

# BTI 2012 | Egypt Country Report

|                          |      |             |             |   |
|--------------------------|------|-------------|-------------|---|
| <b>Status Index</b>      | 1-10 | <b>4.76</b> | # 88 of 128 |   |
| Political Transformation | 1-10 | 4.08        | # 91 of 128 | ➔ |
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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**Key Indicators**

|                          |        |             |                                |              |                      |    |             |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|----|-------------|
| Population               | mn.    | <b>81.1</b> | HDI                            | <b>0.644</b> | GDP p.c.             | \$ | <b>6180</b> |
| Pop. growth <sup>1</sup> | % p.a. | <b>1.7</b>  | HDI rank of 187                | <b>113</b>   | Gini Index           |    | <b>32.1</b> |
| Life expectancy          | years  | <b>73</b>   | UN Education Index             | <b>0.560</b> | Poverty <sup>3</sup> | %  | <b>18.5</b> |
| Urban population         | %      | <b>42.8</b> | Gender inequality <sup>2</sup> | -            | Aid per capita       | \$ | <b>11.1</b> |

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Strikes, citizen protests and general unrest increased across Egypt during the period under review, culminating in the resignation of President Hosni Mubarak on 11 February 2011 and the establishment of an interim military administration under the leadership of the Supreme Council of the Armed Forces.

Prior to this defining moment, the picture of Egypt during Mubarak's last years was one of further setbacks in political freedoms and social policies while at the same time continued improvements in economic liberalization. A particular political nadir was the parliamentary elections in November-December 2010 which the ruling party manipulated more openly than ever before. The National Democratic Party (NDP) drove the Muslim Brotherhood, a group that had become a major opposition force since the 2005 elections, out of parliament. Other opposition parties experienced similar crackdowns. The regime monopolized a large repertoire of instruments to remain in power. Corruption remains widespread. Violations of human rights and the rule of law continue and evidence of such is well-known to both Egyptians and the international community.

Amid the growing unrest the possibility of the end of Mubarak's 30-year reign and concerns over a succession plan became important topics. Observers expressed concerns that during a transition period the mix of the country's social problems and the ruling elite's anti-democracy policies could turn explosive. Yet in early 2011, a peoples' revolution and successful change of power put these fears (at least for the time being) to rest.

In contrast to the political situation, Egypt's economic development continued to show structural improvements despite a brief slowdown amid the global financial and economic crisis. The government continued to pursue economic reforms begun by Prime Minister Ahmed Nazif in

2004. President Mubarak and his government hoped to capitalize on the successes of these reforms, and equally, said reforms have been acknowledged by Western observers.

However, a majority of Egyptians have yet to benefit from economic reform efforts, as the strategy was a project developed within government circles and with the cooperation of a few major players in the private sector. While claiming that liberalization and privatization were important to economic growth, the government still did not sufficiently address the problems of extreme poverty, illiteracy and unemployment with which most Egyptians struggle. Crucially, reforms have done little to address the lack of economic and social opportunities for a growing number of young and well-educated Egyptians.

## History and Characteristics of Transformation

More than four decades ago, Egypt began its path toward democratization and a market economy with President Anwar al-Sadat's 1974 "infitah," or open-door policy.

However, the transformation of the political sphere has yet to yield substantial results. The nature of Egypt's system of government remains authoritarian, at least until the most recent revolts in early 2011; however, whether this revolution brings true democracy to Egypt is an open question.

The political system during the Hosni Mubarak era concentrated power in the hands of the president and his party. This was true not only for the executive, but also in the legislative branch and with the judiciary. Since 2005, the regime reacted to Western demands and growing internal pressure through a controlled process of political liberalization. Egypt at the time was seen as an example of a "hybrid regime," or a "liberalized autocracy" as author and Islamic expert Daniel Brumberg once called it, or one of "authoritarian upgrading."

Yet as questions over a succession plan after Mubarak loomed, during the period under review the government and the ruling party slid backwards with regard to political reforms. Egypt's opposition movements, if not co-opted or controlled by the authorities, have remained weak. A notable exception is the Muslim Brotherhood, which established itself as a real opposition force within the system since its success in the 2005 parliamentary elections. However, it was not formally recognized as a political party, and in the 2010 parliamentary elections (which were highly manipulated by the ruling National Democratic Party (NDP)) its independent representatives were driven out of parliament. Most of the parties in the legal opposition camp have been weak and dependent on the regime. Those who presented candidates for elections were not really able to challenge the regime, but rather did it a service by giving elections a pluralist appearance and by splitting the opposition vote.

Some Egyptians have put their hopes in figures such as the Nobel laureate and former head of the International Atomic Energy Agency (IAEA), Mohamed El-Baradei, who returned to Egypt

after retiring from office in the beginning of 2010. To avoid any unforeseen power transition right from the beginning, the ruling party established high thresholds for the presidential elections planned for September 2011, and controlled access to candidacy.

The regime used the argument of regional instability and the events following 9/11 to justify its grip on power. The regime was pressured by the United States government during the President George W. Bush administration to take constitutional reform measures; however, the Egyptian government used the global war on terrorism as a pretense for pushing through its own repressive measures.

Since the 2003 Iraq war, the 2007 split of the Palestinian territories and with the Islamist Hamas (rooted in the Egyptian Muslim Brotherhood) ruling in the Gaza strip, the regime threatened that any uncontrolled change in Egypt could lead to disorder. There have been a number of terrorist attacks in Egypt over the last years (the most recent at the end of 2010 in a Coptic church in Alexandria) and the government subsequently blamed “foreign” and radical Islamist forces for the attacks.

By continuing substantive financial support to the regime, which strengthened its stability and failed to stimulate reform, the international community de facto condoned its autocratic nature. Facing an increasingly fragile regional situation, stability had become a much more important factor in the region and an impediment to democratic change.

Egypt’s economy was affected by the global economic downturn, but at the same time showed further signs of improvement in privatization, liberalization and furthering the rule of law. According to the IMF (statement of 16 February 2010), Egypt’s economy was resilient to the crisis because of “limited direct exposure to structured products and low levels of financial integration with world financial markets.”

Since the formation of Prime Minister Ahmed Nazif’s cabinet in 2004, the neoliberal “reformist” group has been strengthened and the government has, with limited success, introduced new regulations to better organize market competition, limit monopolies and corruption, and protect property rights. It has taken measures to stabilize the financial markets, strengthen the currency and increase exports and reserves as well as foreign investment.

However, the government did not address obstacles in transforming Egypt’s economy into a more socially responsible market economy. Egypt still suffers from high poverty and illiteracy rates, weak education and health systems, unemployment (especially among young Egyptians), high public sector expenditures, women’s repression and a highly unequal distribution of wealth.

The media and a growing number of NGOs have become less constrained in addressing these government failures, but with limited impact so far.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

Terrorism has been and is challenging the state's monopoly on the use of force. In the first half of the 1990s, movements such as al-Jamaa al-Islamiyya and al-Jihad al-Islami offered a serious challenge to Egyptian authorities, which then reasserted its control over the use of force in the late 1990s.

Monopoly on the  
use of force

8

However, terrorist attacks still occur and reveal the state's existing vulnerabilities. Particularly worrying for the regime are developments in the Sinai and the increasing number of attacks on Egypt's Coptic Christian community.

A number of deadly attacks on Copts in 2009-2010 culminated in the killing of over 20 Coptic Christians preparing for Christmas in a church in Alexandria in January 2011. The government suggested the attacks were led by foreign radical forces trying to split the Egyptian society. There is a fear that al-Qaeda or forces supported by Iran might infiltrate Egyptian society. It is extremely unlikely, however, that Iran would support radical Sunni al-Qaeda groups in Egypt. The real danger is stemming from an increasingly influential Salafi current.

Meanwhile, the difficult security situation in the socially problematic Sinai peninsula has calmed slightly since the tense years during the crisis in the Gaza strip between 2006 and 2008, with Hamas (with its founding roots with the Egyptian Muslim Brotherhood) installed as a quasi-government in Egypt's immediate neighborhood, and repeated violations of the Egyptian border by Palestinian smugglers, migrants and alleged terrorists.

In 2004, terrorists killed 34 tourists in Sinai and in April 2010 the Israeli government issued a terror warning, urgently requesting all Israeli tourists to leave Sinai due to an expected hijacking of Israeli citizens by unspecified terrorists.

Though the Egyptian government instantly rejected any potential threat, Mubarak and his ruling party, the National Democratic Party (NDP), plus the military and security apparatus, played a crucial role in guaranteeing the regime's stability by repeatedly referring to the country's "permanent situation of insecurity"; and indeed, such a situation has raised questions as to how the security situation will develop after President Mubarak leaves office.

As many of the country's 83 million Egyptians have little connection to the state and its institutions, there exists a certain degree of indifference about the state as it has been shaped by Mubarak's regime. In general, Egyptians are proud of their long history of statehood and accept the notion of a "Pharaonic state," which includes a strong president.

State identity

8

The constitution guarantees access to citizenship to all citizens and members of religious groups. In practice, social origin, religion, political or other opinions or gender have a major impact on the extent to which Egyptians can access citizenship rights. For example, a Copt cannot become president, or even foreign minister (Boutros Boutros-Ghali, a Copt, served only as deputy foreign minister before becoming U.N. secretary general in 1992). The Muslim Brotherhood, in another example, for many years has been denied formal access to the political scene. And still, even since the regime change in 2011, placing these rights at the very core of its policies is not anchored in the Egyptian ruling elite's conceptual framework.

The Egyptian state is based on the principle of a secular order with modern institutions. However, article 2 of the constitution also stipulates Shari'ah (Islamic law) as a fundamental source of legislation.

No interference of religious dogmas

6

As the majority of Egyptians are deeply religious and indeed predominantly Muslim (about 10% are Christians or belong to other religious groups), the state maintains almost complete control of religious institutions, such as the al-Azhar University and the post of Grand Mufti. Both institutions are funded by the state.

After eliminating the most radical parts of the Islamist underground in the 1990s, the regime still competes with the Islamist Muslim Brotherhood movement, which enjoys wide support and has established not only religious but also social services that the regime has failed to deliver. It is difficult to say what kind of role the Muslim Brotherhood would give to Shari'ah if it came into power, as within the movement there are many different schools of thought on the matter.

Egypt is divided into 29 governorates, but the country is highly centralized. About half of Egypt's population (43%) lives in the cities, with Cairo as its center.

Basic administration

6

The high-employment rate in the state sector has always been a method for the regime to secure its power. However, this patronage system has led to a broadly inefficient public administration, in which employment is not necessarily based on

skill but on loyalty. State institutions are disconnected from citizens' needs and operate beyond democratic control. Half-hearted reform attempts by Prime Minister Ahmed Nazif's government resulted in few changes.

The Nazif government also improved the functioning of the tax system, but it is still prone to corruption. Additionally some economic decentralization measures were adopted as part of the economic reform process.

## 2 | Political Participation

Egypt held its first competitive presidential elections on 7 September 2005, with the next presidential elections scheduled for September 2011.

Free and fair  
elections

3

Up until 2005, a presidential candidate was nominated by a two-thirds majority of the People's Assembly and confirmed in a national referendum. With the hegemony of the National Democratic Party (NDP) in parliament, the repeated nomination of President Hosni Mubarak was never challenged, and from 1981 until 2005 he was the only candidate to run in successive presidential elections. Until March 2011, there were no limitations on a president's term in office, but constitutional changes introduced by the military interim government in 2011 introduced a maximum two terms in office, with four-year terms.

In the September 2005 elections, a total of 15 candidates ran for direct election. However, the constitutional amendments that paved the way for opening up the presidential race included provisions that limited their real impact. For example, only parties that are represented with more than 5% of seats for more than five years in parliament have the right to nominate a candidate. In the new 2010 parliament, none of the opposition parties reached that threshold. Independent candidates were requested to collect 250 signatures (among them 65 from the People's Assembly and 25 from the Shura Council, which are both dominated by the ruling NDP, as well as significant support of representatives from the 26 governorates). Thus, the amendments in practice did not change the competitive situation (though numbers were lowered in amendments made in March 2011). In 2005, Mubarak won his fifth presidential term with a majority close to 88% (compared to 93% in the last uncompetitive vote in 1999).

The regime successfully marginalized presidential hopeful Ayman Nour, who has not recovered politically since his release from prison in early 2009.

2010 saw elections for both chambers of parliament. Members of parliament are elected on a regular basis by direct, secret and universal ballot elections. (The constitution does not mention the principle of "free" elections). On 1 June 2010, elections to the Shura Council took place. The Shura Council consists of 264 seats. 176 members were elected by absolute majority vote to serve six-year terms, and 88

members were appointed by the president to serve six-year terms. Shura Council elections have been held every three years, with 88 members elected each time. In the 2010 legislative elections, the NDP won 80 out of 88 seats.

The People's Assembly as of 2010 consisted of 504 members serving for five-year terms (but, after Mubarak's ouster, was dissolved altogether along with the Shura Council on 13 February 2011). The NDP won an overwhelming majority in the elections (420 out of 504 seats), while 69 seats were secured by independent candidates. Other parties marginally represented in the new parliament were the New Wafd Party (6), National Progressive Unionist Grouping (Tagammu) (5), Democratic Generation Party (Al-Geel) (1), the el-Ghad Party (1), the Democratic Peace Party (1) and the Social Justice Party (1).

The strongest opposition group in the 2005-2010 parliament (88 seats), the Muslim Brotherhood, boycotted the run-off elections and was not represented in the new parliament. Many Muslim Brothers were detained in the months prior to the election and prevented from registering as candidates.

The elections were widely considered to have been undemocratic. While independent judges were commissioned to supervise the 2005 elections, a constitutional amendment in March 2007 ended the supervisory role of the judiciary and transferred it to an electoral commission (revoked in the constitutional changes of March 2011). This body was elected by the two chambers of parliament, both in which the ruling NDP had the majority. Thus the interior ministry regulated access to candidates' lists. There were ongoing protests in the run-up to and after the elections, in which opposition parties and civil rights campaigners called for the results to be annulled. Media freedom was restricted and international election observers were not admitted.

With the 2010 elections, the ruling NDP secured more than a two-thirds majority in both the People's Assembly and the Shura Council, a Pyrrhic victory to be sure as this further damaged the regime's legitimacy. As compared to the 2005 elections, the 2010 elections saw Egypt set severely back in its democratic practices.

Analysts at the time observed that the undemocratic nature of the elections essentially created a lame People's Assembly, which would be unable to effectively monitor the executive branch and would consequently give the ruling elite carte blanche in the upcoming presidential elections.

Egyptian rulers are not democratically elected but have effective power to govern. The decades of National Democratic Party (NDP) hegemony have led to a clientelistic system between the ruling political elite, security forces, business leaders, state employees and other interest groups. The most influential sectors are the military, the bureaucratic sector and the entrepreneurial class. Many of the latter are active in politics and have been strengthened by the neoliberal orientation of

Effective power to govern

2

Prime Minister Ahmed Nazif's government and the support of Gamal Mubarak, the president's son.

Egypt's governing structure, in place since 1952, has established its power base over time and despite a wide range of social problems, it has effectively managed to maintain stability over the years.

Mubarak quitting office in early 2011 was a turning point in Egyptian history and for the future of the country; presidential elections are scheduled for September 2011.

The country's state of emergency effectively limited the rights of political and civic groups to associate and assemble freely. Political parties could not gather in public without permission from the Ministry of the Interior. The role of security forces at public assemblies was notorious, in particular prior to elections and at demonstrations. Arrests were often followed by rights violations and torture during investigations. Dozens of torture cases, with several fatalities, have been documented by human rights organizations over recent years.

Association /  
assembly rights  
4

Limitations to the right of free assembly were used to suppress the political opposition. For example, according to a January 2010 report by Human Rights Watch, more than 700 Muslim Brothers were arrested in January 2009 in demonstrations protesting against Israel's attacks in Gaza.

The regime however allowed the number of NGOs in Egypt to grow significantly, as a wide range of small, ineffective organizations proved to be easier to control than a few well-organized ones. The legal framework for NGOs in Egypt is governed by law number 84 (2002). The law requires civic associations to register with the Ministry of Social Affairs and gives the ministry the right to deny any association a legal status that is deemed involved in illegal activities. Furthermore, the law prohibits NGOs from taking part in political or professional associations' activities as well as from receiving badly needed (foreign) funding without governmental approval. In 2009, the United States Agency for International Development (USAID) gave in to Egyptian government pressure and stopped funding NGOs not registered under the Egyptian associations law.

Despite the political barriers, protests and demonstrations have increased over the past years and even have included participants from the state sector. In December 2007, 55,000 communal civil servants went on strike. In spring 2008, textile workers in the Nile Delta and urban activists jointly organized protests and strikes mobilizing thousands of predominantly young supporters via the social media website, Facebook. The protests in the city of el-Mahalla on 6 April 2008 were violently suppressed by security forces. In the aftermath, April 6 became a movement. For example, on 25 January 2011, the "April 6 Youth Movement" called for Egyptians to assemble outside of the Ministry of the Interior to protest

against police abuse. Although additional action from the grassroots organization Kefaya (Enough) has been muted, the group claims to have inspired new protest and opposition movements. The number of bloggers, despite censorship, arrests and harassment from the regime, has been growing significantly and steadily over recent years. Egyptians and the world were shocked following the killing of young blogger Khaled Said by security forces in Alexandria on 6 June 2010, leading afterwards to weekly protests in Alexandria and in Cairo, which also played a major role in the run-up to the revolutionary events in early 2011.

In general, despite the difficulties, opposition parties, NGOs, (citizen) journalists and human rights activists have been still very active in criticizing the authorities and in defending public space for political dialogue.

According to the constitution, Egyptian citizens are guaranteed the freedom of opinion and expression in all forms. The constitution also guarantees freedoms of the press, publication and media. However, the country's state of emergency clearly put restrictions on these constitutional rights, and most recently, the parliamentary elections in 2010 resulted in major setbacks to press freedoms. Media were censored and (citizen) journalists were frequently arrested and/or imprisoned.

Freedom of  
expression  
4

The government in 2004 abolished laws that made criticism of the president or other state institutions a crime, a decision that removed old taboos and led to more freedom for the media. Yet recent events have shown that government attitudes have turned in the opposite direction.

The state of media and journalism in Egypt was mixed in the period under review. There has been an explosion of privately owned newspapers and of Arabic satellite television stations that reach even the poorest citizens in forgotten corners of the country. There is free Internet access, and the blogger scene is growing fast and has successfully used the Internet to mobilize and organize protests. Especially the presidency has become a target of profound criticism. Discussions about Islamic Shari'ah being the source of Egyptian law have also become prominent. State media, however, is dominant but in crisis, as state newspapers have faced a huge loss of readership in recent years. State newspapers are badly managed, over-staffed and generally corrupt and have suffered from declining standards. Most of them have become more pro-government (and if not, their editors were increasingly forced to answer to the state authorities).

But even though the number of privately owned newspapers has grown, many are vulnerable. They are protected neither by law nor by custom, and are usually non-institutionalized, under intense pressure to make money and must manage a fickle readership. With regard to content, private newspapers often focus on the

sensational rather than on quality journalism. What is still to a large extent missing in Egyptian media is a source of objective information that informs the public rather than mobilizes it.

However, the (urban) Egyptian population now has better access to a broader range of media and also has become more demanding. There is a new generation of young journalists that are products of a different era and take their job and ethics seriously. “The independent daily al-Masry al-Youm outsells the government papers, satellite talk shows probe into sensitive corners of political and social life, and young journalists and bloggers are as ubiquitous in Cairo as taxicabs,” Michele Dunne summed up in a 23 July 2010 piece for Foreign Policy.

### 3 | Rule of Law

According to the Egyptian constitution and political convention, the office of the president and the executive branch have a firm grip on power.

Although there are formally three separate branches, both parliament and the judiciary must tolerate continuous intervention from the executive. The president is empowered to call a state of emergency (which has been in place since Mubarak entered office in 1981; however, the military interim government announced in February 2011 that it would be eventually lifted before democratic elections scheduled for September 2011), and, even more problematically, to transfer proceedings from civilian to military courts, which violates the independence of the judiciary as well as the civil liberties of Egyptian citizens.

Two problematic institutions provide further illustration of the weakness of the legislative branch in Egypt: the party committee, which has the right to legalize political parties and supervise their activities once they are established, and the party tribunal, which gives those parties whose application for formal status failed the right of appeal. Both (“quasi-governmental institutions,” as a 2006 report by Konrad-Adenauer-Stiftung qualifies them) are dependent on the executive power of the National Democratic Party (NDP), thus making their operation an infringement of the principles of separation of power and judicial independence.

Despite the constitutional court’s powerful role, there is no real system of checks and balances because of the structural dominance of the president and the ruling NDP. In practice, this dominance has become even stronger with the outcome of the 2010 parliamentary elections.

Separation of  
powers

3

The Egyptian constitution formally guarantees the independence of the judiciary. In practice, the executive frequently interferes in judiciary procedures.

Independent  
judiciary

4

Although for a brief period (2000-2007) the judiciary's role was strengthened, during the period under review there have been substantial setbacks.

In 2000, the constitutional court declared all parliamentary elections since 1984 anti-constitutional, as they had not taken place under the supervision of the judiciary. The powerful representative organ of the Egyptian judges, the Judges' Club (Nadi al-Quda) used this momentum and claimed a truly independent judiciary and a clear separation of powers. The regime was forced to react. The judges' role in the 2005 elections was strengthened, and for the first time, judges were given exclusive responsibility for the supervision of polling stations and of the vote count. Since a good part of the Egyptian judiciary was and is highly motivated to uphold and defend basic ethical standards, several judges reported severe violations of citizens' electoral rights during these elections.

But instead of investigating the reported election fraud, the regime attacked the judges, and then took their new powers away. With the March 2007 constitutional amendments, the regime changed article 88 and withdrew the rights of supervision of elections from the judiciary. This oversight was given to an electoral commission that is elected by the two chambers of parliament (where the National Democratic Party (NDP) holds a majority of seats). Effectively, it is the Ministry of the Interior that dominates the process of, for example, registering and admitting candidates. The 2010 parliamentary elections clearly showed the strong role of the state and its means to control and manipulate the election process.

Furthermore, the relatively high degree of independence of the civilian judiciary has induced the regime to create a parallel network of special courts. Next to a constitutional and an administrative jurisdiction, there is an independent judiciary under the justice minister (the so-called Majlis al-Dawla, or State Council), and military and/or special tribunals ("value tribunal" and "state security courts"). These special courts in the hands of the executive severely violate citizen's rights, as they give the regime free rein to make arbitrary judgments.

Egyptian laws outline various penalties for officeholders who abuse their positions. The Administrative Control Authority, a governmental institution, investigates corruption cases in public offices and reports cases to the Supreme Court, which is then in charge of prosecution.

Prosecution of  
office abuse

4

An anti-corruption campaign started in 2003 led to the convictions of some prominent figures. However, the campaigns are often politically motivated and have at least three identifiable aims, including the removal of rivals amid intra-regime struggles; the prosecution of opposition figures; and to prove Egypt is accommodating Western claims for democratization. Overall, it must be stated that

the regime is not committed to systematically fight the abuse of power by public officeholders.

The constitution guarantees freedom of worship and religion, freedom of opinion and expression, the right to peaceful and unarmed private assembly and to defend oneself in court within the limits of the law.

Civil rights  
3

In practice however, civil liberties are subject to systematic violations by the regime, which has been operating under a state of emergency for almost three decades since former President Anwar Sadat's assassination in 1981. Violations have grown in number in the run-up to the 2010 parliamentary elections.

The creation of the National Council for Human Rights (NCHR) in 2003, the official mandate of which is to monitor the performance of the Egyptian government in human rights and to report to parliament's second chamber, the Shura Council, was mostly a reaction to pressure from the United States and to the growing prominence of the non-governmental Egyptian Organization for Human Rights (EOHR), founded in 1985. Although headed by a prominent figure, former U.N. Secretary-General Boutros Boutros-Ghali, the NCHR could never, by its very nature, fulfill its promises.

However, there is a growing number of NGOs which are monitoring and strengthening the awareness for civil liberties in Egypt.

#### 4 | Stability of Democratic Institutions

In Egypt during Mubarak's rule, "democratic" institutions were made part of an authoritarian system. Because of the structural dominance of the president's office and his ruling National Democratic Party (NDP), there is no real system of checks and balances. Neither the government nor public administration was responsive to citizens' needs but rather served interest groups to strengthen their grip on power. The government also established a number of special courts. However, the modernization of the public administration under Prime Minister Ahmed Nazif was widely perceived as at least an attempt to improve the responsiveness and performance of Egypt's institutions.

Performance of  
democratic  
institutions  
2

The regime concentrated and monopolized political power. The military, the public administration and business elites were the major pillars of the regime's stability.

Commitment to  
democratic  
institutions  
2

Those excluded from the system had over time become increasingly frustrated. The level of acceptance of state institutions among the opposition, the socially marginalized, NGOs and (citizen) journalists after more than three decades under Mubarak is very low.

## 5 | Political and Social Integration

Egypt for decades been dominated by the National Democratic Party (NDP). While there once were a number of opposition parties, the regime managed to successfully marginalize these groups.

Party system  
3

What's more, many of the 23 legal opposition parties were used simply as tools for the regime to maintain a pluralist façade. When opposition parties fielded candidates in various elections, these actors didn't actually challenge the regime but, on the contrary, assisted the regime by giving elections a pluralist appearance and splitting the opposition vote. Altogether only four opposition parties had a certain independent standing: the New Wafd Party, the leftist National Progressive Unionist Grouping (Tagammu) party, the nationalist Nasserist Party and the el-Ghad Party. Whereas the latter party, el-Ghad, gained some prominence after 9/11 and especially during the Cairo Spring in 2004 – 2005, the other three lived on tradition and their heritage. Yet, in Egypt tradition and heritage also meant being part of the system. Since 1952, leaders of opposition parties had played their part in the subtle yet fake political game. Not infrequently were they also personally intertwined with leading regime figures, and intermarriages were the rule, not the exception. These bonds buttressed payoffs, favors and bribes and prevented concerted opposition to the regime.

Yet the regime was so rattled following the surprising success of the Muslim Brotherhood in the 2005 parliamentary elections that it preferred to play it safer in 2010. In what observers called the “most fraudulent elections in its history,” (Shadi Hamid of Brookings Institution), in 2010 the NDP won 420 out of 504 seats in the People's Assembly. The “legal opposition card” was not drawn. The only opposition parties represented in the new parliament were the New Wafd Party (6), the National Progressive Unionist Grouping (Tagammu) (5), the Democratic Generation Party (Al-Geel) (1), the el-Ghad Party (1), the Democratic Peace Party (1) and the Social Justice Party (1).

In the 2005-2010 parliament, the strongest opposition group, the Muslim Brotherhood, boycotted the run-off elections and is not represented in the new parliament.

The state (i.e., representatives of the dominant NDP) supervised and controlled the party system through the political parties committee and other administrative and legal mechanisms. For example, the Muslim Brotherhood has been denied legal status since 1954. In March 2007, article 5 of the constitution was amended, explicitly abolishing the founding of parties based on religion, a provision tailored to keep the Brotherhood out of politics.

Thus both party and political pluralism were limited and Mubarak's ruling NDP functioned to preserve the status quo rather than to deal with citizens' needs and demands. Society was denied genuine representation.

Apart from the structural dominance of the NDP and the emergency law that restricted opposition parties' ability to participate politically, their structural weaknesses and their perception as regime proxies prevented them from taking a stronger role in society.

The majority of (young) Egyptians have shown little interest in participating in party politics, yet if they did, such a drive was usually frustrated by procedure and the dominance of older, usually male political figures. In recent years, however, young Egyptians have started to re-discover political activism via online channels, especially through the social media website Facebook. The April 6 demonstration in el-Mahalla and the subsequent debates on Facebook in which thousands of young Egyptians participated points at new potential for political activism.

Interest representation is still the monopoly of powerful political, economic and military elites.

Interest groups  
5

There are well-organized and powerful professional associations (journalists, lawyers or engineers) that often play the role of surrogate for political parties and struggle for more independence. For a brief period some of these groups were even headed by members of the Muslim Brotherhood. However, with the state-controlled Union of Egyptian Workers, there is no strong independent labor movement. Under the Ahmed Nazif government and his inclusion of businessmen into government cabinet, business elites gained even more clout. Through initiatives of President Mubarak's wife, Suzanne Mubarak, professional women enjoyed increased influence.

The majority of Egyptian citizens however had no influence or representation in government decision-making. Civil society associations lobbying for the weak maintained a marginal status in the political process. However, not only has the number of associations increased in recent years, but also their actions have become more legitimate in citizens' eyes. Citizens have started to accept the view that their government should put forward policies that improve the life of ordinary Egyptians.

The state has maintained a monopoly on conducting polls and credible data is rare; so precise levels of acceptance and/or changes in attitude toward democracy are difficult to monitor.

Approval of  
democracy  
n/a

Democratic norms and procedures are admired in general, but have been partially contested by less-educated Egyptians due to their systematic and frequent manipulation by the regime. These segments of the population are also explicitly critical when Western actors press for more democracy in Egypt. This stems not

only from Egypt's colonial heritage, but, more recently, from the U.S. democratization campaign after 9/11. However, while President Barack Obama reached out to the Muslim world in his Cairo speech in 2009, in practice his administration had reduced reform pressures on Egypt.

However, even the regime's attempts to hijack the "reform discourse" were not sufficient to completely eradicate the people's wish for democracy, the rule of law and good governance. There has been a rise in awareness among Egyptians following the killing of young blogger Khaled Said in Alexandria on 6 June 2010 by security forces, a case that was well-reported and discussed in social media. After this event weekly demonstrations against the Mubarak regime became the norm.

While citizens find little recourse within the state and its institutions, religion as a source of social interaction plays an important role especially among the poor in rural areas. Furthermore, neoliberal economic reforms have created a new class of wealthy citizen, many of whom are likely to be oriented toward the private consumer life in Cairo's growing number of gated communities.

As the state retreats from the social sphere as part of liberalization process, civil society has a crucial role to play in implementing what was named the "new social contract" in the 2005 Egypt Human Development Report from the United Nations Development Program (UNDP). The report sets the agenda for a fundamental change in attitudes, trying to define "new roles for all stakeholders, actors and players" in Egypt's development process. The 2008 Egypt Human Development Report then focused specifically on the role of civil society. Following these reports, it appears that the ideas presented began to filter through into Egyptian society at large.

For a long time, citizens were wary of self-organization, yet recent signs show that this attitude is changing. The perception of NGOs serves as an example. As Michele Dunne wrote in the magazine *Foreign Policy* on 23 July 2010, "Ten years ago leaders or employees of non-governmental organizations treating sensitive issues such as human rights or political freedom were treated as enemies of the state, subject to frequent harassment and always in fear of arrest or intimidation. Parents would be concerned for the future of a son or daughter who went to work for such an NGO. Now, while NGO leaders are still not beloved by the government, they have the ear of the public. Their opinions appear prominently in the independent media, but also sometimes on the pages of government organs such as *al-Ahram*. (...) And working for a human rights NGO no longer places a young Egyptian on the fringes of society; it has become legitimate in many social quarters."

The regime struggled with a dilemma: as it withdrew from the social sphere there was a need for alternative service providers, but at the same time it wanted to keep

Social capital

6

the development of civil society under control and prevent Islamist forces from gaining even more ground. Here, the Muslim Brotherhood movement has proved particularly successful in providing social services, drawing on its solid base among religious Egyptians.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Overpopulation, poverty, illiteracy and the discrimination of women are the most important socioeconomic barriers impeding Egypt's transformation.

Egypt is the most populous Arab country with an estimated population of 83 million (2009). Population growth stands at 1.8% (2007), leading to a youth bulge with related problems such as providing education, jobs, health care services and so on. According to the 2010 Egypt Human Development Report, nearly 20 million Egyptians are between 18 and 29 years old.

The United Nations estimates that about 18.5% of Egypt's population lives below the poverty line (2005).

Egypt scores 0.28 in the UNDP's 2006 Gender Empowerment Measure (GEM). The literacy rate is at 66%, with women's illiteracy rates higher than men's. Egypt scores 0.70 in the U.N. Education Index (2007).

Egypt scores 0.62 United Nations Human Development Index (HDI). The level of inequality in income and consumption is 32 (2005, as more recent data is not available), according to the World Bank Gini index.

Question  
Score

Socioeconomic  
barriers

3

| Economic indicators |        | 2007     | 2008     | 2009     | 2010            |
|---------------------|--------|----------|----------|----------|-----------------|
| GDP                 | \$ mn. | 130477.8 | 162818.2 | 188984.1 | <b>218894.3</b> |
| GDP growth          | %      | 7.1      | 7.2      | 4.7      | <b>5.1</b>      |
| Inflation (CPI)     | %      | 9.3      | 18.3     | 11.8     | <b>11.3</b>     |
| Unemployment        | %      | 8.9      | 8.7      | 9.4      | -               |

| Economic indicators       |          | 2007    | 2008    | 2009    | 2010           |
|---------------------------|----------|---------|---------|---------|----------------|
| Foreign direct investment | % of GDP | 8.9     | 5.8     | 3.6     | <b>2.9</b>     |
| Export growth             | %        | 23.3    | 28.8    | -14.5   | <b>-3.0</b>    |
| Import growth             | %        | 28.8    | 26.3    | -17.9   | <b>-3.2</b>    |
| Current account balance   | \$ mn.   | 411.6   | -1414.6 | -3349.3 | <b>-4503.8</b> |
| Public debt               | % of GDP | 87.1    | 74.7    | 75.6    | <b>73.8</b>    |
| External debt             | \$ mn.   | 33998.0 | 33365.0 | 33307.8 | <b>34843.9</b> |
| Total debt service        | \$ mn.   | 2920.5  | 3244.2  | 2910.2  | <b>2972.4</b>  |
| Cash surplus or deficit   | % of GDP | -4.6    | -6.4    | -6.6    | -              |
| Tax revenue               | % of GDP | 15.3    | 15.3    | 15.7    | -              |
| Government consumption    | % of GDP | 11.3    | 10.9    | 11.4    | <b>11.2</b>    |
| Public expnd. on edu.     | % of GDP | 3.7     | 3.8     | -       | -              |
| Public expnd. on health   | % of GDP | 4.9     | 4.8     | 5.0     | -              |
| R&D expenditure           | % of GDP | 0.23    | -       | -       | -              |
| Military expenditure      | % of GDP | 2.5     | 2.3     | 2.1     | -              |

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Since 2004 the government under Prime Minister Ahmed Nazif has taken key structural reform measures. Meanwhile the public sector remained one crucial pillar of the regime. Therefore, there were still restraints with regard to the establishment of a free market economy.

In the 2011 Index of Economic Freedom, Egypt ranked 96th overall, and 11th out of 17 countries in the Middle East and North Africa (MENA) region. According to the index, while Egypt saw significant gains in investment freedoms, the global financial and economic crisis increased government spending, jumping to 34% of GDP in 2010, including consumption and transfer payments. Furthermore, inflation rates have been high (an average of 14.7% in 2007-2009). The state controls prices for basic foods, energy, transport and medicine and subsidizes the food, sugar, transport and pharmaceutical industries. That makes its overall interference in socially rooted market economy mechanisms virtually unchanged.

Market-based  
competition

5

In May 2005, for the first time a legal framework was established to ensure freedom of competition. Generally speaking however, the action depends on the influence of a company and whether it has access to the ruling elite. A small circle of powerful business clans has benefited from the economic reforms of the Ahmed Nazif government and has, as Stephan Roll of the German Institute for International and Security Affairs (SWP) points out, also developed into a new structural power in the political system of the country. The competition between entrenched public sector actors and new private entrepreneurs has become increasingly fierce and has also affected the ruling National Democratic Party (NDP).

Anti-monopoly  
policy  
6

Foreign companies, in particular small- to medium-sized enterprises (SMEs), mostly find it difficult to navigate this system. Law enforcement is deficient, and corruption and bribery are widespread.

Egypt continued to open its markets to international trade. The weighted average tariff rate was 8% in 2009, according to the 2011 Index of Economic Freedom. However, non-tariff barriers (e.g., import restrictions, import bans, burdensome and non-transparent sanitary and phytosanitary measures, custom procedures, customs corruption and enforcement of intellectual property rights) constitute a burden for free trade. They are still held as tools of the government to protect parts of the country's industry.

Liberalization of  
foreign trade  
6

Egypt's banking system proved to be overall resistant to the impact of the global financial crisis. The central bank maintains conservative policies. Egypt has limited direct exposure to structured products and its level of financial integration with world financial markets has so far been low.

Banking system  
7

Under Prime Minister Ahmed Nazif's government, Egypt initiated a five-year program to modernize its banking sector with the goal of privatization. Four 100% state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and the Bank of Alexandria) used to dominate banking in Egypt. Now, full private-sector ownership, including foreign ownership, is allowed in banking (as well as in insurance).

Many large international financial institutions in commercial and investment banking, mutual funds, insurance and securities trading now operate in Egypt. The Bank of Alexandria was put on sale in October 2006. The sale of the Banque du Caire, one of the largest public banks, was postponed in June 2008. The European Union supported the measures through its Financial and Investment Sector Cooperation program (FISC) from 2005-2008.

According to IMF findings in February 2010, Egypt has to work on introducing Basel II standards, and recommended that "supporting financial sector development will help facilitate intermediation of savings and increase private sector access to

credit.” Egypt should also develop “additional prudential measures to contain vulnerabilities that will arise with greater integration in the global economy,” the IMF urged.

## 8 | Currency and Price Stability

Over the last decade inflation rates have not been consistent. In 2003, inflation was below 5%. Because of the pass-through effect of the large nominal depreciations of 2001 and 2003, inflation temporarily rose to 11.3% in 2004, and then dropped again in late 2005 to below 5%. Since 2006, however, inflation has been high, starting from 7.6% and rising to 9.3% in 2007 and 18.3% in 2008, and falling to 11.8% in 2009.

Anti-inflation /  
forex policy

7

This development has increased social unrest and has forced the government to continue its policies of subsidizing goods that it had decided to gradually abandon. The IMF recommended during a mission to Egypt in 2010 that the central bank “should stand ready to tighten monetary conditions if inflation does not abate.”

In 2003, the Egyptian pound was floated after almost a decade of being pegged to the U.S. dollar. The government since has been trying to raise confidence in the convertibility of the Egyptian pound through various measures.

There is an awareness of the need to preserve macroeconomic stability in fiscal and debt policy. Especially compared to the late Anwar Sadat/early Hosni Mubarak period, Egypt has done relatively well in recent years. But the question remains to what extent the regime’s attempts to support macroeconomic stability contributed to this development or whether it has been driven by other factors.

Macrostability

7

Overall, the picture is mixed. Egypt’s 2009 current account balance was -\$3,349.3 million. It steadily decreased, sinking from a surplus of \$411.6 million in 2007 to a deficit of -\$1,414.6 million in 2008.

Public debt, after decreasing in 2004 has since 2006 increased. Government spending on subsidies has contributed to persistent fiscal deficits. Public debt stood at \$29.3 billion in 2008.

External debt initially decreased in 2004 – 2006 but has increased since then. In 2008, external debt stood at \$32.6 billion. Egypt’s total debt service has been decreasing since 2006 (2.3% of GNI). It was at 2.1% of GNI in 2007, and in 2008 dropped to 1.9% of GNI.

Cash deficits were at -7.2% of GDP in 2006, increased to -4.6% in 2007 and then decreased again to -6.4% in 2008.

Government consumption has been constantly and significantly reduced since 2006, when it was at 12.3% of GDP. By 2009 it was almost cut by half, dropping to 6.7% of GDP.

Egypt has accumulated reserves between 2006 (\$97.846 billion) and 2009 (\$129billion).

## 9 | Private Property

Property rights and the regulation of the acquisition of property are adequately defined and protected under Egyptian law, based on both Islamic law and the Napoleonic code. However, the legal code for property ownership is complex and creates delays in the judicial process. According to the 2010 Index of Economic Freedom, it takes six years to decide commercial cases in the courts (highly prone to political influence), and appeals can significantly extend the duration of the cases. This is why the government sometimes uses fast-track military courts.

Property rights  
7

In the period under review, Egypt did not progress with reforms regarding property rights according to both the World Bank's 2010 Doing Business in the Arab World report and the 2010 Index of Economic Freedom.

Traditionally, state companies have dominated markets for many decades. Yet in order to sell economic reforms as a "sedative" for the slow pace of political reforms, the government under Prime Minister Ahmed Nazif since 2004 boosted privatization. As a result, privatization efforts have picked up dramatically, and the investment ministry has played a major role in this process.

Private enterprise  
7

Positive examples of privatization measures in former state-controlled sectors are in telecommunications, tourism and the financial sector. These sectors are also open to foreign investment. State and military-owned companies still control strategic sectors such as infrastructure, electricity and water. A few influential corporations control other areas. Whereas this "old guard" vehemently defends its positions in politics and in the economy, some profiteers of economic liberalization have gained, mainly under the patronage of Mubarak's son, Gamal Mubarak, influential positions in the government. The government still controls prices for some basic foods, energy (including fuel), transport and medicine and subsidizes industries in food, pharmaceuticals and public transportation.

Starting a business has clearly become easier over recent years, according to the World Bank's Doing Business report; to start a business takes an average of six days. The national bureaucracy and the general regulatory environment still pose

impediments to the development of the private sector, as does an almost culturally embedded inclination to look for work in the public sector. The easiest path to entering the Egyptian economy for foreign companies is through joint ventures. However, de jure they are allowed 100% ownership.

## 10 | Welfare Regime

The state provides welfare and attempts, albeit supported by foreign development aid, to help the country's many marginalized citizens. However, the state's social safety net does not sufficiently meet the needs of the population. With low investment in health (2.4% of GDP in 2007) and education (3.8% of GDP in 2008), state social programs have literally no chance of compensating the one-third of the population living in poverty and cannot keep pace with population growth and the accompanying hikes in enrollment. The government is regularly pressured by expressions of public discontent and subsequently raises subsidies for food and energy. However, its resources are not unlimited and the high rates of inflation do not make things any easier.

Social safety nets  
4

The government, in collaboration with the United Nations Development Program (UNDP), tried to develop a strategic vision of how to combat poverty and strengthen the social safety net in its 2005 and 2007 Egypt Human Development Reports. However, the state has still failed to develop a social component to complement its market economy reforms. Against the background of growing overall tax revenue since 2003, the low level of spending for health and education is alarming.

As a second pillar of the social safety net, Islamist movements, in particular the Muslim Brotherhood, are playing an important and growing role, and private health expenditure is growing too.

According to the Egyptian constitution, the state is the guardian of opportunity for all. But over the years the regime has favored the interests and demands of some social groups over others. Those who live under the poverty line have remained there, and others (e.g., the large bureaucracy) have benefited from state services. With an economic reform agenda, a new circle of businessmen and corporations has been significantly strengthened.

Equal opportunity  
4

Egypt scores 32.1 in the Gini Index (2005), hinting at a huge income gap between the different strata of society. While economic growth is accelerating, progress in human development is still uneven. Young people, the majority of the overall population, are particularly vulnerable to poverty.

One positive development is women's increased access to education, especially higher education, and public office. According to a 2010 Freedom House Study on

Women's Rights in the Middle East and North Africa, "the gender gap in education has been closing, with 95 girls for every 100 boys enrolled in primary schools in 2007, a significant improvement over the 66 girls for every 100 boys in 1975." However, for the majority of Egyptian women, the path to empowerment is long and should not be taken for granted. Egypt's vulnerable social groups prove to be more affected by economic marginalization.

The Christian (mostly Coptic) minority, making up of about 10% of the population, are underrepresented in the public sector.

## 11 | Economic Performance

Since 2004 Egypt has managed to achieve good macroeconomic outcomes. Growth has been accelerating since the economic reform process of the Ahmed Nazif government started in 2004. Strong foreign earnings have been a key driving force, coupled with the implementation of a series of financial reforms affecting exchange rates, trade and public sector, as well as a push for privatization and increased transparency. The economy is complemented by growing domestic demand.

Output strength

7

The World Bank's 2008 Doing Business report ranked Egypt as the top performer across 178 economies, with its policy reforms for setting up a business. Egypt also climbed the fastest in overall rankings, jumping 26 places in one year. The World Bank's 2009 report confirms this positive development. However, it has to be said that the Doing Business series does not look at indicators such as macroeconomic policy, the quality of infrastructure, currency volatility or investor perceptions.

Egypt's GDP growth was affected by the global financial and economic crisis. While real GDP growth increased from 4.1% (2004) to 7.1% (2007) and 7.2% respectively (2008), it fell significantly to 4.7% in 2009. According to the 2010 Index of Economic Freedom, the global economic crisis affected revenues from manufacturing, tourism and the Suez Canal. While the crisis had a negative impact on GDP growth, Egypt's limited inclusion in the global financial markets meant however that its economy was overall resilient to the crisis.

Real per capita GDP has been significant and stable but does not translate into increased income for all segments of the population. The overall growth of the economy does not have significant impact on employment. The official unemployment rate ranges between 10% and 15%, and the level of youth unemployment is significantly higher. Unemployment rates of university graduates were on the rise over the last decade. Outside observers estimate the unemployment rate to be much higher, at about 20%.

Inflation rates are high, averaging 14.7% in 2007-2009. The impact that high inflation has on the majority of poor Egyptians should not be underestimated.

The tax system is still structurally deficient, so that tax revenue contributed only a meager 15.3% share to the GDP in 2008 (in comparison, Algeria 45.3% and Morocco 27.5%).

## 12 | Sustainability

Environmental concerns are a relatively new phenomenon in Egypt, which has led to a slow but growing environmental awareness among the population.

The 2005 Egypt Human Development Report, a joint report by United Nations Development Program and the Institute of National Planning, identified environmental protections as a key issue for future development. Environmental protection was included in constitutional amendments in 2007. In 2008, Egypt joined the Union for the Mediterranean, a group that emphasizes environmental concerns throughout the Mediterranean region. The dispute with southern neighbors over access to the Nile River illustrates that the protection of natural resources is crucial for the country and its citizens.

The 2010 Environmental Performance Index (EPI) ranks Egypt 68th out of 163 countries, with a score of 62.0, on 25 performance indicators tracked across 10 policy categories covering both environmental public health and ecosystem vitality. With its record, Egypt ranks just above the average of 55.6.

However, Egypt in general is more likely to follow the examples of other transformation countries with a “development first” approach, with the Ministry of State for Environmental Affairs, founded in 1997, clearly subordinated to other ministries.

The Egyptian education system struggles to address the needs of its growing population. The country faces population growth of 1.8% (2009) and a large, young majority. Some 40% of the country’s population is aged between 10 and 29, according to the 2010 Egypt Human Development Report. The report also points out that 27% of young people aged 18-29 have not completed basic education; 17% dropped out of school before completing basic education and 10% never enrolled. Yet importantly Egypt’s education infrastructure simply cannot absorb these young Egyptians, a group that could constitute the major productive force of its economy.

Despite improvements, the adult (older than 15 years) illiteracy rate in Egypt is still at about 35% (for men, 25%; for women, 42%; for youth, 15%).

Environmental  
policy

4

Education policy /  
R&D

4

Public education institutions for basic and advanced education are characterized by structural difficulties and an unequal distribution, as services are concentrated in urban centers. The ruling elite has identified these problems, but has not effectively addressed them. Public expenditure on education has dropped since 2005 (4.8%) to 3.8% of GDP in 2008. Conservatism and to a certain extent trust in older adults rather than youth dominate the Egyptian mindset. Public expenditure on R&D was at 0.23% of GDP in 2007. These are similar figures to previous years.

## Transformation Management

### I. Level of Difficulty

There are several structural constraints, but Egypt's main problem is the state's inability to mobilize its existing resources.

With 83 million people, Egypt is the most populated country in the region. The high rate of poverty and extreme poverty in particular among the rural population of Upper Egypt, the country's poor education system (and its inability to address the needs of a young population) and the need to create more jobs for a populace that is growing by 1.8% (2009) constitute structural constraints on governance. The growing youth bulge was addressed by the 2010 Egypt Human Development Report by the United Nations Development Program.

Human as well as natural resources are available, but are not exploited effectively. Egypt's dependence on the Nile is a major structural difficulty, all the more when the difficulty is increased by unsolved problems such as salinization or unsecure water supplies from southern neighbors.

Economic liberalization has mostly served the interest of Egyptian and foreign businesses so far. Institutions are in place but their mere existence does not mean they deliver. Labor productivity, especially of the large public sector, is traditionally low and government spending on wages is significant.

Structural  
constraints

6

Egypt has proved to be a remarkably stable and peaceful country despite social cleavages, a fact that to an extent can be traced back to religious and cultural habits, as Egyptians are conservative and deeply religious.

Political reform stagnation is, however, the major structural impediment to change.

As underlined by the 2008 Egypt Human Development Report, there is a strong tradition of civil society and citizens' engagement in public matters. However, the 1952 revolution precipitated a transition to authoritarianism. Socialist experiments also had a destructive effect on self-organization by citizens.

Civil society  
traditions

5

With the "open-door policy" of President Anwar Sadat and continued economic liberalization under President Hosni Mubarak and the government of Prime Minister Ahmed Nazif (since 2004), new space for engagement is opening up, and efforts that relieve the overburdened regime of costly duties are especially encouraged. As the state withdraws, the potential for civil engagement is theoretically growing.

There is a high number of associations in Egypt (about 20,000), but they do not have a legal framework and a political climate in which to flourish. Even if the government sees the necessity for alternatives to the state regulatory framework and officially supports the strengthening of private leadership and a stronger role for civil society, it still avoids substantial changes, as these are also likely to mean a liberalization of the political order. Thus engagement is welcome if the state can still control it.

The example of the Muslim Brotherhood is one good illustration. Social services provided for by the Brotherhood are highly developed and the state relies on these. Yet by relying on such developments the state risks the formation of an independent "quasi-state" that might undermine its authority.

Conflicts between the Muslim majority and Christian (Coptic) minority have intensified in the period under review. It is not clear though if these conflicts are triggered from within the communities or by the regime to nurture the perception of a growing threat that then sanctions the regime's heavy hand toward any form of "unrest."

Conflict intensity

5

Islamism has become a source of political conflict. While the regime managed to contain the political impact of the Muslim Brotherhood and took measures to marginalize it in the 2010 parliamentary elections, the mere fact remains that large parts of society sympathize with the Brotherhood. With a strong representation in parliament between 2005 and 2010, the Brotherhood became the main opposition party during that time, managing to deliver on its role by challenging the ruling

National Democratic Party (NDP) over its policies. It remains to be seen how the Brotherhood will define its role after being excluded again from the political arena.

Social dividing lines also engender conflict. There is serious social polarization between the financially rich and politically dominant elite and an excluded majority, of which about 20% still live with less than \$2 a day. The situation might further deteriorate with the government's neoliberal approach to a market economy that does not sufficiently address the deepening social cleavages.

Overpopulation and population density in urban areas are equally important problems. There is a significant imbalance between rural and urban areas, as rural populations emigrate toward urban centers in search of employment.

As the Egyptian birth rate is 1.8% (2009) there is a steadily growing youth bulge in the population that faces unemployment and a lack of social opportunities.

Another line of conflict is rooted in the question of succession. The regime's objective in the period under review was to preserve stability in the succession process as President Mubarak prepared to leave politics. But as was impressively demonstrated in late January 2011, the opposition and the public did want to have their say in who would rule Egypt in the post-Mubarak era, and refused to simply accept the succession of Mubarak's son, Gamal.

## II. Management Performance

### 14 | Steering Capability

There is a general consensus among the ruling elite about the need for reforms, partly because of external pressure, and partly because of the growing critique of the opposition and civil society. While there has again been economic progress, previous political reforms were reversed in the period under review.

The ruling elite tried to address its chronic lack of vision for Egypt's future by setting up a long-term strategy for development in the 2005 Egypt Human Development Report. It claims to pursue the goals of democratization and the transformation to a market economy. Political reform however is clearly subordinate to economic reform from the elite's perspective.

According to the World Bank's 2010 Doing Business in the Arab World report, Egypt has made continuous progress in economic reforms which facilitate business activity. The transition to a market economy has been approached in a neoliberal sense. This trend has triggered an ongoing struggle between the public sector

Question  
Score

Prioritization  
4

(which is controlled by the state) and big entrepreneurs in the private sector, such as Egyptian steel magnate Ahmad Ezz, who have become more and more unpopular. Social security nets, which are supposed to compensate for the social costs of privatization, remain underdeveloped. The political leadership tends to opt for short-term interests even if they contradict long-term objectives in order to serve interest groups.

Since 2007 the ruling elite has moved backwards in political reforms. For example, a constitutional amendment in March 2007 ended the supervisory role of the judiciary in elections, and another amendment makes it almost impossible for the Muslim Brotherhood to become a political party. In the run-up to the 2010 parliamentary elections, the regime came down hard on opposition parties as well as activists and journalists. Elections did not meet democratic principles.

The government has initiated and implemented further reforms in the economic sphere (see the 2010 Index of Economic Freedom and the 2010 Doing Business in the Arab World Report). They were driven by a new generation of businessmen gathered around the president's son, Gamal Mubarak, and Prime Minister Ahmed Nazif.

Implementation  
4

Since the state infrastructure covers the whole territory of Egypt, the bureaucracy in principle guarantees countrywide implementation. But the administration is deficient and delays frequently occur in the implementation process, affecting Egypt's development and its regional and global competitiveness. Corruption and bribery are widespread and the judiciary is subject to political influence.

In addition, the high level of centralization has become an impediment to development. The main aim of the 2004 Egypt Human Development Report was thus to explore the potential of political, administrative and fiscal decentralization. Decentralization has slowly started to be addressed in economic reforms and has shown initial results.

Egypt has always been a comparatively conservative country. The political leadership under President Hosni Mubarak and Prime Minister Ahmed Nazif responded little to citizens' needs, even though it has increasingly been challenged by the (Islamist) opposition. As there were strong mechanisms in hand to maintain regime stability, accountability and democratic control were de facto non-existent. There were practically no effective means for citizens to take the president or the government to task for their policy choices. Thus, the ruling elite had no real incentive for policy learning.

Policy learning  
4

The West was, to a large extent, part of the problem as there was little pressure on the Egyptian regime to speed up reforms and substantial aid continued to flow to the country.

However, policy innovation grew within the reformist group of the ruling National Democratic Party (NDP) and through the partial integration of younger technocrats in the last Mubarak cabinet. However, according to Stephan Roll of the German Institute for International and Security Affairs (SWP), “the rise of the new guard stalled.” However, change has become a possibility in Egypt, as the NDP tried to improve its standing with words and with actions, while globalization pressures added to internal pressures. But Egypt is not necessarily looking at Western examples for policy learning. Instead, countries like China have become important role models.

Data, especially of the Egypt Human Development Report series published since 2002, has apparently become a source for policy learning. For example, Egypt’s sixth Five-Year-Plan 2007-2012 puts greater emphasis on policies targeting the ultra-poor and follows the recommendations of the 2005 Egypt Human Development Report. While the 2010 report focused on the role of the growing population of young people, it remains to be seen if and what kind of impact the findings will have on Egypt’s future policy-making.

## 15 | Resource Efficiency

Government administrative personnel is not used effectively. Employment in the state sector remains high (despite a reduction of government spending) yet performance is poor. As the state apparatus is one of the pillars of the regime’s stability, a reduction of state employment and the reform of Egypt’s largest interest group pose serious risks for the government.

Efficient use of  
assets

4

Expenditures on research and development (R&D) are remarkably low (in 2007 expenditures totaled 0.23% of GDP). Expenditures on education have increased, but still, as reiterated by the 2010 Egypt Human Development Report, these expenditures have not kept pace with the growing population. The insufficient development of human resources constitutes a core problem in Egypt.

There is not enough effort to change the pattern of young Egyptians seeking employment in the state sector. Women especially are marginalized and widely ignored as a serious engine for development and growth. Egyptian youth, by far the majority of the population, have not in general terms received sufficient attention in economic reforms. The 2010 Egypt Human Development Report attempted to draw attention to this challenge.

Regarding the budgeting process, the government under Prime Minister Ahmed Nazif from 2004 overhauled the budget accounting methodology, somewhat improving transparency.

Like the human factor, economic resources are not exploited enough, though new sectors such as gas have begun to be explored and economic reforms open up new avenues.

In general, the Egyptian government tends to be coherent in its policy decisions. The strong position of President Hosni Mubarak and his formal control over the government as well as his personal ties to reformers in the cabinet through his son Gamal have been an effective instrument of streamlining policy positions.

Policy  
coordination  
6

Notwithstanding, anti-reform groups inside the party and interest groups in the military, economic and traditional rural elites have the potential to speak out and make the government somehow respond to their demands.

But the growing opposition and the majority of the population have been simply excluded and cannot represent their interests. Policy coordination only happens within the ruling party and thus is neither inclusive nor representative of the Egyptians' will.

Corruption is widespread in Egypt. However, this situation must be seen against the background of economic reforms that shook up the old system, and, in the eyes of the Hosni Mubarak regime, of compensating measures for various interest groups as a necessity to maintain stability. In addition, there is a lack of awareness among Egyptians, who often see the problems of corruption and bribery as part of everyday life. With media enjoying more freedoms, outlets such as the newspaper al-Masri al-Yaum (Egypt Today) have started cover the regime's failed anti-corruption policies.

Anti-corruption  
policy  
4

## 16 | Consensus-Building

The series of Arab Human Development Reports have impacted the reform and development discourse in Egypt. More specifically, the Egypt Human Development Report series launched in 1994 recently started to address the obstacles that must be overcome to improve human security, growth and development in Egypt, and aim at establishing a strategic framework for human development as well as a realistic agenda for action.

Consensus on goals  
5

Major political forces, including both the government and opposition movements, share the rhetoric of transformation.

In the economic realm, there is a broad consensus over problems that need to be addressed to achieve a market economy. Opinions differ as to the extent and the method of also establishing a social pillar in the market economy. Prime Minister

Ahmed Nazif and his cabinet's neoliberal approach represented one option, and the leftist opposition another.

The sphere of political reform presents a different picture. The regime has only made very modest steps despite continuous demands from the opposition and civil society for fundamental constitutional amendments and the protection of human rights. The narrow democratic window that opened during the Cairo Spring of 2005 has been closing ever since, culminating into brazenly fraudulent parliamentary elections in November-December 2010.

It looked as if the closer the regime came to considering a world post-Mubarak, the less breathing space there was for democracy. The ruling elite seemed to be hoping for the economic reform process to eventually have a nationwide impact, drawing away attention from the demand of political reform.

Egypt's anti-democratic actors include the president and major figures in the president's ruling party and the military.

Anti-democratic  
actors

3

Since 2004, a neoliberal and technocratic prime minister, surrounded by a number of like-minded ministers, started to occupy the space traditionally monopolized by the "old guard." This grouping competed with what an al-Ahram Center for Political and Strategic Studies (ACPSS) 2005 paper called the "bureaucratic paradigm." Bureaucrats have been the largest interest group and political force in Egypt, and their convictions are deeply rooted in Egyptian history and stem from the Pharaonic period, when the all-powerful Pharaoh was the guarantor of the people's fate. The bureaucrats regard themselves as the guardians of the state and thus have rejected changes to the system, or only accepted changes that strengthened the state and made it more capable of leading and guiding.

According to Stephan Roll of the German Institute for International and Security Affairs (SWP), there were signs that the rise of the "new guard" within the National Democratic Party (NDP) had stalled, suggesting that the pendulum was swinging toward more conservative attitudes.

At the same time, despite being systematically oppressed, the reformist opposition camp had been strengthened in recent years. The opposition includes the Muslim Brotherhood as well as secular movements such as Kefaya (Enough) that emerged amid the Cairo Spring in 2004-2005. Worth mentioning also is the National Association for Change, a group of some dozens of politicians, businessmen and intellectuals founded in February 2010 that, under the leadership of former International Atomic Energy Agency (IAEA) Director General and Nobel Peace Prize winner Mohamed El-Baradei, tried to lobby the national assembly for more steps toward democratization.

For a long time there was no urgent need for the ruling National Democratic Party (NDP) to reconcile conflicting interest groups or organize consensus through dialogue or political leadership.

Cleavage /  
conflict  
management

4

Opposition within and outside the political system, conflicts along religious lines or divisions between rich and poor were simply suppressed through the structural dominance of the NDP, or by rigid measures of the security and special courts apparatus, but never resolved.

Instances of religiously motivated violence against Egypt's Christian (Coptic) community suggested that the government was coming under increasing pressure to maintain social peace and order. There were appeals by ministers and the president to preserve the unity of the country. But there was also a lack of policies to deal with conflict.

During the period under review continuous social unrest has become the norm as opposition parties, workers and activists called on the government for reform. Inflamed by parallel developments in Tunisia, and further angered by the revocation of democratization policies in 2009-2010, it was clear that protests would escalate through early 2011.

Civil society actors were either treated to a "hold them close" strategy if they helped legitimize the President Hosni Mubarak/Prime Minister Ahmed Nazif regime and were easily integrated into the political process, or instead, they were excluded. Civil society engagement was, to a great extent, controlled by the state.

Civil society  
participation

4

The government system was reluctant to integrate outsiders in the process of policy-making. An exception was the opening of the government and ministries to businesspeople who supported free market conditions.

However, the regime was forced to become more responsive to civil society. NGOs or individual activists gradually gained a stronger voice in independent newspapers and blogs, and were gaining wider support from Egyptian society at large. Thus, the government could not simply ignore calls for reform.

The Egyptian population was oppressed by the regime and the February 2011 regime change is likely to open the wounds of decades of political and social injustice.

Reconciliation  
n/a

## 17 | International Cooperation

The Egyptian government began to adopt a development discourse, incorporating the findings of the Arab Human Development Report series in place since 2002. However, while there have been new attempts to increase strategic planning with

Effective use of  
support

5

regard to human development, in reality there has been no major improvements despite large sums of foreign aid that from which Egypt for decades has benefited. Survival was and is the top priority of the regime. In that sense it attempted to use international assistance for its own development agenda.

The European Union, in its European Neighborhood Policy (ENP) approach, tried to strengthen conditionality to press for political, economic and social reforms, but had very limited success. The impact of foreign donations was neutral; such funds tended to solidify the status quo and didn't provide an incentive for the regime to reform. It can be said that foreign aid had on the contrary nurtured the regime of the National Democratic Party (NDP), and the military and security establishment in particular, and have thus contributed to the regime maintaining its deaf ear to peoples' needs and desire for real change.

Egypt enjoys a high level of trust among the international community as it is considered to be a stable and reliable partner. President Hosni Mubarak took over the first "co-chairmanship" beside French President Nicolas Sarkozy in the newly created Union of the Mediterranean in 2008, underpinning the clear wish of the Egyptian government to be first among equals in its relations with the European Union.

Credibility  
6

However, it seems as if this trust derived mostly from the country's regional role (having made peace with Israel) rather than from its performance in making progress toward democracy and a social market economy. On the contrary, further democratization is seen as risking instability and potential Islamization by Western allies. Reform is looked at by the international community only with regard to (neoliberal) economic reforms, for which Egypt gets credit.

However, NGOs such as Human Rights Watch, Amnesty International and Transparency International regularly cite Egypt's poor human rights record and its high levels of corruption. The Arab Human Development Reports of the United Nations Development Program (UNDP) repeatedly shed light on Egypt's poor level of development and the widening gap between the minority of rich and powerful elites and the majority of socially marginalized Egyptians, but without a major impact on the overall credibility that Egypt enjoys.

Particularly in the economic sphere, Egypt is well-integrated with its neighbors (including good relations with Israel). Egypt is a member of the Greater Arab Free Trade Area (GAFTA) and the Common Market for Eastern and Southern Africa (COMESA), both since 1998. In addition, it is one of the four parties of the Agadir Agreement signed in 2004 to establish a free trade zone between the Arab Mediterranean nations (also includes Morocco, Tunisia, and Jordan); in 2005, Egypt signed a free trade Agreement with Turkey.

Regional  
cooperation  
7

Egypt is a member of the southern group of the European Neighborhood Policy (ENP, established in 2004), and the Union for the Mediterranean (established in 2008). In 2008, the country concluded a memorandum of understanding with the European Union on energy cooperation.

Egypt is also opening up increasingly to international markets, with, for example, negotiations over a free trade agreement with the Southern Cone Common Market (Mercosur) countries.

In political terms, Egypt is one of the few countries in the region that has concluded a peace deal with Israel, and it cooperates with Israel, the United States and the European Union on aspects of the Israeli-Palestinian conflict, such as securing the borders between the Gaza Strip and the Sinai, and a rapprochement between members of Hamas and Fatah.

Egypt is currently involved in a dispute with its southern neighbors over the use of the Nile River.

Egypt hosts the Arab League in Cairo with Egyptian Secretary General Amr Moussa and is an active member in the Organization of the Islamic Conference (OIC). However, both organizations do not have much regional or international clout.

On the international stage, the country benefits from large sums of foreign aid, in particular from the United States, for its peace deal with Israel. In the United Nations, Egypt claims a leading role in the non-alignment movement and has signed international conventions such as on the protection of human rights, women and children. However, on the enforcement side things look very different.

## Strategic Outlook

During the period under review, political reform in Egypt has suffered severe setbacks. The manipulated parliamentary elections in November-December 2010 were a clear sign of a regime shoring up its defenses as it approached the potential end of President Hosni Mubarak's rule. The crucial task in a post-Mubarak era is the creation of a properly functioning democracy with a stronger opposition presence, free (social) media, active and accepted NGOs and more visible expressions of protest. Time will tell whether the interim government is genuinely interested in and capable of targeting these goals.

In the economic sphere, the Ahmed Nazif cabinet (2004 – 2011) introduced a number of reforms that most observers consider effective in establishing a market economy. In addition, whereas the Egyptian economy was affected by the economic crisis, it has since showed signs of recovery. Nonetheless, the government's economic policy has thus far generally neglected Egypt's many pressing social problems.

In sum, the Egyptian system lacks the political commitment and the institutional capacity to design and implement comprehensive political, economic and social reform programs.

Strategic priorities for the 2011 interim government as well as the future (hopefully democratically elected) government include:

- Reform institutions. Guarantee free and fair presidential and parliamentary elections; place the accreditation of political parties and the supervision of elections back under the auspices of the independent judiciary or an independent commission; end the state of emergency that seriously infringes upon civil society's potential and citizens' rights; reduce the executive branch's power and establish better checks and balances; make the bureaucracy more effective in generating and implementing reform measures; fight corruption.
- Become more inclusive. Take public and opposition demands for political, economic and social reform more seriously and make reform a shared agenda; strengthen consensus-building on the level of ideas with the opposition rather than isolating it; deal with the de facto rise of the Muslim Brotherhood and make it part of the reform process.
- Work against widening social gaps. Increase the allocation of resources to education for a fast-growing young population in both urban and rural areas and do so in a decentralized manner; increase financial resources allocated to research and development; work toward establishing a social market economy capable of integrating the young, women and the (ultra) poor.

For their part, opposition groups should work on becoming viable and effective alternatives to the government, in particular by developing solid political programs for economic and social reform that are sound and do not rely on the existence of a charismatic leader.

The international community in its relationship with Egypt should adopt the following strategic priorities:

- Pay attention to internal politics. Internal developments in Egypt should be watched more closely than in past years. The post-Mubarak transition is crucial for Egypt's development and regional stability. Understanding intra-Egyptian dynamics, especially those related to the Muslim Brotherhood movement, holds significant payoffs.
- Support free elections. Pressure Egypt to hold free and fair presidential elections, as well as encourage political reform and honor human rights; establish greater conditionality of foreign aid.
- Improve communications. Strengthen democratic opposition parties and civil society (listen and talk to Islamist movements, in particular the Muslim Brotherhood); strengthen human interaction with foreign countries, especially as regards young Egyptians.
- Foster a free press. Strengthen the freedom of media, the Internet and the overall quality of journalism (e.g., through programs to educate journalists).
- Target aid. Increase development aid that targets the poor, the younger generations and Egyptian women in particular.