

BTI 2014 | Egypt Country Report

Status Index	1-10	5.08	# 82 of 129	
Political Transformation	1-10	5.45	# 70 of 129	↑
Economic Transformation	1-10	4.71	# 88 of 129	↓
Management Index	1-10	4.50	# 82 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	80.7	HDI	0.662	GDP p.c.	\$	6723.6
Pop. growth ¹	% p.a.	1.7	HDI rank of 187	112	Gini Index		30.8
Life expectancy	years	70.7	UN Education Index	0.587	Poverty ³	%	15.4
Urban population	%	43.7	Gender inequality ²	0.590	Aid per capita	\$	3.7

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The period under review embraces the first phase following the overthrow of Hosni Mubarak, focusing on the institutionalization of a new political and economic system. This process was structured first by the problematic fact that the Supreme Council of the Armed Forces (SCAF), a legacy of the old regime, governed for three-quarters of the overall period, until July 2012. While the SCAF acceded to the demands of the protesters at Tahrir square and put an end to Mubarak's rule in February 2011, it managed the transitional period in such a way as to protect its own interests. Revolutionary opposition during most of the period was focused on the overthrow of military governance. However, the SCAF succeeded in splitting the opposition into an Islamist and a secular branch, reaching consensus with the Islamist branch on how to design the transition process. As a result, Egyptians undertook five elections or referenda in the period after January 2011, beginning with a referendum on constitutional amendments and a constitutional declaration designing the transition process in March 2011, followed by the people's assembly elections in November – December 2011, Shura Council elections in January – February 2012 and presidential elections in May – June 2012. A referendum on a new constitution followed in December 2012. Early people's assembly elections were expected to be conducted in April 2013, following the dissolution of the parliament in June 2012, but were repeatedly postponed, with a date of fall 2013 scheduled at the time of writing. The new constitution of the country, designed under Islamist hegemony in the constituent assembly, has a strong Islamist bias that threatens civil rights in general and women's rights in particular. It also compromises on the role of the military, which remains outside civilian control, as it had been under the old constitution.

The transitional period has been structured by a deepening Islamist-secular cleavage. The Islamist Freedom and Justice Party (FJP) as well as the Salafist Nour Party gained overwhelming electoral successes in the parliamentary and Shura Council elections. However, President Mohamed Morsi (FJP) gained only a small majority in the presidential elections; given the low voter turnout, this meant he was in fact elected by only a small minority of the population as a whole. However, these

results prepared the ground for an Islamist restructuring of the country based on the constitution. While the Islamist political forces gained power through relatively democratic elections, they afterwards engaged in crude power policies that largely ignored any possibility of compromise with the bulk of people who sought political and civic freedom rather than an Islamist-guided culture. While confrontation between the united Islamist forces and secular parties during the period of military governance was one major basis for ongoing protest, costing dozens of human lives and leading to uncountable injuries during three-quarters of the period under review, this outcome was also characteristic of the period of the Morsi presidency beginning in July 2012, with political cleavages embedded into a modified institutional framework. The overall result is one of ongoing political instability that has only worsened since the adoption of the constitution. The escalation of conflict during the overthrow's second anniversary in January 2013 was a clear reflection of this situation.

The political instability of the transitional process through January 2013 has severely undermined an economy already approaching collapse. Finding a solution that reconciles the expectations of the revolutionary movement with contemporary political and economic realities will be the key challenge for Egypt's political leadership in the year to come.

History and Characteristics of Transformation

Egypt embarked on a path of economic liberalization within its state-centered economy decades ago, with the commencement of then-President Anwar al-Sadat's economic open-door policy (*siyasa al-infatah al-iqtisadi*) in 1974. This shift took place against the background of severe economic crisis, characterized by high levels of foreign debt, a scarcity of investment capital and stagnating growth, caused by the internal economic contradictions of the country's development model and the burdens of several wars (1948, 1956, 1967 and 1973). More generally, this situation symbolized a crisis of the Egyptian post-colonial development model of the 1950s and 1960s. This had been based on a military regime characterized by a secular-socialist profile, a one-party-system, state-centered economic development, and an import-substitution strategy of industrialization and modernization, all of which were focused on welfare politics as well as a political paternalism. It is important to stress that this phase of development was secular in nature, as its crisis triggered a crisis of secularism that has been exploited by Islamic movements to change the country's political culture step by step since the early 1970s.

Economic liberalization during the 1970s and 1980s did not lead the country onto a path of sustainable development, but rather deepened the economic crisis and accelerated the accumulation of foreign debt. This was due to an imbalanced liberalization that preserved the dominance of the state economic sector, allowing privatization only in the spheres of trade, banking, insurance and tourism, but which totally liberalized foreign trade. In consequence, foreign investment was concentrated in nonproductive spheres, while national industries, which had not yet reached internationally competitiveness, were ruined by bulk imports. Moreover, a

system of corrupt crony capitalism developed. Reaching a point of illiquidity in 1977, the government secured a stand-by arrangement with the IMF, which forced a reduction in state budgetary expenditures, especially an abandonment of state subventions for basic needs and a privatization of the state economic sector. The resulting “bread riots” of 1977 helped the regime delay reforms until the 1990s.

It was in the context of the 1977 crisis that the government started introducing multiparty pluralism and “real” elections. However, President Sadat took care to secure the hegemony of his National Democratic Party, a trend that also characterized the last three decades of the Mubarak presidency. The nominally existing multiparty system has been nothing more than a democratic facade to be presented to the world that offers no opportunity for real changes in governance. This functioned on the basis of a restrictive Political Party Law, as well as by manipulation in all spheres of the political input process. However, while alternative secular political parties were suppressed, lacking any real chance to participate in parliamentary politics, they also choose to boycott participation in an effort to unmask the authoritarian character of the political system. Meanwhile, Islamic movements formed at the societal grassroots, especially by taking over social tasks from which the state had retreated. By simultaneously propagating an Islamic political culture, their oppositional strategy was in a sense the mirror image of the secular parties. Formally forbidden to form an official political party, they nevertheless participated successfully as independent candidates in elections, thereby capitalizing on their movement’s roots in ordinary peoples’ lives.

While economic liberalization was originally intended to stabilize the economic basis of the authoritarian political system beginning in the early 1970s, it in fact began to erode this basis in the 1990s. The country once again experienced severe economic crisis and high levels of debt. As a result of the 1993 and 1996 debt negotiation rounds with the IMF, the country had to implement a strong structural adjustment program for the first time in its history. General socioeconomic living conditions deteriorated severely over the course of the 1990s and beyond for the bulk of the people; growing labor and social protest was crushed by an increasingly authoritarian regime that justified its policies as anti-terrorism measures. The most recent wave of accelerating economic liberalization and privatization commenced in 2004 with the policies of the Ahmed Nazif government and the background leadership of the president’s son, Gamal Mubarak. According to the Solidarity Center, this policy provoked “the largest social movement Egypt has witnessed in more than half a century. Over 1.7 million workers engaged in more than 1,900 strikes and other forms of protest from 2004 to 2008.” It may not even have been the policy of privatization as such, but rather the way workers were treated in the process that prepared public rebellion. In any case, the regime ultimately faced an intensifying workers’ protest movement that coincided with a civil rights movement growing quickly broader and stronger, each of which amplified the other. Today, however, the regime has left behind it multiple political and social cleavages as a heritage that will not to be easy to overcome.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The Egyptian state's monopoly on the use of force stabilized at a critical level at the end of 2012 and beginning of 2013, after experiencing severe setbacks during the previous two years in the aftermath of the overthrow of government. This was due to the collapse of the internal security apparatus in January 2011, the withdrawal or inactivity of the police, and the preoccupation of the state with managing the political transition process. This process has been accompanied by ongoing mass demonstrations aimed at delegitimizing the various governments, which have been perceived as inefficient and inappropriate to the aims of the revolution. Challenges to state authority often escalated into violent clashes, as with the Mohamed Mahmoud clashes in November 2011 or the protest against President Morsi's constitutional declaration in November 2012.

Monopoly on the
use of force

7

Across the country, but especially in big cities such as Cairo and Alexandria, the practice of vigilante justice has become more common. This has in part been a reaction to widening general criminality, but has also taken the form of sectarian violence, often against Copts, their homes and their business, even reaching the level of death threats, as happened in Rafah in September 2012.

State and government authority were also increasingly challenged in the politically and socially problematic Sinai, especially in the northeastern region of Rafah, where the Egyptian Border Guard Force, the Multinational Force and Observers (MFO) and the Israeli Border Guards have been repeatedly attacked, as in an August 2012 attack resulting in the deaths of 16 Egyptian soldiers. Whereas the ongoing challenges to Egyptian state authority in Sinai has triggered a debate over dismantling the limitations on Egyptian sovereignty in the region imposed by the 1979 peace treaty with Israel, reestablishing security in the whole country has been acclaimed as one of the main goals of Prime Minister Hesham Qandil's government.

The idea of a united Egyptian nation state is generally accepted, with its millenniums-old history widely perceived as an item of national pride. “We are all Egyptians” was an often-heard slogan during the 2011 revolution, and the cross and half-moon are often displayed as symbol of a common “Egyptianness” that encompasses Muslims and Christians. Nevertheless, the last several decades have seen increasing skepticism toward the state, ultimately leading to the revolution and to the uncompromising mass resistance against any policy threatening a new usurpation of power in the post-Mubarak phase.

State identity
7

Following decades of authoritarian public policies, intensive debates between Islamists, secularists and so-called religious minorities have emerged on the issue of national identity. As Egyptians today have the chance to do this in a relatively free manner for the first time in their modern history, these debates will likely characterize public political culture for some time.

The new Egyptian constitution grants access to citizenship with equal rights and duties to all citizens (Art. 6 and Art. 33), nevertheless relating these to the elaborations of the constitution. Moreover, the constitution guarantees religious freedom only to Sunni Muslims, Christians and Jews (Art. 43), and not to other religions or denominations like the Baha’i and Shi’i communities, which face many restrictions.

According to the new constitution, Egypt’s political system is based on the principles of democracy and (Shura) counsel, pluralism, people’s sovereignty, and respect for human rights and freedoms (Art. 6.). However, the constitution is embedded into a religious guiding culture, subordinating all principles of political and personal freedom to Islamic Shari’ah law as the principal source of legislation (Art. 81). It thereby not only perpetuates Article 2 of the old constitution, but intensifies it, in part by establishing the venerable al-Azhar as an institution to be consulted in matters pertaining to Islamic law (Art. 4) – thus, in effect encompassing the constitution as a whole. This creates a tension with the functions of the Supreme Constitutional Court (SCC). Moreover, the constitution defines the principles of Islamic Shari’ah to include general evidence (adilla kulliyya), foundational rules (qawa’id usuli), rules of jurisprudence (qawa’id fihiyya), and credible sources accepted in Sunni schools of thought (madhabs) (Art. 219).

No interference of
religious dogmas
4

The constitution sets up conflict between secular and religious norms, forming a very hybrid system that is open to manifold interpretations. This was mirrored in the society’s deep divisions in the run-up to the constitutional referendum, a situation that resulted in mass demonstrations and violent clashes in early December 2012.

The state’s administrative infrastructure extends to the entire territory. It is divided into 28 governorates, partially subdivided into regions, towns and villages. But in principle the administrative system is highly centralized, with governors and

Basic
administration
6

subordinated executive organs ultimately appointed by the president of the republic and serving under his discretion. These executive organs are amended on the local level by popular local councils, whose members are elected and are supposed to monitor executive performance. However, these local bodies lack political power, and can be dissolved by those they are tasked with monitoring. The high degree of centralization combined with the lack of fiscal control of local budgets opens many doors to corruption and arbitrariness. This is in part counteracted by a relatively independent judiciary that pursues corruption cases to a certain extent.

After the popular local councils were dissolved in 2011 without subsequent elections, the local administration of basic necessities such as electricity and water suffered from severe shortcomings. Consequently, a new wave of support for administrative decentralization is in the making. Amendments to the tax law in the area of income, sales, duty and real estate taxes have been applied since January 2013.

2 | Political Participation

Whereas the Supreme Council of the Armed Forces (SCAF) took over government power without constitutional or popular legitimization after the fall of Mubarak in February 2011, it ultimately realized its promises to conduct parliamentary and presidential elections and transfer governmental power to civilian forces. In effect, the Egyptians held a referendum on an amended constitution in March 2011, parliamentary elections from November 2011 to January 2012, Shura Council elections from January to February 2012 and presidential elections in May 2012, finalizing this election marathon in December 2012 with a referendum on the new constitution. Hence, in the transitional phase, all elections and referenda have been conducted according to the provisional constitution's time agenda, and though international election observers were not accredited by SCAF, international actors such as the European Union called the elections "credible." The Supreme Constitutional Court, however, decided on 14 June 2012 that the elections had not been conducted in line with certain constitutional regulations regarding the electoral law in general and the law of "political exclusion" in particular. As of the time of writing, new parliamentary elections were under preparation for fall 2013 or later.

More than 40 parties organized in four main coalitions participated in the parliamentary and Shura Council elections, and 13 candidates stood for the presidential elections.

The dissolution of the parliament was due to the Supreme Constitutional Court's decision deeming the parliamentary elections law unconstitutional. The so-called Political Isolation Law, which kept representatives of the old regime such as former

Free and fair
elections

7

Prime Minister Ahmed Shafik out of running for president, was also declared unconstitutional.

Concerning the constitutional referendum of December 2012, there are more than 50 lawsuits underway relating among other issues to inadequate judicial supervision and the decision to holding the referendum over the course two days by announcing interim results. All in all, as most of the transitional process was designed and conducted under military governance without sufficient democratic control, this may have influenced voter behavior. However, elections results do seem to represent realistic if temporary voter tendencies and relatively fair elections in the proper sense of election management.

Democratically elected representatives started to govern only when Mohamed Morsi of the Freedom and Justice Party took over the presidency at the beginning of July 2012. He found himself forced to govern without the dissolved parliament, operating between the imminent dissolution of the constituent assembly elected in early June 2011 and under the legal framework of the SCAF's constitutional declarations of 30 March 2011 and 17 June 2012. The latter severely restricted the president's power, returning parliament's legislative powers to the SCAF, obliging the government to cooperate with the SCAF, giving the SCAF the right to form a new constitutional assembly and placing the military beyond civilian oversight.

Effective power to govern

7

However, the president demonstrated his power to govern by issuing his own constitutional declaration in August 2012, abrogating the SCAF's June 17 document. In this decree, made only a short time after replacing the military's top personnel, he gave himself wide-ranging power to govern and bulldozed the draft constitution. This was not a civilian coup against the threat of a military coup in the strict sense, but rather represented an ingenious power-sharing arrangement, as the military was not placed under civilian control in the new constitution adopted in December 2012.

The country's state of emergency, which since 1981 effectively limited the rights of political and civic groups to associate and assemble freely, was lifted on 30 May 2012. However, this did not mean that the underlying law of emergency dating from 1958 was abrogated. Rather, despite being modified and supplemented by other laws having similar functions, it has been incorporated into the regular legal system, thus legalizing oppression as a permanent alternative within the emergency law. According to a 2012 report of the Cairo Institute for Human Rights Studies, titled *Criminalizing the Egyptian Revolution*, the Interior Ministry has proposed five new laws related to the lifting of the state of emergency, which as of the time of writing were awaiting signature by the president.

Association / assembly rights

6

While the new constitution guarantees the freedom of assembly and association, these rights are in danger of being circumvented by legislation and governing practices that criminalize political actions. Labor rights are particularly endangered, as the

independent unions founded since 2011 have not yet been recognized, and labor strikers were sentenced to several years in prison in 2012. More recently, the draft law on NGOs prepared by the Ministry of Social Solidarity in February 2013 puts many restrictions on NGO activities, representing a continuation of the old regime's practices.

The new constitution guarantees the freedom of belief, thought and opinion, including the right of disseminating opinions verbally, in writing or in illustrated form by any means of publication and expression (Art. 45). It also ensures the freedom and independence of the mass media. However, according to Article 81 of the constitution, "such rights and freedoms shall be practiced in a manner not conflicting with the principles pertaining to state and society" outlined in part one of the constitution. The constitution also prohibits what is called "insult or abuse of religious messengers and prophets" (Art. 44).

During the last quarter of 2012, there were numerous protests calling for the freedom of the press and protesting against what was called the "brotherhoodization" of the media. At the same time, public protests particularly by the Lawyers Syndicate's Freedom Committee harshly criticized penalties for insulting the president and the Supreme Constitutional Court.

According to the Egyptian Association for Freedom and Expression, freedom of expression has definitely increased since the overthrow of Mubarak. However, it still faces severe threats, particularly stemming from the society's Islamist-secular polarization, the interpretative freedoms enabled by the constitution, and the Islamist domination of political decision-making institutions. Since summer 2012, state-owned and private media institutions alike have been attacked by Islamist forces that accuse them of being anti-Islamic. As a result, the future of the Egyptian media will be heavily influenced by the formation of the National Press and Media Association and the National Media Council.

3 | Rule of Law

The separation of powers was severely restricted by the SCAF's exercise of executive and legislative control through June 2012. This was also the case after President Morsi took office on 30 June 2012, at least until the new constitution was set in place.

The new constitution provides for the separation of powers under the framework of a presidential system. While it gives parliament the power to veto the appointed prime minister and his/her cabinet, parliament is empowered to overturn the presidential veto of a law only by a two-thirds or greater majority. Given the tradition of strong executive interference into parliamentary work in the past, it may also be considered critical that Article 93 of the constitution gives the president and the cabinet the right

Freedom of
expression

6

Separation of
powers

6

to demand that certain parliamentary sessions be held secret, without specifying whether parliament has a right to reject this demand. In general, the constitution leaves open many procedural questions, such as who has the power to nominate the head and judges of the Supreme Constitutional Court, and whether local governors are elected or appointed, and by whom.

The judiciary was granted independence under the terms of the old constitution, as well as under those of the new. However, as it has often been placed in the position of deciding the outcome of political power conflicts, its independence was challenged perhaps more than ever during 2012. This was especially true in the case of the Supreme Constitutional Court (SCC), which due to manifold constitutional complaints has been tasked with ruling on every step of the institutionalization process, and has often been politically or even physically attacked by Islamist forces.

Independent
judiciary

6

Often restricted by direct executive intervention in the past, the independence of the judiciary may well be influenced in the future by nomination and appointment policies, as was the case when President Morsi intervened in the selection of the prosecutor general in 2012.

Additionally, the SCC's authority is challenged by the fact that the new constitution requires that al-Azhar be consulted in matters concerning Islamic law. The constitution also decreased the number of SCC judges from 19 to 11 (Art. 176), in order to exclude certain judges such as Tahany Al-Gibaly, the only female judge at the SCC. Al-Gibaly had been known for taking stances against the Muslim Brotherhood. Based on the principle of seniority, eight judges were excluded from the SCC. The excluded judges returned to the posts they occupied before joining the SCC.

The extensive political corruption of the Mubarak regime was a central reason for the 2011 governmental overthrow, with opposition to regime practices ultimately expressed by the military as well as the Islamic and secular opposition. In the past, political corruption has dominated Egypt's society and political system from top to bottom, severely undermining the rule of law.

Prosecution of
office abuse

4

To a large extent, this has been due to the extreme centralization of political power, the prevalence of clientelist politics, and the lack of democratic control of the economic liberalization and privatization processes that started in the 1970s and accelerated in the 1990s.

Whereas President Morsi and his Freedom and Justice Party declared the fight against corruption as a high governance priority, there are as yet no signs that the role of political corruption has in fact changed. Indeed, the president himself was drawn into the corruption debate after refusing to make public the funding sources for his election campaign. Morsi's campaign raised EGP 2 billion, according to a report for the Public Funds Prosecution by Saeed Mohamed Abdullah, the founder of the

Egyptian Independent Association to Fight Corruption. The report also accused a member of the Muslim Brotherhood appointed by Morsi in 2012 to head a business delegation to China of tax evasion. The Abdullah report was described in September 2012 by al-Masry al-Youm.

De jure, the protection of civil rights has deteriorated under the legal force of the new constitution, as the guarantee of such rights is restricted by an Islamic guiding culture. Various articles intervene severely in women's private and public lives, by underlining their duties toward family without doing the same for men. Additional articles give a single monopolistic definition of moral values, and give the state the right to safeguard them. Religious freedom is limited to the three acknowledged religions of Islam, Christianity and Judaism, ignoring the rights of the Egyptian Baha'i or members of other faiths, as well as atheists.

Civil rights
3

De facto, civil rights have come under severe pressure during the last two years of transition. Women have been increasingly exposed to insults, sexual harassment and physical abuse, as in the case of the virginity tests conducted by the military in March 2011. Christian Copts have increasingly been attacked verbally and physically, both on an individual and collective basis.

4 | Stability of Democratic Institutions

Political and administrative institutions were all part of an authoritarian regime under the rule of Mubarak. As the period under review represents the immediate transitional phase after the overthrow of government, institutions typically performed weakly if they functioned at all. After a year and half with the SCAF ruling under conditions of emergency law, without an existing parliament and with many cabinet reshuffles, a stable government has been at work only since 2 August 2012. The country is still waiting for a democratically elected parliament, with elections scheduled as of the time of writing for fall 2013. The work of President Morsi since July 2012 shows some progress concerning public security; however, he implemented only one-third of what he had promised for his first 100 days in power, as recorded by the online "Morsi Meter" monitor.

Performance of
democratic
institutions
4

Regional and local governments and administrations have yet to be rebuilt on a democratic basis.

After decades of authoritarian rule, a general commitment to democratic institutions has yet to be built up. The revolutionary movements have reacted very sensitively to all indications that new usurpations of political power might be underway, holding mass demonstrations against military rule as well as against President Morsi's constitutional declaration in November 2012. However, voter turnout was low – averaging about 32.9% – in the parliamentary and presidential elections, as well as in

Commitment to
democratic
institutions
5

the constitutional referendum held in December 2012. This reflects a broad lack of confidence in democratic institutions.

5 | Political and Social Integration

After decades in which political pluralism was de facto repressed, a party system has been developing from the ground up since the beginning of 2011. Amendments to the 1977 Political Parties Law in April 2011, and the democratic restructuring of the Political Parties Affairs Committee, which is responsible for recognizing political parties, lay the groundwork for a fast-intensifying party activism. During 2011, more than 45 parties were active, half of which were approved following Mubarak's resignation.

Party system
4

The party spectrum ranges from Islamic-conservative through liberal to leftist parties, which joined in four electoral blocs during the first parliamentary elections in December 2011 – January 2012. The party system is highly fragmented and unstable, and polarized especially along Islamist-secular lines. The first election resulted in Islamist parties achieving high majorities. This reflected the degree to which these parties are rooted in society as a result of decades of grassroots charity work, as well their skill in campaigning using easy-to-recognize symbols drawn from the popular identity. The next parliamentary elections, currently scheduled for fall 2013, will reveal the prevailing degree of voter volatility.

During the last years of Mubarak's rule, the number of active civil society organizations and movements expanded considerably, with their role gaining a new degree of appreciation among the public. While this was an important factor in Mubarak's overthrow, the performance of interest groups during the period under review has varied widely. The spectrum ranges from powerful professional associations (journalists, lawyers and engineers, for example) to unions that are still fighting for independence from state tutelage, to youth and women's associations that continue to struggle for political influence. The coalition of democratic and socioeconomic interests that proved so important in the success of the first revolution seems to have broken down over the course of the last two years, as the economic interests of poor people were subordinated to the struggle to institutionalize democracy. The most powerful interest group is still the military. Nevertheless – at least through the end of the review period – it remained in the background after relinquishing power in June 2012.

Interest groups
6

Approval of democratic norms and procedures was fairly strong in Egypt even under Mubarak, according to a 2008 book by Moataz A. Fattah called *Democratic Values in the Muslim World*. This fact was ultimately reflected in the overthrow of Mubarak. According to the Arab Barometer project, 78.7% of Egyptians favor a democratic system; however, the 2011 Arab Opinion Index identified only 56% of Egyptians as

Approval of
democracy
6

“strongly agreeing” or “agreeing” with the statement that “in spite of having its difficulties, a democratic system is better than other systems.” This value is clearly below the average result of 67% for the other polled Arab countries, with only Iraq showing a lower level of assent.

Democracy is not necessarily viewed as a goal for itself, but rather as a suitable means to achieve freedom, justice and welfare. The approval of democratic performance is often strongly tied to the degree to which it is able to achieve these primary goals. That is, Egyptian citizens don’t separate political democracy from economic democracy or social justice.

The level of trust in political and administrative institutions, and especially in political parties, may be considered rather low at the present time, particularly given the public’s decades-long experience of authoritarian rule. It is up to the emerging democratic institutions to give many people a feeling for what democracy genuinely means for the first time.

However, public satisfaction with the working of democracy under President Morsi showed steadily declining ratings during the period under review, according to Baseera Center for Public Opinion Research polls. The president’s approval ratings declined from 78% after 100 days in office to 57% after five months, again to 49% after eight months, and to just 39% after 10 months. Dissatisfaction is higher among youths and older age groups, implying the presence of a generational gap. Morsi’s approval rating was also comparatively lower among well-educated people (university graduates: 35%) and higher among people with less education (among people who have completed less than secondary-level schooling: 54%) according to the center’s February 2013 polls. This February poll also asked about the National Salvation Front (NSF), the coalition of groups formed to defeat Morsi’s November 2012 constitutional declaration, for the first time. Results showed that 35% of Egyptians were not familiar with the NSF, with a high regional gap (45% in rural areas versus 24% in urban centers). Familiarity with the NSF was high among university graduates (93%) but low (just 50%) among the less well educated. Moreover, 53% of those familiar with the NSF did not support it, while only 35% expressly supported it.

There is a very high level of trust between citizens based on personal relations, and a strong sense of solidarity rooted in traditional patterns of interaction. While these patterns are mostly of informal character, this is in part because the formation of voluntary and autonomous organizations was severely restricted under the past authoritarian regime. The contradiction between the regime’s restrictions and the social need for mutual self-help offered considerable opportunity for Islamic charities in the past, as its agents operated in a grey zone between informal and formal organization. Autonomous informal networks and civil society organizations were crucial in preparing the ground for Mubarak’s overthrow, both in the organization of

Social capital

6

people's social needs while camping on Tahrir Square and during the dangerous periods of insecurity afterward.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Egypt's overall level of economic development is low. The country depends strongly on volatile external sources of revenue such as tourism, Suez Canal revenues and remittances from workers in Arab oil-producing countries. These revenues fluctuate with the domestic situation in Egypt (in the case of tourism), the global economic situation and labor politics in the oil-producing countries. This makes it difficult to overcome the most important socioeconomic barriers impeding Egypt's transformation, as there are only minimal domestic economic opportunities. High levels of poverty and illiteracy and traditional gender relation patterns further constrain economic performance.

Socioeconomic
barriers
3

Egypt is the most populous Arab country, with an estimated population of 83 million (2011). The population is currently growing at 1.7% per year (2011), producing a youth bulge with attendant problems such as a rapidly intensifying need for education, jobs, housing, 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 (as of 2005). The World Bank estimated that 15.4% were in poverty as of the year 2008. Both data points refer to the moderate poverty line of people living on less than \$2 a day.

Egypt scored 0.28 on the UNDP's 2006 Gender Empowerment Measure (GEM, newer data not available). The overall literacy rate is 66%, with the women's literacy rate slightly higher, at 74.6% (2011). Egypt scores 0.56 in the U.N. Education Index (2011).

Egypt scored 0.64 in the UNDP's 2011 Human Development Index (HDI), and was ranked at 113th place. The country scored 30.8 (as of 2008) on the World Bank's Gini index, which measures income and consumption inequality, with 0 representing perfect equality and 100 perfect inequality.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	188984.1	218887.8	235983.5	257285.8
GDP growth	%	4.7	5.1	1.8	2.2
Inflation (CPI)	%	11.8	11.3	10.1	7.1
Unemployment	%	9.4	9.0	-	-
Foreign direct investment	% of GDP	3.6	2.9	-0.2	-
Export growth	%	-14.5	-3.0	1.2	-2.3
Import growth	%	-17.9	-3.2	8.4	10.8
Current account balance	\$ M	-3349.3	-4503.8	-5483.9	-6972.0
Public debt	% of GDP	73.0	73.2	76.6	80.2
External debt	\$ M	34970.2	36427.3	35000.7	-
Total debt service	\$ M	2936.5	2986.9	3501.8	-
Cash surplus or deficit	% of GDP	-6.6	-7.7	-10.1	-
Tax revenue	% of GDP	15.7	14.1	14.0	-
Government consumption	% of GDP	11.4	11.2	11.5	11.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.1	1.9	2.0	-
R&D expenditure	% of GDP	0.21	-	-	-
Military expenditure	% of GDP	2.1	2.0	1.9	1.7

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Beginning in 2004, the government under then-Prime Minister Ahmed Nazif accelerated an economic reform and structural adjustment program that was based on a set of policy papers developed by the Policy Committee of the National Democratic Party, headed by Gamal Mubarak, son of Hosni Mubarak. However, what was presented and internationally accepted as major steps toward market-based competition was in fact a corrupt, nontransparent process that helped lay the groundwork for the 2011 revolution.

Market-based
competition
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The 2013 Index of Economic Freedom depicts the period under review through an abrupt decline in the country's economic freedom ranking, falling from rank 96 in 2011 (with a score of 59.1) through rank 100 in 2012 (score: 57.9) to rank 125 in 2013 (score: 54.8). The same index assigns Egypt rank 13 of 15 countries in the Middle East and North Africa (MENA) region. According to the index, this trend reflects declines in seven of 10 areas of economic freedom, especially investment freedom and labor freedom. However, the economic trend has largely been a function of the transition period's instability and uncertainty.

Prices for basic goods like the local "baladi" bread or fuel are highly subsidized in order to maintain administered prices, with serious consequences for the already stressed state budget. The Egyptian pound is convertible only through onshore banks. By the end of Mubarak's reign, more than 83% of Egyptian enterprises were estimated to be informal.

A legal framework ensuring freedom of competition was established for the first time in May 2005. Generally speaking, however, this freedom in fact depends on a company's influence and whether it has access to the ruling elite. A small circle of powerful business clans were the primary beneficiaries of the economic reforms of the Ahmed Nazif government; as Stephan Roll of the German Institute for International and Security Affairs (SWP) points out, this group has since developed into a new structural power now becoming independent from the tutelage of the political elite. This path may ultimately be taken by the huge military-industrial complex that is mostly managed by retired military officers. According to al-Jazeera research, the military controls between 15% and 40% of Egypt's economy, though no reliable confirmation of these figures is available. This military sector emerged from the state-owned economic sector, and despite decades of heavy subsidization, it does not appear to be on the way to becoming internationally competitive. It has long since diversified its activities into production for the civilian sector, and has struck various cooperative agreements with private national and international corporations.

Egypt's Freedom and Justice Party and President Mohamed Morsi identified distorted markets and monopoly conditions as key elements of Egypt's economic problems in their 2011 election platform. They proposed "activating the law of protection of competition, preventing monopolistic practices by increasing penalties, [...] and activating the role of competition protection authorities" as part of the package of solutions needed to restore confidence in the Egyptian economy.

Egypt has been a member of the WTO since 1995; however, the latest WTO trade policy review on Egypt dates from 2005. Trade freedom in that review received a score of 73.8, about the average level worldwide. However, nontariff barriers (e.g., import restrictions, import bans, burdensome and nontransparent sanitary and phytosanitary measures, custom procedures, customs corruption and enforcement of

Anti-monopoly
policy

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Liberalization of
foreign trade

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intellectual property rights) constitute a burden for free trade. They remain tools by which the government can protect parts of the country's industry.

The investment regime was stable during the period under review, according to the 2013 Index of Economic Freedom. However, FDI inflow decreased by \$482.7 million, and the central bank restricted capital transfers due to the unstable political and economic situation.

Egypt's banking system remained relatively stable during the period under review, particularly given the extraordinary conditions of political unrest and economic crisis management. It previously proved resistant to the impact of the global financial crisis. The central bank follows conservative policies. Egypt has limited direct exposure to structured products, and its level of integration with world financial markets is to date low. Under Prime Minister Ahmed Nazif's government, Egypt initiated a five-year program aimed at modernizing its banking sector, with the ultimate goal of privatization. Four fully state-owned commercial banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) used to dominate banking in Egypt. Today, full private-sector ownership, including foreign ownership, is allowed in banking (as well as in insurance). Many large international financial institutions now operate in the areas of commercial and investment banking, mutual funds, insurance and securities trading. The Bank of Alexandria was put up for 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 these privatization measures through its Financial and Investment Sector Cooperation program (FISC) from 2005 – 2008. According to an IMF report released in February 2010, Egypt has to work on introducing Basel II standards; the report noted 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," it urged. The banking sector's capital-to-assets ratio, though it has risen over the course of the last decade, was still a comparatively low 6.3% in 2011, according to World Bank data.

Banking system

7

8 | Currency and Price Stability

Inflation rates have not been consistent over the last decade. 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, inflation has been high, starting from 7.6% and rising to 9.3% in 2007 and 18.3% in 2008 before falling to 11.8% in 2009. It declined again to 11.3% in 2010 and to 10.1% in 2011. These high inflation levels have increased social unrest, forcing the government to continue goods subsidy policies that it had hoped to gradually abandon. During a mission to Egypt in 2010, the IMF

Anti-inflation /
forex policy

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recommended 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 has since been trying to raise confidence in the convertibility of the Egyptian pound through various measures. Even after the beginning of the popular uprising on 25 January 2011, the central bank managed to keep the exchange rate stable through use of its foreign reserves. However, due to growing budget deficits and shrinking foreign exchange reserves, the government was in early 2013 again facing pressure to let the pound float. Indeed, the dramatically shrinking foreign currency reserves pose a serious threat to Egypt’s economy. Due to the enormous decline in tourism and FDI in 2011 and 2012, U.S. dollars and euros were hardly available in Egypt in early 2013. A new \$4.8 billion IMF loan introducing new austerity measures was discussed for months, but in January 2013 had been delayed due to the coming parliamentary elections as well as the disputed question of whether such loans were compatible with Islamic law.

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. However, the extent to which the regime’s attempts to maintain macroeconomic stability actually contributed to this development remains unclear. Government spending on subsidies has contributed to persistent fiscal deficits. Overall, the picture is mixed. Egypt’s 2010 current account balance showed a deficit of \$4.5 billion. This balance has steadily decreased in recent years, sinking from a surplus of \$411.6 million in 2007 to deficits of \$1.4 billion in 2008 and \$3.3 billion in 2009. Total domestic and external public debt, after decreasing in 2004, has risen again since 2006. It stood at \$29.3 billion (74.7% of GDP) in 2008 and reached 83% of GDP in 2011. External debt decreased in 2004 – 2006, but has increased since then. In 2008, external debt stood at \$32.6 billion, declining to \$27 billion in March 2012. Egypt’s total debt service has been decreasing since 2006 (2.3% of gross national income). 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, decreased to 4.6% in 2007 and then increased again to 6.4% in 2008 to reach 6.6% in 2009 and 7.7% in 2010. Government consumption has been slightly reduced since 2006, when it totaled 12.3% of GDP. By 2008 it reached the lowest level for years, amounting to 10.9% of GDP, but rose again to 11.3% in 2011. Egypt’s total reserves rose from \$24.4 billion in 2006 to \$30.2 billion in 2007 and \$33.6 in 2010, but dropped to \$14.9 billion in 2011.

Macrostability

6

9 | Private Property

Property rights and the regulation of the acquisition of property are adequately defined and protected under Egyptian law, based both on Islamic law and the

Property rights

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Napoleonic code. However, the legal code for property ownership is complex and creates delays in the judicial process. According to the World Bank's 2012 Doing Business Report, "the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation" in Egypt. The country's top rankings, in the areas of starting a business, getting credit and trading across borders, averaged 54; by contrast, its lowest rankings (on dealing with construction permits, paying taxes and enforcing contracts) averaged 149.

According to both the 2012 Doing Business Report and the 2013 Index of Economic Freedom, the unstable political development prevented Egypt from making progress with reforms regarding property rights. Rather "prices for private political-risk insurance have skyrocketed," and "corruption continues to erode trust in the economic system."

State companies dominated markets from the 1960s to the 1980s despite the process of economic liberalization starting in the 1970s. Yet in order to sell economic reforms as a "sedative" for the slow pace of political reforms, the government under Prime Minister Ahmed Nazif boosted privatization beginning in 2004, inter alia by imposing taxes on public enterprises that were twice as high (40%) as those faced by private ones. As a result, privatization efforts accelerated dramatically until 2011. However, these processes lacked transparency, were infected by corruption and were not governed by market principles. As such, they contributed substantially to the roots of the 2011 overthrow.

Private enterprises are concentrated in the service sector, particularly in trade, banking, insurance, tourism, communication, and for the last several years, education. Productive sectors such as medicine, food, and energy, considered to be of strategic importance by the government, have less private participation. The huge military-industrial complex controlled by the army has been engaged in public-private international joint ventures for about two decades. These activities include transport, energy, computer technology and more, and are designed to bring foreign capital as well as technology into the country.

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 seven days. The easiest path for foreign companies to enter the Egyptian economy is nevertheless through joint ventures.

10 | Welfare Regime

Social security has declined substantially over the course of decades, as the country's turn to a capitalist economic model has not been accompanied by compensatory reforms to fight social risks such as unemployment and income poverty, with their

Private enterprise
7

Social safety nets
3

resulting effects on health, nutrition, housing, education and so on. Public health expenditures have steadily declined since 2007, reaching a meager 1.7% of GDP in 2010, placing Egypt at the bottom of the Arab region with respect to such outlays. The existing system of goods subsidies, accounting for more than 10% of GDP, depends heavily on state expenditure, but is not well targeted. By generally subsidizing fuel and food, it funds the upper classes inappropriately, while having relatively small real distributional effects for the poor. Together with a tax system that is only mildly progressive, weak labor rights, and the fact of an informal urban sector that accounts for some 45% of the total labor force (as described by Marcus Loewe in a study on social security in Arab countries), any social safety net has only a marginal existence, and policies in the area have to be restructured from the ground up. As is well known to country experts and has been emphasized in the 2002 Arab Human Development Report, among other sources, grassroots charity organizations, often of Islamic identity, have served as a substitute for the absent public social security system for decades. This helps explain the Islamist parties' election victories in 2011 – 2012.

According to the Egyptian constitution, the state is the guardian of equal opportunity for all. However, the new 2012 constitution contains different ideas of equality and equity for men and women, as its concept of family is based on Islamic traditions. The issue, which gets at the core of unequal opportunities for men and women in Egypt, is the sanctity of women's primary responsibility in caring for their home, their husband and their children. This thus constrains opportunities for women to take paid work or seek a role in public life, while indeed dismissing any alternative conceptions of how women might wish to live their lives.

Equal opportunity
3

Women have in fact seen increased access to education, especially higher education, in recent years, a fact reflected in literacy rates higher for women than for men. However, the most substantial impediment to equal opportunity between the sexes is rooted in the dominant patriarchal concept of labor division, which is broadly accepted in society and both produced and reflected by state policy.

The regime has favored the interests and demands of some social groups over others in other respects as well. Those who live under the poverty line have typically remained there, while others (e.g., the state political elite, the highest segments of the state bureaucracy and the military) have benefited from state services and enrichment. The Christian (mostly Coptic) minority, which makes up about 10% of the population, is underrepresented in the public sector. As a result of the post-2004 economic reform agenda, members of a small circle of businessmen and corporations have been significantly strengthened.

Egypt scores 30.8 in the World Bank's Gini index (2008), hinting at a huge income gap separating the different strata of society. While economic growth has accelerated up to 2011, progress in human development is still heavily uneven. Young people,

who make up the majority of the overall population, are particularly vulnerable to poverty.

11 | Economic Performance

Egypt has managed to achieve good macroeconomic outcomes for nearly a decade. Growth has been accelerating since the Ahmed Nazif government began its economic reform processes in 2004. Strong foreign earnings have been a key driving force, coupled with the implementation of a series of financial reforms affecting exchange rates and the trade and public sectors, as well as a push for privatization and increased transparency. Domestic demand has grown. The World Bank's 2008 Doing Business report ranked Egypt as the top performer across 178 economies in terms of 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 confirmed this positive development. However, it should be noted 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% (2008), it fell significantly to 4.7% in 2009, recovered to 5.1% in 2010, and plummeted to 1.8% in 2011 due to the country's unrest. 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 integration into global financial markets meant that its economy proved resilient to the crisis. Real per capita GDP growth has been significant and stable, but has not translated into increased income for all segments of the population. Nor has overall economic growth had any significant impact on employment. The official unemployment rate has ranged between 10% and 15%, but youth unemployment rates are significantly higher. Unemployment rates among university graduates have risen over the last decade. Outside observers estimate the unemployment rate to be about 20%, much higher than the figures contained in official reports. Inflation rates are high, averaging 14.7% in the 2007 – 2009 overall; however, the 11.3% and 10.1% rates respectively seen in 2010 and 2011 represent a positive trend, according to the World Development Indicators 2012. The impact that high inflation has on the majority of poor Egyptians should not be underestimated. The tax system has been structurally deficient for many years, with tax revenue totaling just 14.1% of GDP in 2010 (in comparison to 20.1% in Tunisia and 23.4% in Morocco). However, a major restructuring of the country's tax system as part of an IMF economic reform package has been on the table since December 2012. It is not surprising that overall economic performance has been poor during the period under review, with GDP declining by 4% and manufacturing by 12%, and revenues from tourism collapsing, as Ibrahim

Output strength
4

Saif describes in a 2011 study of challenges associated with Egypt's economic transition.

12 | Sustainability

Environmental concerns have been a part of Egypt's public agenda for about 20 years. Environmental awareness among the population is low, both with respect to polluting behavior as well as to the dangers presented to health and resources.

Environmental
policy
4

Nevertheless, perceptions have slowly started to change. A Ministry of Ecology was created in the 1990s, and a Green Party founded. The 2005 National Human Development Report, a joint report by UNDP and the Institute of National Planning, identified environmental protection as a key issue for future development. The 2009 Arab Human Development Report on Human Security addressed environmental issues as one key factor of human security in the Arab region. However, given the region's low contributory share of global pollution (in terms of CO₂ emissions), it considers Egypt (like other countries) more of a potential victim than a cause of global pollution, particularly considering the risk that climate change and rising sea levels pose for the country's coastal areas. While this might be true for the country as a whole, many parts of the overcrowded capital Cairo are heavily polluted, and suffer from the daily emissions produced by traffic and industry. Helwan, a former spa in the south of Cairo, now numbers among the most polluted areas in the world, due to excessively polluting steel mills and cement factories. Long-term plans aimed at improving the situation are being developed at the governorate level.

The 2012 Environmental Performance Index (EPI) ranks Egypt 60th out of 163 countries, with a score of 55.2, on 22 performance indicators tracked across 10 policy categories covering both environmental public health and ecosystem vitality. It identifies problems related to climate change, fish stocks and water resources as the most critical items. With this record, Egypt ranks first in the Arab region, but falls just above the world average overall.

Environmental protection was addressed in the amended Egyptian constitution in March 2007, and was also included in the new 2012 constitution (Art. 63). However, articles addressing the issue were criticized by experts for being vague and lacking concrete strategies. The appointment of the highly qualified and experienced Abdel Aal as minister of environment in January 2013 may produce change for the better. However, this will depend on surrounding conditions such as the continuing effects of the severe economic crisis.

The Egyptian education system struggles to address the needs of the country's growing population. The country faces an annual population growth of 1.7% (2011), with some 40% of the country's population today aged between 10 and 29, according

Education policy /
R&D
4

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. The male-to-female enrollment ratio is 95.7% for primary, 96.2% for secondary and 90.5% for tertiary education institutions. However, Egypt's educational infrastructure simply cannot absorb these young Egyptians, a group that should constitute the major productive force of its economy. Despite improvements, the adult (older than 15 years) illiteracy rate in Egypt is still about 34% (42% for men and 25% for women). Public education institutions for basic and advanced education are hampered by structural difficulties and characterized by unequal geographical 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, from 4.8% of GDP to 3.8% of GDP in 2008 (more recent data are not available). Conservatism and to a certain extent trust in older adults rather than youth dominate the Egyptian mindset. Public expenditure on R&D was a meager 0.21% of GDP in 2009, according to the World Development Indicators 2012, reflecting almost the same level as in previous years.

Transformation Management

I. Level of Difficulty

While Egypt's main structural constraints are the state's inability to mobilize its existing resources and the weakness of the state institutions, three additional sets of more specific structural constraints may also be identified.

Structural
constraints

7

The first set refers to natural conditions. This includes the country's high level of dependence on the water of the river Nile, which has led to conflict with southern neighbors given rising water consumption levels everywhere; and also the prevalence of desert land in the country, which results in the concentration of a large population of 83 million in the Nile delta, the coastal areas and along the river Nile.

The second set of constraints is related to social conditions produced by the country's elites in the constraining context of world political and economic conditions. The fast population growth of the previous decades has produced an enormous youth population, which cannot be provided with education, jobs and housing on anything other than a basic level. Previous governments delayed or did not focus on related policy needs, such as the necessity of creating a quantitatively and qualitatively adequate education system, or of rebuilding the economy so as to provide a sufficient number of adequate jobs. The genesis of the post-colonial Egyptian state out of a military coup has produced a political regime in which the military rules but does not govern (as per Cook); with the assistance of foreign support, the powerful military has remained as a potential veto power, as was seen in the military's crucial role in the overthrow of Mubarak. However, the military has over the decades become increasingly professional, and during the last decade it used its potential veto power only in cases when its direct interests were endangered.

The politics of economic liberalization since the 1970s have mostly served the interests of Egyptian and foreign big businesses, polarizing society economically between aspects of extreme wealth and poverty while destroying the relative economic homogeneity of the 1950s and 1960s. Six decades of authoritarian rule have destroyed the once-lively political culture, with the effect that public political articulation has exploded in a very heated atmosphere since the overthrow. On a related note, public exchange of religious and secular opinions has been suppressed, leaving a country deeply divided in its search for identity. Last not least, traditional

interpretations of gender relations have been supported by state policies for decades, exacerbating gender cleavages.

Third, while Egypt's post-revolution governors – the military as well as the Morsi presidency – have inherited at least four socially produced packages of cleavage (civil-military relations, secular-religious relations, labor-capital relations and gender relations), they have not mitigated but have rather deepened differences, producing intensified cleavages for their own government.

Egypt is characterized by a fairly strong tradition of civil society organization. Independent labor movements developed in the late 19th century, and professional syndicates played an important role in the first half of the 20th century. Liberal women's and anti-colonial protest movements also gained strength also this time. Last but not least, circles of military officers formed, ultimately overthrowing the monarchy in 1952, thereby representing broad popular opposition. While early civil society organizations were subordinated to the single-party system of the 1950s and 1960s, and in some cases were partially nationalized (unions, women's movement, etc.), slight tendencies toward liberalization developed in the 1970s. Inspired by the third wave of democratization and the important role played by civil society, civil society organizations spread and intensified their work especially in the fields of human, civil and women's rights, as well as social care. This latter has been particularly the field of Islamic charity work. In 2004, the Kifaya (Enough) movement emerged in protest against a new presidential mandate for Husni Mubarak, or any attempt to deliver power to his son Gamal. The accelerated privatization and liberalization program beginning in 2004, often conducted by defrauding workers of their salaries or other such tactics, activated labor movements and triggered the April 6 youth movement to express solidarity with workers' activism. Last not least, the brutal police killing of the young Khalid Said in Alexandria in summer 2010, largely because he had posted a film depicting policemen's drug deals on the Web, initiated the We are all Khalid Said movement. All groups cited and many others helped to organize the uprising and are still fighting for civil and social rights in Egypt.

Civil society traditions

4

The degree of open conflict intensity has been low in recent decades due to the authoritarian regime's strong grip on power and repressive instruments, at least until the government's overthrow. After Mubarak's fall, the period under review saw a phase of intensive confrontational power conflicts, polarization, mass mobilization and violence, leaving many people arrested, wounded or dead. Confrontation developed along the civil-military cleavage until June 2012, with continuing mass mobilization against military governance. This was followed by mass protests against the draft constitution, which was criticized for not being representative of the Egyptian people and for endangering freedoms and rights. Subsequently, President Morsi's constitutional declaration drew intense opposition at the end of 2012, with critics charging Morsi with usurpation of the revolution. The first and second anniversaries of January 25, the first day of the revolution, were marked by mass

Conflict intensity

7

demonstrations expressing unrest and dissatisfaction with the lack of progress and the content of change. Ongoing conflicts also include labor strikes, after which workers have been sentenced to multiyear prison terms; sexual harassment against women; and growing sectarian tension between Muslims and Christians.

II. Management Performance

14 | Steering Capability

Question
Score

The period under review was divided into the long-lasting transitional phase of military governance, lasting from February 2011 to July 2012, and the secondary phase following the assumption of the presidency by Mohamed Morsi, who was elected in June 2012. The period of military governance was not well organized, leaving critical institutional steps (constitution writing, parliamentary and presidential elections) unclear in their sequence or characterized by changing timetables. While this may have been due to the military's desire to secure its own power interests as well as to the difficulty in reconciling the claims of many different parties and groups, the military did finally deliver on its promise to transfer governance power to a civilian president. The period under President Morsi accounts for only seven months of the review period. He claimed a "constitution first" position, and set clear governance priorities for his first 100 days in power, including improving security, regulating traffic, improving cleanliness, and supplying bread and fuel. However, little actual progress was observed. The Freedom and Justice Party (FJP) identified security, economy and corruption as the most urgent governance issues in their 2011 parliamentary elections program. As parliament was dissolved shortly after its convening, there was no stable legislature in the period under review, and the political sphere was preoccupied with preparing and adopting a new constitution. Establishing a new constitution became a strategic priority under the Morsi presidency, without paying heed to the country's heterogeneous political culture.

Prioritization
5

As the review period closed, doubts remained as to Morsi's seriousness in further institutionalizing democratic principles. In November 2012, he issued an edict granting himself enormous power and restricting the responsibilities of the judiciary. This provoked massive protests both within and outside Egypt.

The president succeeded in maintaining his position between July 2012 and the end of the review period. He brokered a deal with the military to change top commanders with ties to the old regime, but left the army's privileges untouched in the new constitution. He realized his political aim of adopting a new constitution only by

Implementation
5

breaking promises to do it on the basis of political consensus. That is, the constituent assembly ignored the demands of the secular forces, and hence deepened the political polarization. According to the online “Morsi Meter,” Morsi realized just 39% of his aims during his first 100 days in power, and the presence of ongoing public unrest clearly must be viewed as a negative outcome. Clear policy inconsistencies can be noted with regard to tax law amendments postponed in the run-up to the constitutional referendum. The December 2012 delay of an IMF deal implying new economic hardships for the population was considered a tactical maneuver oriented to the upcoming parliamentary elections.

Neither the military government nor the Mohamed Morsi presidency showed an innovative or flexible style during the period under review. Policies have been enforced rigidly without considering the feelings or priorities of a large proportion of the population. These attitudes have contributed to a broad perception in Egyptian society that nothing has changed since the fall of Mubarak, and have consequently provoked further social polarization and cleavage. One example is the new constitution, which was prepared on the basis of temporary power relations resulting from early parliamentary elections, and which was put to a vote and adopted without any attempt to reach a minimal level of societal consensus.

Policy learning
4

15 | Resource Efficiency

Egypt has for decades been criticized for the inefficient use of its available human, financial and organizational resources. Authoritarian policies subordinated human capabilities to loyalties. The great bulk of deeply socially committed youth was and remains discouraged and frustrated by the constraints of authoritarian political, social and judicial environments. The available human potential of well-educated women was and remains wasted by patriarchal gender policies. A misguided economic policy provided jobs within the public administration instead of the private sector, but without improving public services. An inefficient subsidy system that burdens the state budget without reaching the poor urgently demands reforms guided by principles of social justice. While economic crises and political unrest deepened during the period under review, with key macroeconomic measures reaching disastrous levels, a major political reshuffle is still pending.

Efficient use of assets
4

Policy coordination, at least with respect to the relationship between proposed policy goals and real policies, has been miserable during the period under review. There is neither bread nor freedom nor justice, to quote the slogans of the uprising and the Freedom and Justice Party’s subsequent campaigns. There is no identifiable plan to moderate the country’s economic crisis or to infuse upcoming financial cuts with the principles of social justice. There is severe conflict between proposed freedoms and the policy of subordinating this to a religious guiding culture; indeed, this reduces freedoms for many people, instead of finding a minimal level of consensus that gives

Policy coordination
4

everybody the freedom to live according to personal values. The government's policy goals have compromised the aims of the uprising, while yielding to old regime interests. That is, while there is relative little coherence between proposed and realized policy goals, there has been a relatively high degree of continuity between the governments under review here.

On a low level, baksheesh is a part of daily life in Egypt, corresponding to tips in English-speaking countries. However, since the beginning of the policy of economic liberalization and privatization, a harmful and largely uncontrolled corruption developed, with roots in private capital's dependence on state officials' decisions, and in the discrepancies between the income of private businesspeople and state officials. Limited access to information through the media – which were either state-owned or tended to focus on scandals rather than facts – impeded the public's ability to hold their officials responsible for their actions. With media gaining more freedom over time, outlets such as the al-Masry al-Youm newspaper started to cover the former regime's failed anti-corruption policies, and have continued to monitor policies in the area. Since February 2011, Egypt's Illicit Gains Authority has initiated complex investigations into the wealth accumulated by the Mubarak family, many former ministers, members of the former National Democratic Party, and even chief editors of state-run newspapers. Hundreds of lawsuits on the issue have been filed, with assets frozen or transferred to the Finance Ministry. The Freedom and Justice Party and President Morsi have identified corruption as a top policy priority. Related policy proposals include the establishment of an independent and effective judiciary, strict control of governmental accounting by the Central Accounting Agency and the subordination of this body to the People's Assembly, publicizing corruption affairs, protecting the public's right to obtain information, and applying the law of political isolation to anyone who participated in corrupt practices under the former regime. In January 2013, amendments to the anti-corruption legislation were made that would increase penalties and create anti-corruption committees tasked with monitoring government performance and efficiency. At the same time, a policy granting impunity to those who repay illicit gains is being implemented, based on amendments to the investment law dating from January 2012.

According to al-Masry al-Youm, Parliamentary Affairs Minister Abdel Meguid declared in January 2013 that “curtailing government corruption would relieve EGP 25 billion per year of the total budget deficit, which reached EGP 175 billion during the 2011 – 2012 fiscal year” (EGP 25 billion are equivalent to \$3.7 billion or €2.8 billion). However, it remains to be seen how effective the new anti-corruption policies will be in practice.

Anti-corruption
policy

4

16 | Consensus-Building

The overthrow of the Mubarak regime by a diverse movement calling for freedom, dignity and social justice demonstrated a general consensus among the major political actors, groups and parties oriented toward ending authoritarian and socially marginalizing policies, and starting a structural reform of the political and economic system. However, more than 40 political parties have been founded since that time, stretching across a broad political spectrum from conservative-Islamist to secular-liberal to secular-leftist. In many cases, these new actors' political profiles have yet to be clarified, a process that may take place in preparation for the (tentatively scheduled) fall 2013 parliamentary elections. In the economic realm, there is broad consensus as to problems that need to be addressed in order to achieve a market economy. However, opinions differ as to the desirable extent of and the methods by which to establish a social pillar to the market economy; positions range from neoliberal stances to visions of partial public ownership. In the political realm, the major players agree on democracy as the principal form of the political system. However, there are severe cleavages on the form this should take. While conservative Islamists argue that civil rights, especially personal freedom rights, should be subordinated to Islamic law, secularists call for a liberal democracy based on modern secular definitions.

Consensus on goals
7

After the overthrow of the Mubarak regime, the most significant remaining potential anti-democratic actors include those parts of the military controlling complex economic assets that remain outside public control, and Salafists who have a very narrow understanding of democracy at best. As long as the military is not threatened with loss of its unique role it will probably not manifest its potential as a veto power. Totally subordinating the military to civilian control will be a prolonged task, however, demanding the negotiation of deals on the future of the military-industrial complex. It is too early to evaluate the potential veto power of the small but powerful business elite created under the old regime. Problems concerning this group will depend heavily on the seriousness of the proclaimed anti-corruption and anti-monopoly policies of the Morsi government. Remnants of the old regime, the so-called feloul, are formally monitored by the political isolation law, and are also addressed in the new constitution. The degree to which major Islamist players are perceived as anti-democratic actors depends on the question of whether democracy is defined in a normative Islamic or a modern-liberal way. It is possible to define democracy based on conservative ethical values while at the same time advocating political pluralism and democratic competition for power; however, this may not be a liberal democracy with respect to personal freedom rights, as a considerable part of society would not be able to exercise such rights. That is, while the contemporary

Anti-democratic
actors
6

ruling Islamic actors could themselves be deemed anti-democratic actors under a strong sense of liberal democracy, this perspective cannot be taken as absolute.

After the fall of Mubarak, the major remaining cleavages include civil-military relations, secular-religious relations, labor-capital relations and gender relations. While all cleavages were intensified during the period of military governance lasting until July 2012, President Morsi successfully moderated the civil-military cleavage by compromising with regard to the military's role as manifested in the constitution, and by leaving the military's economic empire largely untouched. However, all other cleavages have further intensified since Morsi has taken office. The new president has ignored the sentiments of considerable parts of society, and shown a lack of ability to moderate them in an anticipatory fashion. To date, the political leadership has shown no sense for the usefulness or necessity of compromise or of the establishment of a minimal level of consensus as a basis for conflict management. This was demonstrated by the demonstrations and state responses during the second anniversary of the overthrow around 25 January 2013, which once again resulted in the death or injury of dozens of people, and ultimately turned in an anti-Morsi direction. The one-month state of emergency and curfew declared in the most confrontational places, including Suez, Port Said and Ismailia, served only to escalate violence a day after the military was once again granted the right to arrest civilians.

Cleavage /
conflict
management
3

Civil society has been marginalized after the fall of Mubarak, both under the SCAF governance and the Morsi presidency. Labor unions are denied independence, the voices of women and the globalized intelligentsias are ignored, the media are under pressure from uncontrolled Islamists, and no significant groups, including youth groups, have been integrated into the processes of policy formation. Insurance and Social Affairs Minister Nagwa Khalil declared in October 2012 that the government has no intention of putting an end to state control over NGOs. A final draft law on NGOs, which among other provisions would increase the number of founding members required from 10 to 20, and increase the necessary founding capital from EGP 10,000 to EGP 250,000, was on the way to approval in January 2013.

Civil society
participation
4

This has fed the spread of sentiment in society that nothing has changed, and has periodically escalated into violent conflict. Monitoring corruption is the only policy field to date where a role for public participation has been offered.

The 2011 upheaval was largely driven by popular feelings of having suffered injustice. Issues prompting these widespread feelings related to economic enrichments versus economic impoverishment, the daily arrogances of power versus individual humiliation, and even decisions on life or death made by the state. This last category refers particularly to the so-called Martyrs of the Revolution, meaning the more than 850 people killed during the initial uprising in January – February 2011, as well as the many dozens more who were killed or injured during the first

Reconciliation
6

and second anniversaries in January 2012 and 2013 or the various incidents in between.

Two years after the revolution, the victims of the previous regime are still waiting for moral and judicial justice. After one year of trial, the life sentences administered to former President Mubarak and former Interior Minister al-Adly for failing to prevent the killing of protesters were overturned by the Court of Cassation on 13 January 2013, on the basis of procedural failings. The four assistant interior ministers commanding the police operations during the upheaval were acquitted, as the judges ruled that there was a lack of evidence that protesters had been killed by police weapons. While only two police officers have been imprisoned, investigations and evidence-gathering procedures have been careless and sluggish.

In July 2012, President Morsi appointed a fact-finding commission to investigate the killing and wounding of protesters over the entire January 2011 – June 2012 period. This commission delivered a report to the president in December 2012, which was simply passed to the public prosecutor, which appointed an additional investigation team.

The many abuses of protesters, including murder, torture and the sexual assault of women (including “virginity tests” committed by the military during its time in power), starting with the violent dispersal of sit-ins at Tahrir Square in March and April 2011, ranging through the clashes in October, November and December 2011, and including many more incidents, have led to prosecution in only a few cases. As all these cases fall under the jurisdiction of the military courts (which are also included in the new constitution), the military has achieved a de facto immunity.

Things do not look better concerning the massive embezzlement of public funds committed by the former regime. During the last days of the revolution, \$767 million was smuggled out of Egypt to Switzerland alone. While this money cannot be transferred back to Egypt because sufficient evidence against the Mubarak family has not been procured, the SCAF opened the possibility of “reconciliation proceedings” in January 2012 by amending the investment law, so as to grant impunity if illicit gains are repaid. However, while the Justice Ministry has sped up the investigation of incidents of embezzlement, and some offers by political and economic elites to retransfer illegal gains have been reported, travel bans on persons being charged have been lifted, reducing reconciliation in the area of self-enrichment to a symbolic gesture. The escalating street violence, reaching new levels beginning in January 2013, is clear sign that no reconciliation has been realized two years after the overthrow. To be sure, the complexity of a 30-year period of conflict with multiple facets is certainly not to be overcome in a short time. However, more serious and trustworthy policies are needed in order to halt the country’s spiral of violence.

17 | International Cooperation

For decades, the Mubarak regime's top priority was to maintain an authoritarian regime under the constraining conditions imposed by necessary economic restructuring. It misused international economic assistance in order to realize these aims, without lasting success. Since the revolution, there have been indications that national self-determination may be valued higher than international financial assistance at least from a rhetorical perspective, as for example when the SCAF declared it was not dependent on American military aid amounting to \$1.3 billion a year. The military government's contention that foreign NGOs working in the country had been doing so illegally, resulting in impeachments and expulsion orders in December 2011, has to be seen in the context of such muscle flexing.

Effective use of support

5

This tendency has also manifested in attempts to replace Western financial and economic support with that provided by Arab Gulf states, and perhaps even by Chinese support. The much-debated question of an IMF loan in late 2012 or early 2013 was telling. While such attempts remain nascent and can hardly be quantified at this date, it may be an illusion that this shift toward the East will increase national independence. Rather, it may help to consolidate authoritarian structures.

Indications of the high value placed on national self-determination were also evident in the Freedom and Justice Party's election program. However, the program and the first seven months of the Morsi presidency have been marked by the need to engage in short-term crisis management, conditioned by inherited as well as self-produced conflicts. Consistent, long-term strategies of development, as well as strategies for integrating international assistance, have yet to be developed.

Egypt was accorded a high level of trust within the international community under the Mubarak government, as it was considered to be a stable and reliable partner. However, it now appears that this trust derived mostly from the country's regional role (having made peace with Israel and served as a broker in the Palestine conflict) rather than from its internal performance in making progress toward democracy and a social market economy.

Credibility

5

While maintaining respect for the peace treaty has been deemed critical if Egypt is to retain its role as reliable and credible partner in the international community following the revolution, there is a qualitatively new focus on the country's democratic and economic performance. The issue of democracy has been at the center of international evaluations, provoking much critical attention. This was particularly true during the period of military governance that lasted until June 2012, but continued during the Morsi presidency, especially due to the orientation of the constitution adapted in December 2012. As this document contains fundamental flaws with respect to a liberal understanding and practice of democracy, and ongoing

violent conflicts within the country indicate not only the lack of policy consensus but the continued existence of serious conflict, the Morsi presidency gained little international confidence through January 2013. Several governments, including that of the United States and Germany, as well as the United Nations and international NGOs such as Human Rights Watch, have expressed severe concerns as to the status of democratic development in Egypt. The confidence of foreign investors decreased tremendously in the second half of 2012, with foreign direct investment declining by 94.1%, or \$1.75 billion, according to a Central Bank of Egypt announcement in mid-January 2013.

In the economic sphere, despite only modest levels of trade integration, Egypt is relatively well-integrated with its neighbors (including generally good relations with Israel that were temporarily hampered by disputes over preferred gas supplies). 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 establishing a free trade zone between the Arab Mediterranean nations (with Morocco, Tunisia and Jordan). In 2005, Egypt signed a free trade agreement with Turkey. 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 increasingly opening up to international markets, with negotiations over a free trade agreement with the Mercosur countries being just one example. In political terms, Egypt is one of the few countries in the region that has concluded a peace deal with Israel; 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 seeking rapprochement between members of Hamas and Fatah. Egypt hosts the Arab League in Cairo with Egyptian Secretary General Nabil El-Arabi, and is an active member in the Organization of the Islamic Conference (OIC). However, neither of these organizations 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, as a result of its peace treaty with Israel. In the United Nations, Egypt claims a leading role in the nonaligned movement and has signed international conventions on human rights, women and children and other issues. However, on the enforcement side things look very different.

More recent developments under President Morsi indicate not only a closer commitment to the Israel-Palestine conflict, but also a tentative rapprochement with Iran. Morsi visited Iran in August 2012 as the first Egyptian president do to so since the 1979 Islamic revolution; while there, he used his keynote speech at the summit of the nonaligned movement to provoke tremendous excitement through his open criticism of the Syrian regime as being repressive.

Regional
cooperation
8

Egypt's long-standing conflicts with its southern neighbors over the use of Nile River water show tendencies toward resolution, as Egypt signed agreements with Sudan on boosting cooperative agricultural production in January 2013. This agreement is intended to be expanded to other Nile basin countries in the years to come.

Strategic Outlook

The high expectations following the overthrow of Egypt's former regime (which should be understood as a power structure based on military rule and corrupt crony capitalism, not only Mubarak's personal governance) met with multiple disappointments and the emergence of new cleavages during the period under review. Problems have arisen in establishing a civil power structure, guaranteeing civil and political freedom, establishing an economic system that provides sustainable freedom as well as sustainable justice, and promoting gender equity. Reconciliation had not taken place by January 2013, thereby deepening the country's overall crisis. However, the country's main challenge is the weakness of state institutions, which remain unable to enforce the government's rules. Hence, reforming state institutions is a key task that needs to be addressed by the regime, the opposition and civil society.

Strategic priorities should include the following:

- The government should reconsider its reliance on crude power politics based on recent but potentially temporary election results, and focus instead on a national reconciliation able to serve as the basis for political and economic stability. It should bring all stakeholders to the same table to negotiate and decide on a common strategy to face social and political challenges. It should recognize that liberal civil and political rights don't prevent people from living according to traditional Islamic norms, but rather enable people with divergent convictions to live a desired style of life, and that this is what defines democracy. Ethical values cannot be ordered by decree, but must be tested in the course of daily life.
- That state must find a way to avoid economic collapse, by establishing national and international trust in the government's policies and economic decisions. Economic and social challenges must be reconciled by bringing together the various stakeholders when forming economic policies.
- The productive abilities of women as well as civil society organizations should be considered as enriching the country's development. Their fields and opportunities to engage in society should not be constrained.
- Long-term strategies to subordinate the military to civil control must be developed, as the alternative is not appropriate to a democratic political system.

For their part, opposition parties 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. Meanwhile, they should engage in constructive opposition work focusing on the welfare of the country. In its relationship with Egypt, the international community should adopt the following strategic priorities:

- Pay attention to internal politics. Do not compromise on human rights, freedom of the media and democracy as cultural differences between Egypt and Europe or the United States. Cultural differences are not reason enough to mix politics and religion. Engage in order to press for a liberal revision of the new constitution.
- Reflect on the compatibility between liberal economic principles and the provision of social justice and welfare for the bulk of the people in the context of financial cooperation agreements. Work to enabling people to participate economically under their own power rather than living on charity.
- Target aid effectively. Increase development aid that targets the poor, the younger generations and Egyptian women in particular, as these have been the victims of neoliberal economic excesses in the past.