</p> <p>● Promoting Competitiveness in Micro and Small Enterprise (SME) Sector</p> <p>● Social Fund for Development</p> <p>● Support of National Programme for Human Resource Development</p> <p>● Popular Markets for Local Consumption</p> <p>● Development of Regional Physical Planning Centers</p> <p>● Slum Upgrading in El Hallous and El Bahtini</p> <p>● Project in Municipal Initiatives for Strategic Recovery</p> <p>● Projects for Growth and Development (Luxor, Ismailia)</p> <p>●Support of IT to enhance local development and governance issues</p> <p>● Water Sector Projects</p> <p>●Skills Development</p> <p>● Matruh Resource Management Project</p> <p>● Sohag Rural Development Project</p> <p>● Pumping Station Rehabilitation Project</p> <p>● East Delta Newlands Agricultural Services Project</p>	<p>EU</p> <p>EU</p> <p>UNDP</p> <p>EU</p> <p>World Bank</p>

<b>PROGRAMME COMPONENT</b>	<b>STAKEHOLDERS</b>	<b>ACTION INVOLVEMENT</b>	<b>PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS</b>
TRANSPARENCY, ACCOUNTABILITY, ANTI-CORRUPTION	Government of Egypt  Government of Egypt	<ul style="list-style-type: none"> <li>● Assisting electoral process</li> <li>● Support for budget transparency and public expenditure review</li> <li>● Provide assistance in corporate governance</li> </ul>	USAID  World Bank, UNDP World Bank, EU
ECONOMIC DEVELOPMENT AND GOVERNANCE	Ministry of Foreign Trade, Ministry of Foreign Affairs (2000-2005) Ministry of Investment  Ministry of State for Administrative Development  Ministry of Finance  Ministry of Finance The Industrial Modernization Center (Private Enterprises)	<ul style="list-style-type: none"> <li>● Trade and Investment and Job Creation (2004-2006)</li> <li>● Strengthening code in private sector growth</li> <li>● Public sector governance (CAP)</li> <li>● Economic Management and reform; commodity import program; private sector encouragement</li> <li>● Budgetary transparency; budget support</li> <li>● Assisting private enterprises in development; strengthen business association, support institutions and services and improve sector policy framework.</li> <li>● Export development</li> <li>● Survey and Assessment of Private Sector</li> <li>● Economic Policy Co-ordination</li> <li>● Capacity Building for Development Management</li> </ul>	USAID  USAID World Bank  USAID, Government of Egypt EU  UNDP, World Bank USAID EU
POLITICAL GOVERNANCE	Ministry of Foreign Trade and Industry (2002-2007)  Capital Market Authority  Airport Authority  Democracy and Governance  Ministry of Economy	<ul style="list-style-type: none"> <li>● Trade Enhancement Programme to modernize and improve custom services, promote export activities, and promote association agreement; financial and investment sector reform</li> <li>● Strengthen Capital Market Authority, improving oversight and monitoring of stock market, economic governance and standards</li> <li>● Airport Development</li> <li>● Private sector development</li> <li>● Strengthening democracy and governance</li> <li>● Strengthening capacity support for democratic governance</li> </ul>	USAID  World Bank  USAID, EU  USAID, UNDP  USAID, EU
MEDIA, COMMUNICATION INFORMATION TECHNOLOGY	Technology Access Community Centres (TACC)	<ul style="list-style-type: none"> <li>● Projects in Information and Communication Technology (ICT).</li> <li>● Establish ICT Trust Fund for community development portal, IT illiteracy eradication, mobile internet unit, community e-library, etc.</li> </ul>	UNDP

<b>PROGRAMME COMPONENT</b>	<b>STAKEHOLDERS</b>	<b>ACTION INVOLVEMENT</b>	<b>PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS</b>
	<p>Ministry of Communication and Information Technology</p> <p>National Authority of Remote Sensing and Space Sciences</p>	<ul style="list-style-type: none"> <li>● Equipment Support for Media Houses</li> <li>● Institutional Support and Strengthening Capacity</li> <li>● Capacity Building ERMA for Development</li> <li>● Information and communication technology development; media development</li> </ul>	<p>UNDP</p> <p>USAID</p>
ELECTIONS	National Council for Women	<ul style="list-style-type: none"> <li>● Support of electoral system and processes for women.</li> <li>● Capacity Building of</li> <li>● Electoral Monitoring</li> <li>● Civil and Voter Education</li> <li>● Support for Mechanism to Reduce Electoral Violence and Enhance Conflict Management</li> </ul>	UNDP
GENDER ISSUES	<p>Ministry of Agriculture and Land Reclamation</p> <p>National Council for Women (NCW) (Implementing Agency) Target Group: Women (2003-2005)</p> <p>National Council for Women</p> <p>National Council for Women</p> <p>National Council for Childhood and Motherhood, Donor Assistance Group, UN agencies, FGM taskforce Family Courts</p>	<p>Support to Women Economic Empowerment through institutional capacity building, delivery of gender sensitive social development services, establishment of for wome.enterprises</p> <ul style="list-style-type: none"> <li>● Mainstreaming Gender in Development, Planning, Institutionalization, Monitoring and Evaluation Technical Assistance for Women in Elected and Appointive Positions.</li> <li>● Political Empowerment of Women</li> <li>● Assessment of Gender Equality.</li> <li>● Ombudsman Project-capacity building</li> <li>● Women Business Centre Project.</li> <li>● Computer based Geographic Information System</li> <li>● Integrated Women Health Project</li> <li>● Female Genital Mutilation</li> <li>● Support improvement of family courts</li> <li>● Projects for empowerment of women in political and economic endeavours, by training, preparing draft action plan, elections, and giving small business loans.</li> </ul>	<p>African Development Bank</p> <p>UNFPA</p> <p>USAID UNDP World Bank Germany</p> <p>EU, UNDP</p> <p>USAID</p> <p>UNDP Canada, Denmark, Finland, Italy, Netherlands, Switzerland, UNDP, USA</p>

<b>PROGRAMME COMPONENT</b>	<b>STAKEHOLDERS</b>	<b>ACTION INVOLVEMENT</b>	<b>PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS</b>
	Center for Political Empowerment		USAID  World Bank, UNDP
HUMAN RIGHTS	NATIONAL COUNCIL FOR HUMAN RIGHTS/ MINISTRY OF STATE FOR ADMINISTRATIVE DEVELOPMENT (counterpart) (2004-2007)  MINISTRY OF JUSTICE/ MINISTRY OF FOREIGN AFFAIRS (COUNTERPART)	<ul style="list-style-type: none"> <li>● Institutional and human capacity building and linked to NGOs</li> <li>● Promoting human rights awareness among government officials, judicial institutions, lawyers, women and the media; human rights access to justice.</li> <li>● Spread knowledge and pro-vide training to justice personnel (judges, prosecutors, law enforcement personnel, etc) and civil society organization.</li> <li>● Protect human rights</li> <li>● Strengthening capacity of family justice system</li> <li>● Assist development of public defenders system for indigent defendants</li> <li>● Support NGOs production and dissemination of materials on legal rights and to provide legal services; capacity building</li> </ul>	The Netherlands, UNDP  UNDP, The Netherlands Embassy, Danish Embassy and Ford Foundation.  USAID
POVERTY REDUCTION	Social Fund for Development (2005)  Social Fund for Development (2004-2007)  Egyptian Government	<ul style="list-style-type: none"> <li>● Reduce poverty, create employment and sustain economic growth; Impact Assessment Study</li> <li>● Contribute to job creation and income generation financial (credit) and non-financial (technical) services.</li> <li>● Making ICG for Development Work for fostering sustainable human development</li> <li>● Human Development Report</li> <li>● Governors Forum and Participation</li> </ul>	EU, World Bank  EU, World Bank  EU  UNDP
HEALTH AND POPULATION	Ministry of Health and Population (Implementing Agency)    Ministry of Health and Population (1999-2005)	<ul style="list-style-type: none"> <li>● Population and Development Strategies---Establishment and support of unit for monitoring population Activities (2003-2006)</li> <li>● Strengthening and Integration of reproductive Health Services (2003-2007)</li> <li>● Reproductive Health</li> <li>● Healthier Planned Family</li> <li>● Water, drainage, sanitation and health; integrated irrigation improvement and management project.</li> <li>● Health Sector Reform Programme (upgrade health</li> </ul>	UNFPA  UNFPA  USAID EU  USAID, World Bank  World Bank, EU, USAID

PROGRAMME COMPONENT	STAKEHOLDERS	ACTION INVOLVEMENT	PARTNERS-DONOR AGENCIES/NATIONS AND INSTITUTIONS
		facilities, procure medical, training and office equipment; establish Family Health Fund; provide technical assistance and management support.	
EDUCATION	MINISTRY OF EDUCATION (Implementing Agency) Ministry of Education (1999-2006)  Ministry of Education	<ul style="list-style-type: none"> <li>● Improved Basic Education</li> <li>● Education Enhancement Program</li> <li>● Early Childhood Education Enhancement Project</li> </ul>	USAID  EU and Egyptian Government; World Bank  World Bank

## ANNEX 2

### Governance Issues in Egypt

Area	Measures Taken	Issues and Challenges	Areas for Bank /Other Development Partner Intervention
A. Poverty Reduction	<ol style="list-style-type: none"> <li>1. Food, Education, Health, and Energy Subsidies</li> <li>2. The 2004 Poverty Reduction Report outlines measures that the government intends to take.</li> </ol>	<ol style="list-style-type: none"> <li>1. Fixing deficiencies in the social net.</li> <li>2. Ensuring that the Social Fund for Development and other sources would create jobs.</li> <li>3. Combat corruption</li> </ol>	Bank could help in developing a new public service law and establishment of Anti-corruption Agency
B. Civil Services	<ol style="list-style-type: none"> <li>1. Early retirement scheme introduced.</li> <li>2. A new civil service law drafted which will enable performance based salary structures, introduce regular performance evaluation and incentives, and dismiss employees.</li> <li>3. Outsourcing of selected services</li> <li>4. Introduced e-government programme and “one-stop shops” for some public services</li> <li>5. MSAD to introduce training programmes to close the capacity gaps.</li> </ol>	<ol style="list-style-type: none"> <li>1. Imparting international best practices</li> <li>2. Current reform are inadequate</li> <li>3. Need to develop a strategy for reform and modernisation</li> </ol>	Offer expert advice on development of a strategy and develop capacity building measures based on its experience in other African countries.
C. Public Financial Management & Public Expenditure Review	<ol style="list-style-type: none"> <li>1. Planning and Budgeting committee</li> <li>3. Central Auditing Agency carries out the audit</li> <li>2. Performance Based Budgeting (PBB) introduced in four sectors on a pilot basis</li> <li>3. Clear rules and guidelines for budget preparation</li> <li>4. IMF 2001 Government Finance Statistics (GFS) classification introduced.</li> </ol>	<ol style="list-style-type: none"> <li>1. Reform of the Planning and Budget Committee for greater accountability</li> <li>2. Approve and implement the new accounting law</li> <li>3. Expand PBB to all sectors and introduce MTEF for better planning and control</li> <li>4. Budget execution not consistent with long-term fiscal stability and value for money.</li> <li>5. Lack of consistency between development goals and expenditure.</li> <li>6. Lack of overall ceilings leads to budget re-negotiation.</li> <li>7. Division of planning and recurrent budgets leads to softer budget constraints.</li> </ol>	Assist by providing expert advice for developing a strategy for implementation of the PBB based on its experience of MTEF used in other African Countries.
D. Public Enterprise Management	<ol style="list-style-type: none"> <li>1. Public Enterprises being run on commercial principles by Holding Companies.</li> <li>2. Public and private partnership (joint ventures)</li> <li>3. Privatisation</li> </ol>	<ol style="list-style-type: none"> <li>1. Cumbersome and lengthy procedure for setting up companies.</li> <li>2. Inefficient and slow dispute settlement and inefficiency in providing support services including delays in connecting to basic utilities.</li> <li>3. Conflict of interest in Holding Companies</li> <li>4. Restructuring of loss making public enterprise</li> <li>5. Lack of a comprehensive competition and anti-monopoly law.</li> </ol>	Capacity building measures for introducing the international best practices in critical areas like law, accounting, financial management, and corporate governance

E. Development and Supervision of Financial Sector and Banks	<ol style="list-style-type: none"> <li>1. Restructuring of banks using mergers and joint ventures.</li> <li>2. New Central Bank, Banking Sector and Monetary System Law 88/2003 authorises the Central Bank of Egypt (CBE) enacted.</li> <li>3. Banking Reform Unit formed.</li> <li>4. Inflation anchored monetary policy framed</li> <li>5. Free float of Egyptian pound.</li> </ol>	<ol style="list-style-type: none"> <li>1. Restructuring of non performing loans</li> <li>2. Capital inadequacy in public sector banks given the high exposure of NPL to public sector</li> <li>3. Lack of clarity on CBE's authority and</li> <li>4. Inadequacy of qualified and skilled human resources in banking supervision</li> <li>5. Inadequacy of knowledge and skills required to develop and implement financial intermediaries such as the mutual funds and venture capital and creation of institutional support in the area of risk management.</li> </ol>	Bank's help in creating institutional support, capacity building in the area of risk of management and supervision, and Pension Fund Reforms. For instance, the Bank could finance the salary of consultants who provide expert advice and support in these institutions. The Bank is already providing help to the government in the financial sector reforms and this could become a part of the ongoing assistance.
F. Foreign Direct Investment	<ol style="list-style-type: none"> <li>1. Extensive reforms of customs tariffs, sales tax, and income tax laws</li> <li>2. Establishment of a new Ministry of Investment</li> <li>3. GAFI given active role in promoting FDI and offering 'one stop shop' services.</li> <li>4. Special privileges in SEZs</li> </ol>	<ol style="list-style-type: none"> <li>1. Civil service bureaucracy and lack of transparency.</li> <li>2. Low competitiveness according to GRCI and BSCI ranking.</li> <li>3. Lack of contracts law and settlement of commercial dispute.</li> <li>4. Inadequately educated workforce and restrictive labour regulations</li> <li>5. Higher labour cost</li> <li>6. Incomplete implementation of OECD corporate governance principles</li> <li>7. Approval and implementation of the new Accounting Law</li> </ol>	Capacity building measures for improving labour productivity
G. Decentralisation	<ol style="list-style-type: none"> <li>1. Ministry of Local Development has developed a new conceptual framework</li> <li>2. A well developed system of governorates</li> <li>3. Public services for education, health, water, and transport already decentralised on pilot basis</li> <li>4. Clear agenda for decentralisation of all public services</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of a comprehensive decentralisation strategy</li> <li>2. Reforming the system of appointment of local administrative officials.</li> <li>3. Empowerment of governorates and local councils</li> <li>4. Need for changes in the current Housing Law</li> <li>5. Lack of resources and the internal coordination</li> </ol>	Help in development and implementation of a decentralisation strategy and offer its expertise in capacity building of the local community in generating financial resources. Assistance in developing a plan for property registration and taxation for revenue generation. Also help required in executing the new income tax system both in infrastructure development and capacity building for greater revenue generation.
H. Procurement	<ol style="list-style-type: none"> <li>1. Decentralised procurement system governed by the Tenders Law 89/1998.</li> <li>2. Procedures for approving tenders are available.</li> <li>3. Under normal circumstances, the Public Tender method is used but there is scope for using other methods.</li> </ol>	<ol style="list-style-type: none"> <li>1. Considerable discretion to the government in procurement matters.</li> <li>2. Preference to Egyptian suppliers</li> <li>3. Contractor's rights inadequately protected</li> <li>4. Lack of oversight agency</li> </ol>	The Bank should help Egypt by providing its expertise in development of a procurement system and funding for establishment of a procurement regulatory agency.
I. Legislative and Law Reforms	<ol style="list-style-type: none"> <li>1. Extensive bodies of laws</li> <li>2. An extensive court system</li> <li>3. Recognition of independence of the judiciary</li> </ol>	<ol style="list-style-type: none"> <li>1. A large number of laws.</li> <li>2. The practice of issuing Presidential and Ministerial decrees has created a very large number of regulations some</li> </ol>	Support and help for establishment of a Law Reform Commission to integrate and bring consistency to its laws. Also

		<p>which are overlapping and confusing.</p> <p>3. Need for rationalising number of laws and decrees by undertaking a thorough review of the existing legal framework.</p> <p>4. Lack of alternative resolution dispute mechanisms</p>	<p>help to establish alternative dispute resolution mechanisms.</p>
J. Human Rights and Gender	<p>1. Provisions for establishment of non-governmental organisation.</p> <p>2. Establishment of The National Council for Human Rights and the National Council for Women.</p>	<p>1. The government's agenda specifically emphasises on the participation of youth and women in the political reform process</p> <p>2. Lack of participation by women in economic, judiciary, and politics</p>	<p>The Bank could help by sponsoring workshops and assistance in developing new educational curricula that includes human rights. Help could be provided to the National Council for Women in implementing the women empowerment programme.</p>

## ANNEX 3

### **LIST OF INSTITUTIONS WITH WHICH CONSULTATIONS WERE HELD**

American University in Cairo  
Al-Watany Bank of Egypt  
Cabinet Office (of the Cabinet of Ministers)  
Cairo University  
Capital market Authority  
Central Agency for Public Mobilization and Statistics (CAPMAS)  
Central Bank of Egypt  
Council of State (Judicial)  
Egyptian National Bank  
European Commission  
Finance and banking Consultants International (FINBI)  
GAFI  
General Federation of Commercial and Industrial Chambers  
General Federation of Non-Governmental Organizations  
Hazem Hassan KPMG  
HC Securities & Investments  
Industrial Development Bank of Egypt  
Information and decision Support Center  
MIC Minister  
Ministry of Finance  
Ministry of International Cooperation  
Ministry of Investment  
Ministry of Justice  
Ministry of Local Development  
Ministry of Planning  
Ministry of State for Administrative Development  
National Council for Human Rights  
National Council for Women  
Parliament  
Tax Authority  
United Nations Development Programme (UNDP)  
United Nations Population Fund (UNFPA)  
United States Agency for International development (USAID)  
World Bank  
World Health Organization (WHO)