

Egypt in the Twenty-First Century

Challenges for development

Edited by M. Riad El-Ghonemy

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Egypt in the Twenty-First Century

Over the past twenty years, Egypt has been a testing ground for extensive IMF-led economic reform and restructuring. This book examines the existing and potential consequences of these experiments.

The book focuses on three main themes:

- Overpopulation associated with low productivity, unemployment, persistent poverty and weak savings and investment capacity;
- The post-1950 development strategies and their outcomes;
- The institutional structures that are constraining economic and political progress.

Egypt in the Twenty-First Century is a much needed investigation into long-term economic reform and restructuring and examines the challenges ahead for the country. It provides authoritative analyses from a collection of respected academics and a wealth of new data. It will appeal to all those interested in the political economy of contemporary Egypt.

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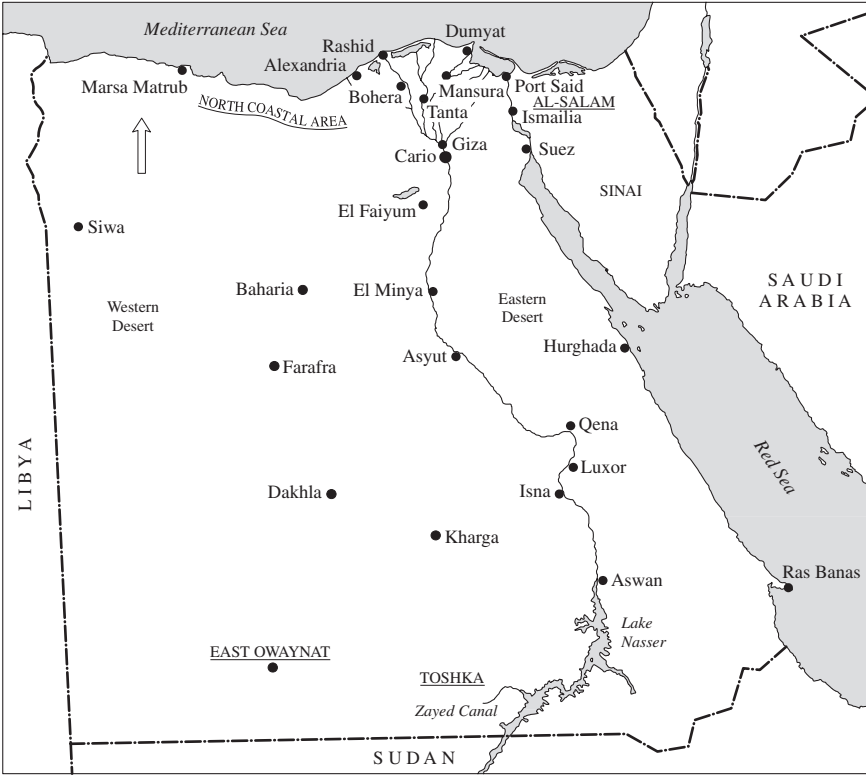
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RIAD EL-GHONEMY
Queen Elizabeth House
University of Oxford
October 2002

Acronyms and abbreviations

AHDR	Arab Human Development Report of 2002
AID	Agency for International Development of the USA (Washington, DC)
CAPMAS	Central Agency for Public Mobilization and Statistics (Cairo)
CBE	Central Bank of Egypt
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index or retail price index, referred to as cost of living index
DHS	Demographic and health survey
ERSAP	Economic Reform and Structural Adjustments Programme (Egypt, 1991)
EU	European Union or European Community (Brussels)
FAO	Food and Agriculture Organization of the United Nations (Rome)
GDP	Gross Domestic Product or national income
HABITAT	United Nations Centre for Human Settlements (Nairobi)
HDI	Human Development Index
HIECS	Household income, expenditure, and consumption survey
IFAD	International Food Policy Research Institute (Rome)
IFPRI	International Food Policy Research Institute (Washington, DC)
ILO	International Labour Organization (Geneva)
IMF	International Monetary Fund (Washington, DC)
INP	Institute of National Planning, Ministry of Planning (Cairo)
LDCs	Less Developed Countries
MNCs	Multinational Corporations
NGOs	Non-governmental Organizations
NICs	Newly Industrialized Countries
SFD	Social Fund for Development, Prime Minister's Office (Cairo)
UNDP	United Nations Development Programme (New York)
UNEP	United Nations Environment Programme (Nairobi)
UNESCO	United Nations Educational, Scientific and Cultural Organization (Paris)
UNFPA	United Nations Fund for Population Activities (New York)
UNICEF	United Nations International Children's Emergency Fund (New York)
UNIDO	United Nations Industrial Development Organization (Vienna)
WEF	World Economic Forum (Geneva)
WHO	World Health Organization (Geneva)



Frontispiece Map of Egypt

Mega projects for 1997 to 2017 are underlined.

1 Introduction*

M. Riad El-Ghonemy

At the start of the twenty-first century, the principal structural problems characterized by Charles Issawi in *Egypt at Mid-Century* (1954); over-population and poverty – remain. Despite a series of economic reforms and notable progress in human development, these twin features have continued to be associated with low income per head, weak capacity of savings, investment and export, as well as cumbersome bureaucracy and limited political participation. The task ahead which this volume attempts to explore is, therefore, enormous and the agenda for the twenty-first century is long.

While the principal development problems remain as critical as ever, the world economy and the socio-political aspirations of the Egyptian youth of the 2000s are quite different from those of the 1950s. Rapid globalization accompanied by the fast spread of electronic information have greatly influenced the expectations of the fast-growing population which reached 68 million in 2002 and is projected to be 95 million in 2020. In the meantime, faith in the government's ability to enforce regulatory rules, and to reduce poverty and inequalities of opportunities quickly enough has dwindled. Scepticism has recently grown in connection with realization of the great design of the development strategy 1997–2017. Among the contributing factors to scepticism are: the increasing dependence of the economy on external sources for financing development, the premature contraction of the two main commodity-producing and labour-absorbing sectors, agriculture and manufacturing industry, coupled with the shrinking interventionist role of government at a time when private investors and exporters need law enforcement to integrate the economy into the global capitalist market, and when victims of the post-1991 economic reforms require protection and an active state role to minimize social costs. Another important contributor is the government's reluctance to deepen the developmental voluntary work of non-governmental organizations (NGOs) and to reform the institutional infrastructure, including the provision of equal opportunities for political participation and the removal of abuses of an antiquated bureaucracy. Besides, there is discontent with the very slow progress in reducing illiteracy and tackling the adverse effects of environmental degradation on people's productivity and well-being which can neither continue to be suffered in silence, nor be taken any longer for granted.

Consequently, development criteria and evaluative judgement are based today on broader concerns than in the 1950s. It is inescapable, therefore, for this volume to bring the issues outlined above under scrutiny for the purpose of suggesting alternative or supplementary actions. Being a policy-oriented book, our hope is that it would induce further research, and contribute to the current debate on Egypt's development challenges in the twenty-first century.

The aims and approach

The present book grew out of an awareness of the need to fill a gap in our knowledge about the long-term development perspective for Egypt, including the knowledge gap between the perception of the elderly and the demands of youth. It includes also the gap between using available limited resources for meeting immediate or short-term consumption needs to maintain political stability and the long-term development requirements for the well-being of present and future populations. A study over a prolonged period like ours allows for understanding changes in political, social, institutional and economic structures, and development successes and failures, from which pressing challenges emerge.

The study of these components within Egypt's social organization is best approached by the discipline of political economy as a branch of social science, thereby the economics of development cannot be separated from politics, history, behavioural sociology and psychology (e.g. with regard to consumers and investors as decision-makers). Also, it cannot be isolated from moral principles, customary beliefs, and formal and informal institutions or regulations and rules. For example, it examines why and how substantial resources allocated within tight planning coupled with economic control have not achieved their aims. Have external forces, uncertainty of expectations, centralized bureaucracy and lack of accountability and competitive political participation prevented the desired results? Also, the book examines the place of economic growth, employment and human development in the several strategies and formal plans initiated between 1957, when planning began after the 1952 Revolution with its heavy defence commitments, and 2017 when the current development strategy ends. Collectively, the authors present and analyse the best available data, judge market and government successes and failures in tackling fundamental development problems, and suggest what is to be done in the foreseeable future.

The book does not, therefore, aim to provide a comprehensive analysis of Egypt's entire development problems and policies. Rather, it examines major themes about which there is a general concern, and each contributor gives enough data to support his or her argument and emphasis has been placed on institution-induced development. For this purpose, the contributors neither use sophisticated theoretical and statistical analyses, nor do they provide a detailed historical background, a task that has been accomplished elsewhere.¹ Having made these clarifications, I explain how the discussion is organized in the book. It is divided into three parts and a concluding chapter.

The first part presents the state of development and its consequences at the end of the twentieth century in terms of both major development indicators and the realities of the components of living standards and well-being. The second part consists of an assessment of development strategies and sectoral policies between 1950 and 2017, and identifies the challenges facing Egypt's development in the twenty-first century. Part III examines conceptually and operationally the existing conditions of policy-making, the powers of the executive authority and the extent of people's effective participation in the political system. This part also examines the problems and prospects of voluntary development work of NGOs not merely in terms of creating public awareness, but chiefly in local communities' sharing in decision-making, through their own representatives, in order to tackle community problems and raise their living standards. The concluding chapter reviews the major findings, and it links the functions and consequences of economic institutions, assessed earlier in Part II, with those of political institutions examined in Part III, focusing on the essential matching of economic reforms with the required political reform in order to realize an expansion of real opportunities in life and equitable development.

The themes

In this introductory chapter, I shall identify the recurring themes about the central issues examined throughout the volume, and trace the authors' arguments for or against the traceable elements. Of the wide range of issues covered in this volume, four recurring themes have received a broad consensus on their importance and the challenges they present. Closely related but assessed differently, the themes are: (1) overpopulation associated with low productivity, unemployment, under-employment, and persistent poverty; (2) judging the different development strategies, plans and policy reforms; (3) competitiveness in economic and political activities; and (4) reform of institutional infrastructure, including the political system. Without attempting an exhaustive presentation of each contributor's views, I shall highlight the salient features of the arguments and conclude by characterizing the central challenge.

Overpopulation: low productivity and persistent poverty

In Chapter 4, I rank overpopulation top in development challenges in the twenty-first century, defining it, in broad terms, as the pressure of low-skilled and fast-growing population on an economy that is short of land and capital/technology. In my investigation of post-1950 development strategies and standard of living (Chapters 3 and 4), I characterize overpopulation in several features:

- 1 Increasing density of population: its size has more than tripled over the past half-century (from 20 to 68 million) and the rate of growth of the labour force has exceeded that of the total population in an economy that

- suffers from inadequate investment in job creation, resulting in low labour absorption, with rising hidden and open unemployment. In the meantime, the total inhabited area has remained virtually unchanged (nearly 6 per cent of the total area of one million square kilometres (387,000 square miles settled and cultivated), making Egypt one of the world's most densely populated countries. Moreover, and despite increasing migration out of rural areas, the density of agricultural population per cultivable land has more than doubled and the area of fertile lands lost to rapid urbanization has progressively increased, in spite of the legal prohibition of practices causing the loss.²
- 2 High private consumption, resulting in a wide saving–investment gap, low shares of savings and investment in national income (GDP) and in Egypt's increasing dependence on both domestic borrowing and foreign sources to finance development.
 - 3 Prevailing under-employment and falling real wages and productivity in agriculture and manufacturing industry, leading to persistent poverty.
 - 4 Increased areas of *ashwaiyat*, i.e. illegally constructed shanty towns and squatter housing that represented, in 1996, nearly half the total inhabited areas in several governorates, especially Cairo.
 - 5 The prevalence of widespread child labour (6–14 years of age) owing to large family size among the poor, the need for children to help poor parents with additional earnings, defective primary education and deficient enforcement of labour laws and compulsory schooling until the age of 15.

This brings us to the important feature of overpopulation – poverty. Adams (Chapter 2) and Radwan (Chapter 5) view overpopulation by way of focusing on poverty determinants such as low productivity, declining real wages in both private and public sectors, the prevalence of illiteracy, the steady rise in unemployment, an extensive informal sector of unskilled wage-dependent workers, and increasing inequality in the distribution of income/expenditure. They also examine the trends and characteristics of poverty. Radwan, referring to the first half of the 1990s, notes:

With population growing at 2.2 per cent a year, and a labour force increasing at an even faster rate of 2.8 per cent a year, the economy, growing at only 2 per cent a year, is unable to generate sufficient demand to absorb the 500,000 new entrants to the labour market annually' . . . 'the characteristics of the unemployed underscore the seriousness of the employment problem, especially among the young, whose position in the labour market does not correspond to their rising expectations.

From his analysis of the results of the labour force sample survey on the labour market demand between 2001 and 2005, he concludes that the majority of the currently unemployed (graduates of intermediate and university education) are not likely to be in demand for jobs and that the labour market policies and institutions must be reformed.

Considering that nearly two-thirds of urban employment and approximately half of the rural employment are wage-dependent workers, the downward trend in real wages over the last two decades means a worsening of annual income and consumption per worker, as well as deepening inequality. Both authors highlight, with alarm, poverty incidence and Adams calculates the poverty gap index and its squared value, indicating a slight increase in both the depth and severity of poverty during the period 1981–97 at rates higher in urban than in rural areas. My examination of the preliminary results of the recently conducted household expenditure survey of 1999/2000 confirms the persistence of poverty and the increasing number of the poor from 27.8 million persons in 1996 to 32.7 million in 2000, using the upper poverty line, while the numbers remain almost unchanged at 13.5 million persons, using the lower poverty line or the minimum food and non-food expenditure levels established by Egypt's Institute of National Planning (INP). Thus different classification of the poor is made; those living below the lower poverty line are named poor and those in the higher category are named 'moderate poor', making it convenient for the politicians to choose the poverty line that suits their motives.

Evaluating development experience

The discussion under this heading enables policy-makers, development analysts and the general public to understand the results of development efforts and how people have been doing (their health and overall well-being) during the past half century. Hence the problem of measurement and assessment of the performance of the economy, the distribution of income/expenditure, the quality of life elements, undernutrition by age, gender and location, illiteracy and unemployment at national and locality levels. In this complex task, there is a general agreement on two principles: making a distinction between means and ends; and the usage of plural measurement instead of a single and narrow measuring rod. Importantly, there is an agreement with regard to viewing economic growth as a necessary means for – but not a sufficient condition of – development, emphasizing that well-being (i.e. enhancement of the individual's status of nutrition, health and education, greater freedom and ability to participate in social and political organizations) constitutes an end in development process. Similarly, in evaluating economic structural reforms, tackling fiscal and monetary problems and increasing exports are not seen as ends in themselves.

Despite following different routes of inquiry, Adams (Chapter 2) and El-Ghonemy (Chapter 3) reach similar conclusions with regard to development performance and living standard at the start of the twenty-first century. In his assessment of Egypt's record of development, 1980–97, Adams employs a modified Human Development Index, and compare Egypt's record with that of forty other developing countries along five key indicators: life expectancy, adult literacy, poverty, inequality and productivity (land and labour). He concludes that during the period under review, Egypt performed worse than

the forty other countries in three of the five indicators: adult literacy, income and poverty, and inequality of expenditure. In particular, Adams finds that poverty (urban and rural) in Egypt increased during this period. Only in terms of life expectancy and land productivity does he find Egypt improving at a faster rate than the forty other developing countries. Land productivity improved in Egypt because of a significant increase in yields per feddan/acre, especially for wheat. Nassar and Mansour (Chapter 6) also show a 45 per cent increase in wheat yields between 1986 and 2000, ascribing it to technological advances and production incentives generated by price liberalization.

While El-Ghonemy (Chapter 3) agrees with Adams about the educational policy failure manifested in persistent high illiteracy, he emphasizes the increased social inequalities reinforced by very unequal access to health care and education according to income class and location, causing the population of rural Upper Egypt to be very disadvantaged. In addition, he presents the order of magnitude of social costs of both the prevalence of undernutrition (by age, gender and locality) and the effects of environmental degradation on health, productivity and disability to function in life. He argues, on the basis of empirical evidence, for geographical targeting of resources to improve public services (especially primary education) and to alleviate poverty and undernutrition in disadvantaged locations. In this way, I depart from conventional measurement of the standard of living by stressing environmental death-risk problems and loss of lives (resulting from excessive pollution and road accidents). I point also to potential human capital gains from combating the increasing consumption of narcotic (*hashish*), especially among the youth. In addition, I stress the importance of holding the government accountable for meeting several international commitments made between 2000 and 2015 on education, nutritional status improvement and poverty reduction.

El-Ghonemy (Chapter 4), Nassar and Mansour (Chapter 6) and Aglan (Chapter 7) examine the changing roles of the state and the private firms, both at the macroeconomic and sectoral levels. In the late 1950s and during the 1960s, progressive replacement of the imperfect market mechanisms by a giant public sector took place, through a wave of nationalization and coupling planning and economic control as the foundation for substantial investment, faster economic growth, full employment and fairer distribution of income and opportunities in implementation of the Arab Socialism ideology provided in the National Charter of 1962 (*al-Mithaq*) and the 1971 Constitution (see Appendix 3.1 on pp. 63–5). In their assessments, the authors study the period 1991–2000 in more detail because it has witnessed a swift strategic change, dictated by external and internal economic pressures. It is characterized by a pronounced shift away from a quasi-welfare state towards a capitalist economy based on economic liberalization, conditional foreign debt relief and accelerated preparation of the economy for global competition. Furthermore, during this period the government's long-term development strategy 1997–2017 began and the economic shock caused by the 11 September 2001 events in the USA has deepened instability which I specify in Chapter 4.

In evaluating the changes brought about by the 1991 economic reforms (the Economic Reform and Structural Adjustments Programme, ERSAP) at the sectoral level, Nassar and Mansour (Chapter 6) and Aglan (Chapter 7) explain the rationale behind the set of policy reforms in agriculture and industry, respectively and their short-term impacts. They highlight both the consequences of pre-reform tight control policies, the subsequent price liberalization and the process of restructuring public enterprises before their sale. Safeguarding the interests of workers in privatized manufacturing companies is stressed by Aglan, who explains the three-track approach followed: vocational training of young workers; voluntary severance; and the workers' right to purchase about one-tenth of the company's assets at favourable terms. In my examination of the effects of ERSAP (in Chapter 4), I remind the reader of the situation leading to the government's swift adoption of ERSAP, summing it up as follows:

The economy in 1983–90 was in trouble indeed, and entered a slump phase. Real income per head declined by 20 per cent (from US\$750 in 1986 to US\$640 in 1989, and declined further to US\$600 in 1990. There was also a sharp deterioration in both the manufacturing output and the balance of trade, and total foreign debts reached one and a half times the GDP. In addition to the costly high inflation, these dismaying statistics are manifestations of serious economic structural problems.

For the convenience of the reader, the macroeconomic achievements of ERSAP identified by El-Ghonemy (Chapter 4) and Radwan (Chapter 5) are summarised as follows:

- 1 recovery of the GDP growth in 1995–99;
- 2 a sharp reduction both in inflation rate and in budgetary and balance of payments deficits but *not* in trade deficit;
- 3 rapid decrease in foreign debts, but *not* in total internal debt owed by the government and public organizations reaching LE174 billion in 2000;
- 4 rising foreign exchange reserves in 2000 four times its 1991 level; and
- 5 sharp expansion in the capital market and in the share of the private sector in economic activities, especially after the privatization of several public enterprises.

On a sectoral level, Nassar and Mansour (Chapter 6) emphasize the favourable results of the removal of government tight controls of crop prices, as well as the speedy liberalization of agricultural credit and marketing of crops starting in the second half of the 1980s. They underline the positive response of farmers to this market-oriented policy manifested in the rapid expansion of value added and, with the exception of cotton, cultivated area and yields of major crops have increased over the reform period of 1985–2000. Deregulation of the credit market and concluding trade partnership agreements with the European Union (EU) and other major importers have helped

increase access to export markets. In addition, both authors bring to the reader's attention the important institutional dimension, saying 'Sectoral policy changes were not limited to the pricing and trading systems, rather they have been extended to the deregulation of agricultural cooperatives and farm tenancy arrangements'. On this institutional dimension, I remark in Chapter 4 that the rushed deregulation of cooperatives (leaving them abruptly to compete with the private sector) and the reversal of agricultural tenants' security are likely to have unfavourable distributional and land-conservation consequences, requiring policy rethinking for the government to undertake selective intervention for correcting market failures, after recognizing how markets are imperfect, and after assessing both the social benefits to be obtained from government action to minimize social costs of ERSAP. I also stress that ERSAP has not brought all the promised benefits owing to the low priority given to the reform of institutional arrangements, affecting investment, exports, economic growth and the distribution of income and opportunities. Failures are also due to the erroneous sequential implementation of ERSAP monetary and fiscal policies that were pushed prematurely by the IMF.

On reviewing the long-term prospects for sectoral development planned in the 1997–2017 strategy, Aglan, Mansour, Nassar and Radwan believe that its aims are achievable provided that its assumed private investment target is met, policies for export-promotion and labour-intensive production implemented, and institutional constraints removed. They also stress the need for the existing wide savings–investment gap to be filled *via* increased export earnings and greater foreign direct investment. Radwan (Chapter 5) highlight the imperative need for a distinct commitment towards labour-intensive investment and small industries expansion. In my argument for alleviating overpopulation (Chapter 4), I point out the need to realize high rate of labour absorption in the mega projects (Toshka, Sinai, etc.) that are intended to add 3.4 million feddans (acres) to the present cultivable area. The aim is to realize equitable rural development and to make a significant impact on the overpopulated old inhabited area, where a large fraction of the labour force remains underutilized. In the conceptual debate on this long-term plan (1997–2017) and beyond, I stress the importance of labour absorption in the choice of investment techniques that benefit the present and future generations, saying:

It is odd to be concerned with the future welfare of big investors, while ignoring the poverty of the millions of landless workers and the unemployed today . . . It is also our obligation to preserve the present wealth of productive land area and scarce water to pass on to the next generation.

On the acute problem of water scarcity, Nassar and Mansour underline the necessity of rational use of the Nile water for irrigation during the twenty-first century, suggesting a cropping pattern change, comprising the reduction of rice and sugar-cane areas, the replacement of surface irrigation of fruits by drip and sprinkler irrigation and the elimination of current water losses.

Competitiveness in economic and political activities

As the authors delve into the important question of competitiveness in the twenty-first century, the discussion indicates the contentious nature of its assessment and comparability. In Parts I and II, the discussion indicates the need for the government to create conditions that help markets make competition work in a global capitalist economy, without harmful elements of monopoly or oligopoly of influential domestic entrepreneurs in alliance with the globally powerful multinational corporations, on whose foreign direct investment the dependence of the Egyptian economy is increasing. It was also underlined that markets and privatization of state-owned enterprises *alone* cannot realize the desired global competitiveness in the absence of substantial improvement in workforce skills and product quality. Above all is the importance of appropriate institutional measures, the provision of which is the task of the government.

Past experience shows that during the period of dominant state monopolies and protectionist barriers, competition among domestic firms was lacking and the quality of products deteriorated. However, the post-1991 frequent emphasis on trade liberalization by the World Bank and the IMF, echoed in government policy statements, is misleading in the absence of institutional infrastructure. Here again, the increasing emphasis on privatization of state-owned enterprises has been wrongly viewed as an end in itself, not as a means to equitable development. Moreover, past development experience shows that with industry as with agriculture, the economic reform's paradigm of export-led growth has not, as yet, worked. Despite post-1995 recovery in GDP growth, export growth remained slow and below expectation. In fact, under existing deficient institutional setting there is no firm evidence during the period 1991–2000 to support the World Bank's strongly held view of export-led economic growth. Aglan (Chapter 7) attributes this weak linkage to the speedy transitory process of manufacturing deregulation, lack of investment in both technology and product quality improvement, especially with regard to textile factories in the public sector. He underlines the need for strengthening labour-intensive small and medium industries to realize their employment and competitive exportable potentials, and calls for the linking of investors' guaranteed tax exemptions to their achievements in both export expansion and investment in labour skilling. Yet, and in spite of apparent ambiguity and lack of consensus on the definition of 'competitiveness' at the firm, macro and international levels,³ Aglan, together with Nassar and Mansour, emphasizes the imperative need for improving the competitive advantages of exportable agricultural and manufactured products. They are rightly concerned with a number of existing deficiencies, including: high costs of production, bureaucratic red tape, inadequate levels of both technology and management capabilities, and the crucial need for expertise in marketing.

Radwan (Chapter 5) attributes low competitiveness to the long-practised strategy of import-substitution industrialization and to the constrained labour-cost adjustment, owing to labour policies with too many regulations that have 'pushed up labour cost relative to productivity'. He adds:

If past experience is an indicator, it can be said that export-oriented industrialization and flexible labour markets that do not undermine labour welfare help to create the conditions necessary for employment-intensive economic growth. For such a strategy to succeed, Egypt must have a competitive edge that enables its exports to compete in world markets.

To support his argument, Radwan used the results of the World Economic Forum's *Global Competitiveness Report*, 1996, particularly its profile of Egypt, which shows very low scores for labour skills and products' quality control. However, as I indicate in Chapter 4, Egypt's low competitiveness ranking has slightly improved in the 2000 report (42 of 59), but its continuing poor scores in technological advance, spending on research and development, and competition in domestic banking have placed Egypt among the bottom ten countries.

Just as the economic aspects of competition are significant, Springborg (Chapter 8) and Hinnebusch (Chapter 10) emphasize the importance of political considerations. Springborg views competition as the core of the political system, requiring 'free and fair multi-party elections based on universal franchise, free speech and association . . . [which] do not unfairly advantage one contestant over another'. He adds: 'over the past fifteen years the electoral law has been substantially modified three times, with the Higher Constitutional Court invalidating the election law on two occasions. These and other procedures taken by the executive branch have disadvantaged opposition political parties.' He makes a distinction between the rule of law that tends to constrain executive authority and the rule by law that enables the state to expand its authority, and concludes, 'Egypt has rule by law but not rule of law'. Hinnebusch adds that the investors' confidence depends, above all, on strengthening the rule of law and modernizing bureaucracies. Both authors agree that the demand for rule of law appears to be close to a national consensus across Egypt's political spectrum, especially with regard to the protection of property rights.

Institutional obstacles to economic and political development

The views of Hinnebusch and Springborg on the institutions of authority, property rights and the rule of law bring us to the fourth key theme that has repeatedly appeared in the book. In fact, as synthesized by Hinnebusch (Chapter 10) all authors emphasize the urgency for a direct attack on institutional obstacles inhibiting the speedy achievement of the desired objectives of post-1991 economic reforms, I can say there is a consensus among the contributors that *without* appropriate institutions neither the market economy nor the socio-political system can effectively function to meet the challenges for development in the twenty-first century.

As they are so vital to the development of Egypt, it is useful to explain to the reader at the outset what institutions mean. They are the rules and regulations that shape human choices and actions in the society and determine the

totality of its performance (social, political and economic). It follows from this broad definition that the reform of institutional infrastructure includes the enforcement of law and formal contracts, administrative rules and the behaviour of bureaucracy and its outdated practices. They include also the reform of rules governing: foreign trade, banking and insurance business, property rights, the judicial system, political participation and the NGOs sharing in the process of development, as well as good governance (i.e. transparency of government operations, accountability and the rule of law).

This list of institutions suggests the crucial importance of understanding the complex role of institutions in influencing current and future development. Unfortunately, this role has been ignored or underestimated both in the analytical apparatus of the neo-classical economic theory based on unrealistic assumptions and in policy prescription, especially by the so-called 'Washington Consensus' (USA Administration, the World Bank and IMF), who are habitually concerned not with 'getting institutions right' but with 'getting prices right', i.e. with commodity-pricing relations in the American capitalist model, irrespective of distributive consequences.⁴ Throughout this volume, the hard evidence presented and the contributors' arguments affirm the relevance of the institutional approach to understanding the real world of present and past development problems of Egypt. The list of institutions suggests also what encourages saving and investment and what makes markets work or not work. Moreover, they indicate the dominant qualitative measurement of their effects compared with quantitative measurement and statistical analysis of economic parameters such as resource-use efficiency, rates of savings, investment, output growth, unemployment and inflation, etc. Springborg (Chapter 8) reminds us of this measurability difference. He says that criteria for the assessment of economic reform are 'reasonably standard and easily measured', while those for evaluating 'political structural adjustment are more ambiguous and there is less consensus about them'.

It is true that there are methodological problems in the study of institutional constituents of development. Yet, it is not necessarily true that no institutions and institutional changes are susceptible to quantitative measurement and economic analysis. Examples of measurable institutional effects that appear in this volume are: monopolistic profits made by influential business people; distributional effects of land reform, and so forth. In addition, there are measurable transaction costs incurred in substantial bribery payments, frequent litigation and delay in court procedures, deficiencies in property registration and in tax assessment and collection, as well as in banks' private debts recovery and employer-labourer relations. Many of these institutional constituents of the quality of business environment represent obstacles to direct foreign investment, and they are used as measurable criteria in the World Economic Forum's low ranking of Egypt's global competitiveness referred to earlier. Also, attempts have been made in recent years to establish numerical indicators of governance (e.g. accountability, civil and political freedoms, government effectiveness and rule of law, etc.) for several countries, including Egypt.⁵

In the political and social development arena, some consequences of institutional constraints are reflected in the narrative assessments made by Springborg (Chapter 8) Hussein (Chapter 9) and Hinnebusch (Chapter 10). They include the consequences of weakness in accountability and centralized administration, low rates of political participation, and government-imposed constraints on voluntary organizations to participate effectively as partners with government agencies in community-based social development programmes and in monitoring their functioning. Springborg deals extensively with elements of fundamental political infrastructure such as the form of government, the state and its institutions, the relationship between the state and individual citizens and civil society organizations. He also explores also the questions of how government-imposed constraints limit political participation and how the increased role of big private investors and traders in the economy – after the *Infatih* of the 1970s and economic reforms of the 1990s – is likely to influence policy-making. After employing a set of criteria for evaluating the political system in Egypt, Springborg concludes that appropriate infrastructure is essentially a task of drawing more citizens into

the making and implementation of public bodies that affect their lives, of opening up new channels of political participation such that the participation has a clearly demonstrable impact, in the sense that they realize that their lives are affected by public policy, and take steps to influence how it is made and implemented. Whether this fundamental challenge can be met is the key political issue confronting Egypt as it begins the new millennium.

On the same theme of government-imposed institutional constraints, Hussein (Chapter 9) underlines the historical fact that NGOs have, since the 1920s and 1930s, been the initiators of pioneering services in education, family planning, health care and participatory rural community development. She argues that they should be enabled to play a partnership role with government by way of the removal of government-imposed deterrences with regard to funding and freedom of association. Based on accumulated empirical evidence from two case studies, she points to the need for the bureaucracy to free itself from suspicion and fear both of the NGOs' successful voluntary involvement in social development activities and of the confidence placed on them by the United Nations and donor countries. She argues that the legitimacy of NGOs in undertaking a greater role in social development than ever before is justified by the post-1991 predominant role of the private sector. The greater role of NGOs is justified also by the magnitude of current social problems, the tackling of which is beyond the government's limited resources.

The central challenge

As we witness the beginning of the twenty-first century, the debate in Egypt's political and media forum has been preoccupied with the negative and

positive outcomes of post-1991 economic liberalization and deregulation of many post-1956 government restrictions on the functioning of the market mechanism. Unfortunately the debate is usually pro-state intervention and or pro-market free enterprises, ignoring the questions of *type* of policy and *kinds* of market as well as the *complementarity* between both, without making a distinction between authoritative and indicative planning and between the state and the government.⁶ As the reader will soon find out these are not simple questions and empirical experience is subjected to different interpretations.

Hinnebusch (Chapter 10) offers an interpretation of Egypt's development experience, underlining the interdependence between private investors' freedom that requires the legal backing of transactions and protection of property rights, on the one hand, and society's civil and political freedoms which expand economic opportunities for public welfare and poverty alleviation, on the other. He argues that the analysis of Egypt's development problems and prospects must take note of these connections and the emerging alliance between the state elite and business bourgeoisie which – as a kind of power-sharing – tends to hinder the enhancement of equitable development. To realize this enhancement, he urges Egypt to learn from others, and cites the successful market-based economic restructuring and democratization process in East Asian newly industrialized countries.

His review of Egypt's past experience leads him to conclude that 'the paralysis of economic liberalization in the 1980s was paralleled by a relative widening of democratization', by which trade unions, professional syndicates and opposition parties were empowered, while the accelerated economic liberalization in the 1990s 'has been paralleled by democratic reversal'. He adds that 'lop-sided political liberalization' made it possible for the parliament to remove, by a law of 1992, tenants' security rights granted by 1952 agrarian reform law. It is doubtful that such reversal would have taken place in a truly representative legislative body.

A concluding remark

The preceding discussion on the major themes of the book suggests that debates on strategic planning, policy choice and challenges of development have to be taken beyond the narrow and probably dull issues of economic liberalization and economic growth to what development is all about, with a focus on the enhancement of well-being. The concentration on the narrow sense of pure economic issues distracts attention from a broader view on meeting targets designed to reduce undernutrition, illiteracy and poverty. Also, it distracts attention from the interdependence between economic and political freedoms for reducing social inequalities and expanding opportunities to raise the living standard of present and future generations.

Having said this, I can say that taken together, the chapters of this volume have examined most of the development problems, policies and outcomes over the past half-century and the prospects during the foreseeable future.

Inevitably, saving and investment have been given a great deal of attention because they are critical determinants of economic growth (total and per person income), employment and poverty alleviation. Also, the study of economic and political institutions required more coverage than other dimensions of development. At the start of the twenty-first century, when the economy is being reorganized, this volume's identification of the overriding low productivity and deficient institutional infrastructure helps the reader, development analysts and policy-makers to have a comprehensive understanding of the determinants of past successes and failures and the limits of both government's and market's capacity and the requisites for their complementarity in future development. We realize that the process of transition of Egypt's economy from three decades of central planning, state monopolies and administered pricing to a competitive market economy is far from over. Above all, concentration on economic issues should not overshadow the highly important issues of political reforms, reduction of social inequalities and the expansion of social opportunities. Despite the progress made, this volume identified hard choices to be made about key challenges ahead, requiring forceful actions to realize Egypt's enormous potentials.

Notes

- * An earlier version was read by two anonymous reviewers, and all the contributors. I am grateful for their helpful comments.
- 1 See, for example, Charles Issawi, *Egypt at Mid-Century* (1953: chapters 1, 2 and 3), Robert Mabro, *The Egyptian Economy, 1952–1972* (1974: chapter 1), P.J. Vatikiotis, *The Modern History of Egypt* (1980 2nd edn) and Derrek Hopwood, *Egypt: Politics and Society 1945–90* (1991: 3rd edn: chapters 1 and 2).
- 2 Examples of these laws are: (1) Law No. 163 of 1957 and No. 159 of 1981 on banking transactions; (2) cooperative organizations' Law No. 122 of 1980 and its amendments in 1981; (3) Law No. 230 of 1989 on tax concessions and guarantees given to private investors; (4) labour relations and social insurance laws No. 91 of 1959, No. 35 and No. 79 of 1975, and No. 137 of 1981, and (5) several laws and Ministerial decrees prohibiting the transformation of cultivable land to non-agricultural purposes.
- 3 There is no consensus among economists, business management and the organizers of World Economic Forum (WEF) on the definition and measurement of competitiveness. However, there is an agreement about the shift from the comparative advantage of the Ricardian international trade theory based on specialization, natural endowments and labour costs towards key factors influencing productivity such as technological competence, skilled labour, the effectiveness of institutions and government regulatory practices, and the environment degradation. These new areas of emphasis as well as national income per head and openness to international trade constitute the core indicators used in the construction of both Current Competitiveness Index and Growth Competitiveness Index in the *Global Competitiveness Report 2000*, prepared jointly by the World Economic Forum, Geneva and Harvard University, and published by Oxford University Press. The Arabic-speaking reader is referred to my article 'Wad' Misr al-Tanafussi fi al-Iqtisad al-'Alami' (Egypt's competitive position in the world economy), *al-Ahram*, 8 February 2002, p. 10.
- 4 The neo-classical system of analytical reasoning is based on such unrealistic assumptions as perfect competition, rational behaviour, availability of complete information and zero transaction costs.

- 5 Numerical indicators for several developing countries including Egypt were estimated in 1999 by D. Kaufmann *et al.*, 'Governance Matters', Working Paper No. 2195, World Bank, Washington, DC and in *Arab Human Development Report (AHDR) 2002*, UNDP and Arab Fund for Economic and Social Development, Icons Printing, Amman, Jordan. See the institutional constituents in Chapters 1 and 7 of AHDR.
- 6 Functions of both the state and the market can take different forms, requiring a clarification of what type of state and what kind of market we are talking about. These differences are briefly explained in my review of Egypt's development strategies in Chapter 4. In simple terms, the state (*al-Dawla*) is a broader concept than the government (*Hukoma*). The state includes institutions within the political system such as governments, parliament or legislative body, political parties including the role given to the opposition, the citizens' civil and political rights provided by the constitution and laws, and upheld by the judiciary.

Part I

The level of development at the turn of the century

2 Evaluating development, 1980–1997*

Richard H. Adams, Jr.

Introduction

The purpose of this chapter is to evaluate the recent record of development in Egypt. To do this, it is first necessary to define development, which is a notoriously difficult term to delineate. Within the past decade one of the most commonly cited definitions of development is that contained in the Human Development Index (HDI). As set forth by the United Nations Development Program (UNDP), the HDI declares that:

Human development is a process of enlarging people's choices. In principle, these choices can be infinite and change over time. But at all levels of development, the three essential ones are for people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living.

(UNDP 1990: 10)

The HDI represents a useful definition of development, because it can be measured along three clearly defined dimensions: 'leading a long and healthy life' (longevity), 'acquiring knowledge' (educational achievement) and 'access to resources' (income). While each of these dimensions has its own type of limitations, in general, the HDI provides a good yardstick for comparing the recent developmental record in a country like Egypt with that of other developing countries. However, before pursuing such a comparison, it is necessary to consider how each of the three components of the HDI is defined.

To measure longevity, the HDI uses the variable of life expectancy at birth. Life expectancy at birth is a widely accepted way of measuring whether or not people can live 'a long and healthy life.' However, it is sometimes argued that life expectancy at birth is too gross a measure, because this variable is really an average of often widely dissimilar life expectancies for people from different regional (urban or rural), ethnic or cultural groups. Another more serious criticism of the variable life expectancy at birth is that this is an entirely quantitative measure that says nothing about the *quality* of life that is lived. Certainly, the quality of life is just as important as the number of years lived. However, to date, no one has devised a satisfactory method for comparing the quality of life between countries.

To measure educational achievement, the HDI uses the adult literacy rate. While this measure is also widely accepted, it has at least three limitations. First, it has been argued that literacy is difficult to measure and that it takes widely different amounts of effort to achieve literacy in different languages. Second, in many developing countries functional literacy is much lower than recorded literacy, and it is often not clear which variable is actually being measured. Third, adult literacy is a stock variable, which changes very slowly over time. For this reason, some critics have suggested that to show the rate of educational advance in developing countries it would be better to measure the mean years of schooling for those under the age of 25 (Smith 1992). Unfortunately, many developing countries – especially those in Africa – do not report data in this manner.

To measure access to resources, the HDI uses income. This is clearly the most controversial variable. On a technical level, there are a host of measurement problems: for example, how to measure income between different-sized households. Moreover, a single measure of income does not tell us much about what is happening to poverty within a country. In other words, if one of the goals of development is to reduce poverty, then the income variable needs to be coupled with some type of poverty measure.

In response to these criticisms, it has often been suggested that the income variable needs to be broadened. In addition to adding a poverty measure, another idea is to include some measure of the degree of inequality in ‘access to resources’. A final suggestion is to add some measure of the ability of people to increase their access to resources through changes in productivity. In many developing countries, qualitative changes in the basic economic units of production – labour and land – represent the best way for increasing people’s access to food and other resources. Building upon the preceding ideas, it is possible to take the original three components of the Human Development Index and create a modified and expanded HDI. At the turn of the century, this expanded HDI can then be used to ask five questions about Egypt’s recent development record: (1) What has been happening to life expectancy at birth? (2) What has been happening to adult literacy? (3) What has been happening to income and poverty? (4) What has been happening to inequality? and (5) What has been happening to productivity (labour and land)?¹

If Egypt has been experiencing progress in all five of these areas, then we can say that development has certainly taken place. However, if two or three of these components have been growing worse over time, then it would be difficult to claim that development has been taking place. It is, of course, possible to pose these five questions to Egypt’s development record for any time period. However, because a number of earlier studies have examined the process of development in Egypt during the 1960s and 1970s,² it seems useful to pose these questions for a more recent period of time, that is, 1980 to 1997. The year 1980 represents a good beginning point, since it roughly coincides with the start of President Mubarak’s presidency,³ and 1997 represents a good end point because it is the last year for which data are available at the time of writing (1999).

The balance of this chapter proceeds as follows. Sections 2 and 3 compare Egypt's recent record with respect to life expectancy and adult literacy with those of forty other developing countries. Sections 4 and 5 then use a series of Egyptian household budget surveys to compare changes in income, poverty and inequality over time. Section 6 compares recent changes in Egypt's land and labour productivity with those of forty developing countries. Section 7 evaluates the findings and discusses whether or not development has occurred in Egypt since 1980.

Life expectancy

The first component of our modified Human Development Index is life expectancy at birth. In the developing world as a whole, average life expectancy has risen by nearly a third since 1960, from 46 to 62 years (UNDP 1990: 19).

Since life expectancy has increased sharply throughout the developing world, it is important to compare Egypt's record on life expectancy with that of the *rate* of improvement in other developing countries. In other words, *absolute* improvements in life expectancy in Egypt over time may be nice, but they need to be compared to the rate of improvement in life expectancy in a broad selection of other developing countries.

Table 2.1 compares the improvement in life expectancy at birth in Egypt with that of the average of forty other developing countries. These countries have been selected using a two-stage process: first, all developing countries were divided into two groups on the basis of whether or not they ranked above Egypt in the 1998 HDI (UNDP 1998); second, twenty developing countries were randomly selected from those countries ranked above Egypt in the 1998 HDI index, and twenty developing countries were randomly selected from those ranked below Egypt.⁴ The table shows that over the period 1981 to 1995 Egypt's rate of improvement in life expectancy exceeded that of the average of forty other developing countries. During this period of

Table 2.1 Changes in life expectancy at birth, 1981–1995: Egypt vs. forty developing countries

	<i>Life expectancy at birth, 1981 (years)</i>	<i>Life expectancy at birth, 1995 (years)</i>	<i>Average annual percentage change,^a 1981–1995</i>
Forty developing countries ^b	59.3	64.6	+0.62
Egypt	57.0	64.8	+0.92

Sources: *Human Development Report* (UNDP, various years).

Notes

^a Average annual rates of change are weighted by population.

^b The forty developing countries include: Algeria, Argentina, Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Côte d'Ivoire, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Guinea, Honduras, India, Indonesia, Kenya, Laos, Madagascar, Malaysia, Mexico, Morocco, Nepal, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Senegal, Sri Lanka, Syria, Thailand, Tunisia, Turkey, Venezuela, Yemen and Zimbabwe.

time, life expectancy in Egypt improved at an annual rate of 0.92 per cent per year, while the average of the forty countries rose by only 0.62 per cent per year. One of the main reasons for the high rate of improvement in life expectancy lies in the dramatic progress recorded in child survival. The under-5 (years) mortality rate in Egypt has fallen from 175 in 1980 to 66 in 1996: this represents a 5.91 annual per cent *decline* in the infant mortality rate. By contrast, during the same period of time the under-5 (years) mortality rate in the forty comparison developing countries only declined by an average 3.37 per cent per year. With far fewer infant deaths per year, life expectancy in Egypt has grown faster than that in other developing countries.

Two factors seem to account for these impressive improvements in life expectancy and infant mortality in Egypt. First, the ever-increasing supply of doctors and public health clinics, especially in the countryside, has done much to improve the delivery of modern health and medical facilities to the poor. Of particular importance here has been the ability of public and private health clinics to disseminate oral rehydration therapy (ORT) packets to mothers. These ORT packets use a simple mixture of sugar, salt and water to prevent young children from dying of dehydration during severe bouts of diarrhoea. In 1980 dehydration from diarrhoea killed over 100,000 young children a year; in 1995 fewer than half that number died of this illness (Richards and Waterbury 1996). Second, the Egyptian Government has taken a number of steps to improve household access to safe water and sanitation facilities. According to the latest census, over 92 per cent of urban households and about 53 per cent of rural households now have access to piped public water in their houses (El-Zanaty *et al.* 1996: Table 2.6). These developments have done much to reduce the incidence of water-borne diseases and parasites throughout the country. While schistosomiasis (bilharzia), a debilitating disease which is transmitted by contact with polluted water, still remains endemic in rural Egypt, even this disease can be treated by a regularly-applied regimen of praziquantel and other drugs.

Adult literacy

In the developing world, rapid improvements in education have sharply increased the numbers of people who can read and write. For example, the literacy rate for men in the developing world as a whole rose from 48 per cent in 1970 to 71 per cent in 1995 (UNDP 1998: 151). Table 2.2 compares the improvement in adult literacy in Egypt with that of the average of forty other developing countries. The results are disappointing. Between 1980 and 1995 the annual rate of improvement in adult literacy in Egypt (1.04 per cent) was much less than that of the average of the forty developing countries (1.43 per cent). What are the reasons for this?

The answer to this question lies in the character of the Egyptian educational system. Literacy rates remain low and children remain out of school because of a variety of urban and gender biases. Throughout Egypt, enrolment rates

Table 2.2 Changes in adult literacy, 1980–1995: Egypt vs. forty developing countries

	<i>Adult literacy rate, 1980 (per cent)</i>	<i>Adult literacy rate, 1995 (per cent)</i>	<i>Average annual percentage change,^a 1980–1995</i>
Forty developing countries ^b	55.8	69.0	+1.43
Egypt	44.0	51.4	+1.04

Sources: *Human Development Report* (UNDP, various years).

Notes

^a Average annual rates of change are weighted by population.

^b The forty developing countries include: Algeria, Argentina, Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Côte d'Ivoire, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Guinea, Honduras, India, Indonesia, Kenya, Laos, Madagascar, Malaysia, Mexico, Morocco, Nepal, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Senegal, Sri Lanka, Syria, Thailand, Tunisia, Turkey, Venezuela, Yemen and Zimbabwe.

in rural areas are lower than those in urban areas, and dropout rates are higher. For example, in 1995 over 92 per cent of urban Egyptians aged 6 to 10 were in school, while only 69 per cent of rural Upper Egyptian children (and 54 per cent of rural Upper Egyptian girls) in this age group were in school (El-Zanaty *et al.* 1996: Table 2.5). Many rural children, especially boys, leave school at various points during the year in order to work, and end up either repeating grades or never learning basic reading and writing skills. The reasons for all of this lie in both supply and demand. In rural areas many children are far from any school. In rural (and urban) areas if separate schools for males and females do not exist, more conservative parents tend to keep their young girls at home. At the same time, many families see no point in educating all of their children. It is common for families (especially in rural areas) to make sacrifices to educate at least one son in the hope that he will be able to obtain a secure government job (Adams 1986). Educating all of the boys, and especially all of the daughters, is simply too expensive and thus has low priority. Rural and urban children can and do contribute to family budgets by tending animals, harvesting crops, becoming apprentices and working in shops.

However, it is not simply high costs, social attitudes and household economics that have slowed the spread of adult literacy in Egypt. Government allocations to education in Egypt have simply not made the attainment of universal literacy much of a priority. Richards and Waterbury write:

Egypt provides [a] striking case of class bias in education. Forty years after Nasser's revolution, less than half of adult Egyptians can read and write, while the country boasts 13 universities. Nearly 30 per cent of educational spending goes to universities. Between 1952 and 1977 (primary school enrollment rose by 7 per cent per annum, secondary enrollment by 14 per cent, and university enrollment by 32 per cent). . . . None of this makes educational or economic sense.

(Richards and Waterbury 1996: 119)

In other words, until policymakers begin allocating less funds to university education, and more funds to primary education, it is unlikely that Egypt will be able to improve much on its disappointing rate of growth in adult literacy. More public monies need to be allocated to primary education, where people learn to read and write.

Income and poverty

The third component of our modified HDI is income, that is, the amount of income 'needed for a decent standard of living'. Since a single measure of income does not tell us anything about what is happening to poverty within a country, the income variable needs to be supplemented with some type of poverty measure that shows us how many people are living in poverty.

In Egypt no single source of data can be used to estimate changes in the number of poor people over time. The most reliable set of data come from a series of household budget surveys done by the governmental Central Agency for Public Mobilization and Statistics (CAPMAS) in 1981/82, 1990/91 and 1995/96. Since they are large, nationally representative surveys,⁵ these three CAPMAS studies provide the basis for a broad overview of changes in poverty over time. However, it should be noted that the three CAPMAS studies are based on *expenditure* rather than income data. This is a common approach used in household budget surveys in the developing world for at least three reasons. First, many researchers believe that people are more willing to report their patterns of expenditures rather than their sources of income. Second, since people use savings to smooth fluctuations in income, expenditures provide a more accurate measure of an individual's welfare over time. Third, expenditure is often easier to measure than income because of the difficulties of defining and measuring income for the self-employed in agriculture who form a large proportion of the labour force.

One way of using the CAPMAS expenditure surveys to measure changes in poverty over time is to establish a poverty line, defined as the break-even level of expenditures needed to meet minimum food and non-food requirements. Table 2.3 shows calculations done by the Egyptian Institute of National Planning (INP) for the amount of expenditures *per capita* needed to meet minimum food requirements in each of the three CAPMAS survey years.⁶ To these minimum food costs, minimum non-food expenditures are added for each survey year.⁷ The result is a poverty line (food and non-food) – defined in both current and real 1990/91 prices – for each CAPMAS survey year.

The Incidence of poverty: headcount index

Before proceeding, it should be noted that the manner in which INP has defined the poverty line for each CAPMAS survey year is arbitrary, and has at least three limitations. First, nutritional data on Egypt are relatively sparse. Since CAPMAS does not release the results of its surveys in individual household form, it is unclear how the INP calculated nutritional requirements

Table 2.3 Incidence of poverty in urban and rural Egypt, 1981/82 to 1995/96

	<i>Urban</i>			<i>Rural</i>		
	1981/82	1990/91	1995/96	1981/82	1990/91	1995/96
Food-based poverty line ^a (per capita per year in LE)	NA	NA	702	NA	NA	512
Food and non-food poverty line ^b (per capita per year in LE)	139	556	968	110	423	696
Food and non-food poverty line in 1990/91 prices (per capita per year in LE)	555	556	549	422	423	431
Headcount index (percent of population below food and non-food poverty line)	18.2	20.3	22.5	16.1	28.6	23.3

Source: CAPMAS surveys as reported in Institute of National Planning (1996: Table 2.7).

Notes

NA=not available. In 1997, 1 Egyptian LE=US\$0.29.

^a Food-based poverty line equals cost of diet per adult equivalent unit to yield energy intake of 2,200 calories per day.

^b To estimate non-food poverty line, Engel curves were fitted by which the food share was regressed on the log of total per capita expenditure and household size.

for individuals of different age, sex and occupation within specific urban and rural households. Second, in most developing countries food and non-food prices vary by region. For example, the cost of adequate housing in urban areas is often two to three times that of rural areas. Unfortunately, it is not clear how the INP took such regional price variation into account in calculating its food and non-food poverty lines. Third, for the reasons mentioned above, it should be emphasized that all of the poverty lines in Table 2.3 are based on consumer *expenditure* rather than income data. Thus, no account is taken of the saving or dissaving behaviour of the various income groups. This omission probably gives a slight downward bias to the poverty lines calculated by the INP, since the bulk of dissaving activity typically occurs at the lower end of the income distribution.

Despite these limitations, the poverty line estimates in Table 2.3 seem to provide a reasonably accurate approximation of reality in urban and rural Egypt. For instance, the estimate of the incidence of rural poverty in 1981/82 (16.1 per cent) corresponds quite closely to that estimated by Adams (1985: Table 1) for rural Egypt in 1982 (17.8 per cent). Table 2.3 shows that the incidence of poverty has increased slightly over time. Between 1981/82 and

1995/96 the share of the population living in poverty in urban Egypt increased from 18.2 to 22.5 per cent, and the share of the population living in poverty in rural areas rose from 16.1 to 23.3 per cent.

Before attempting to explain the reasons for this rise in poverty, it is useful to supplement the results of the three CAPMAS surveys in Table 2.3 with those of a new 1997 household budget survey conducted in Egypt by the International Food Policy Research Institute (IFPRI), working together with the Egyptian Ministry of Agriculture and the Egyptian Ministry of Trade and Supply. The 1997 IFPRI survey is useful because – unlike the various CAPMAS surveys – its results are available at the individual household level. The survey was designed to collect detailed expenditure data on all of the main food and non-food items for a nationally representative sample of households in Egypt. It was a single-round survey that included about 2,500 urban and rural households from twenty different Egyptian governorates. The sample frame used for selecting households was supplied by CAPMAS from its 1990/91 survey.⁸

Unfortunately, average *per capita* expenditures in the 1997 IFPRI survey turned out to be 37 per cent larger than those in the 1995/96 CAPMAS survey. That is, average annual per capita expenditures (in 1997 terms) in the 1997 IFPRI survey are LE1,944 (US \$563) versus LE1,417 (US \$411) for the 1995/96 CAPMAS survey. In both surveys expenditures are measured in a similar fashion, as the sum of food expenses, total non-food expenses and an estimated use or actual purchase value of durable goods.⁹ The reasons for this large difference in the level of measured expenditures between these two household surveys are not clear. A thorough examination of the sources of this difference would require access to the individual household-level data of the 1995/96 CAPMAS survey. However, it should be noted that while both surveys include data on the value of durable goods, in the 1997 IFPRI study durable goods account for 16 per cent of total *per capita* expenditures; in the 1995/96 CAPMAS study they account for only 3 per cent of such expenditure. While the large difference in the measured level of expenditures between the two surveys may seem to call into question any analysis of poverty which is based on one or the other survey, in fact, when adjustments are made for the very dissimilar levels of expenditure, there is considerable agreement on how the two surveys identify the poor. For example, both surveys find that the poor in Egypt are more likely to have low levels of education, be unemployed and/or to work in casual jobs in agriculture or construction.

Like the various CAPMAS surveys, the 1997 IFPRI survey establishes a poverty line based on certain minimum food and non-food requirements.¹⁰ Since the average level of expenditures in the IFPRI study is much higher than that of the CAPMAS study, the average poverty line (food and non-food) used by IFPRI is also higher. In urban areas, the IFPRI poverty line is 21 per cent higher (LE1,232 *per capita* per year) than the 1995/96 CAPMAS survey, and in rural areas the IFPRI poverty line is 28 per cent higher (LE868 per capita per year) than the earlier CAPMAS survey.¹¹ Using this poverty line, the 1997 IFPRI study estimates that 22.5 per cent of the urban population

and 24.3 per cent of the rural population was poor in 1997. Since these figures are very similar to those produced by the 1995/96 CAPMAS study (Table 2.3), they corroborate the trends in urban and rural poverty noted above. In other words, if the 1997 IFPRI results are accepted, in urban Egypt during the period under review the share of the poor in the population increased from 18.2 to 22.5 per cent and in rural Egypt the share rose from 16.1 to 24.3 per cent.

The poverty gap index

Thus far, the analysis here has focused on using the headcount index to measure the percentage of the population living beneath the poverty line in different years. However, this method of approach ignores the amounts by which the expenditures of the poor fall short of the poverty line. It is therefore important to supplement the headcount index with more sophisticated poverty measures. One such measure is the poverty gap index. This index measures in percentage terms how much the average expenditures of the poor fall short of the poverty line. For instance, a poverty gap of 10 per cent means that the average poor person's expenditures are 90 per cent of the poverty line. While the poverty gap index measures the depth of poverty, another measure – the squared poverty gap index – indicates the severity of poverty. The squared poverty gap index possesses useful analytical properties, because it is sensitive to changes in distribution among the poor. In other words, while a transfer of expenditures from a poor person to a poorer person will not change the headcount index or the poverty gap index, it will decrease the squared poverty gap index.

Table 2.4 presents the changes in the poverty gap index and the squared poverty gap index for the three CAPMAS survey years, as well as the 1997 IFPRI survey. The results are similar to those presented above. According to both indices, there was a slight increase in both the depth and severity of poverty during the period 1981/82 to 1995/96 (or 1997). For urban areas, the poverty gap index rose from 3.5 to 4.9 (5.6 in 1997) and the squared poverty gap index increased from 0.9 to 1.6 (2.0 in 1997). Similar rates of increase in the depth and severity of poverty occurred in rural areas. The key question now becomes: Why did poverty rise in urban and rural Egypt after 1982? The best answer to this question seems to lie in the faltering rate of economic growth in Egypt in recent years. During the oil-price revolution of the 1970s, the real gross domestic product (GDP) in Egypt grew at an impressive average rate of 7.4 per cent per year. However, after the collapse of oil prices in the mid 1980s, and the concomitant slowdown in Egyptian worker migration abroad,¹² the rate of real GDP growth in Egypt fell. According to Table 2.5, real GDP growth declined from an average 7.4 per cent per year in 1980–85 to 4.6 per cent per year in 1985–90. Finally, the combined impact of the 1990 Persian Gulf War, the slow pace of privatization and structural reform in Egypt and low rates of domestic savings all served to lower the average rate of real GDP growth even further: to a mere 3.8 per cent per year in 1990–95.¹³

Table 2.4 Poverty indices in urban and rural Egypt, 1981/82 to 1997

	<i>Urban</i>				<i>Rural</i>			
	<i>1981/82</i>	<i>1990/91</i>	<i>1995/96</i>	<i>1997</i>	<i>1981/82</i>	<i>1990/91</i>	<i>1995/96</i>	<i>1997</i>
Poverty gap index ^a	3.5	4.3	4.9	5.6	3.1	4.5	4.3	6.4
Squared poverty gap index ^b	0.9	1.1	1.6	2.0	0.8	1.4	1.2	2.5

Sources: CAPMAS 1981/82 to 1995/96 figures from Institute of National Planning (1996: Table 2.7); 1997 figures calculated from 1997 IFPRI survey.

Notes

^a The poverty gap index is defined by the mean distance below the poverty line expressed as a proportion of that line, where the mean is formed over the entire population, counting the poor as having zero poverty gap. This index reflects both the depth of poverty, as well as its incidence.

^b The squared poverty gap index is defined as the mean of the squared proportionate poverty gaps. This index reflects the severity of poverty, and is sensitive to distribution among the poor.

Commenting on the reasons for the recent slowdown in economic growth in Egypt, Amin writes:

Between 1975 and 1985 the annual rate of growth of GDP in Egypt was 8.5 per cent in real terms, a rate which was rarely experienced in Egypt's modern history. . . . [However] the collapse of oil prices in 1986 revealed how fragile the economic structure [in Egypt has become] . . . [Development] since the mid-1970s has been merely the result of regularly injecting the economy with external sources of income or capital, whether in the form of foreign aid, labour remittances or higher oil prices, all of which have little relation with an increase in productive activity [in Egypt].

(Amin 1995: 115–16)

Table 2.5 Average annual growth rates of real gross domestic product (GDP) in Egypt, 1980 to 1996 (percentage change)

	1980	1981	1982	1983	1984	1985	1986	1987	
Real GDP growth	10.0	3.9	10.3	7.5	5.8	6.7	2.6	2.5	
Real GDP growth, per capita	–	–2.1	4.0	0.6	3.6	3.9	0.1	1.1	
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Real GDP growth	5.4	5.0	5.7	1.1	4.4	2.9	3.9	4.6	5.1
Real GDP growth, per capita	2.2	1.9	2.6	–1.4	2.6	0.6	1.7	2.3	2.8

Source: *International Financial Statistics* (IMF, various years).

Note

Fiscal year ends June 30.

As the rate of economic growth declined, so did the level of real wages in Egypt. Between 1980/81 and 1994/95 real wages fell across *all* sectors of the Egyptian economy (see data in Chapter 5). For example, the real wage index declined from 100 in 1985/86 to 68.6 for agriculture and 68.4 for industry in 1994/95. Both the size and extent of these real wage declines are surprising, because they seem to have affected both the ‘free market’ and the ‘public’ sectors of the economy with equal severity. For instance, agriculture has always had a virtually free market wage system, with the laws of supply and demand setting daily wage levels. By contrast, government has had a very rigid wage system, with annual wage increases being pegged closely to increases in seniority. Yet the recent fall in real wages in Egypt seems to have affected both sectors of the economy – agriculture and government – with equal vengeance.

The decline in real wages has probably been a major factor leading to the recent rise in urban and rural poverty. According to the 1997 IFPRI survey, the poor in Egypt are most likely to be employed in casual jobs in construction and agriculture (Datt *et al.* 1998). In the late 1970s and early 1980s, as remittance monies flowed back into Egypt, the construction industry boomed and so the poor were literally able to work their way out of poverty by helping to build new apartments and office buildings (Adams 1986). However, as the pace of economic growth slowed, and the number of construction jobs declined, so did the level of real wages paid in this sector. Similarly, in the rural areas the large-scale migration of unskilled workers abroad in the late 1970s and early 1980s caused the real wages paid to casual agricultural workers to rise.¹⁴ However, after 1985 when international migration opportunities for poor, unskilled workers narrowed, real wages paid to agricultural workers also fell by over 40 per cent from 1985 to 1990 (Richards 1994: 243). Such a dramatic decline in real agricultural wages must have had a very negative impact on the rural poor.

Inequality

The fourth component of our modified HDI is inequality. This component measures equality in ‘access to resources’ needed for attaining a decent standard of living. One familiar way of measuring the degree of inequality in access to resources – in this case, income or expenditures – is the Gini coefficient. The Gini coefficient, which is scaled from 0 (perfect equality) to 1 (perfect inequality), shows cumulative proportions of income or expenditures received by cumulative proportions of recipients. As calculated from the data in the three CAPMAS surveys, Table 2.6 shows that the Gini coefficient of expenditure for urban areas increased from 0.322 in 1981/82 to 0.331 in 1995/96; if the 1997 IFPRI survey is included, the Gini coefficient rose even further to 0.385. For rural areas, the results are more contradictory. Data from the three CAPMAS surveys indicate that the Gini coefficient fell from 0.275 to 0.235; however, if the IFPRI survey is included, the Gini rose to 0.321 in 1997. On the one hand, these figures suggest an expenditure distribution which is generally egalitarian by developing country standards. For example, Gini coefficients

Table 2.6 Distribution of expenditure by expenditure group in urban and rural Egypt, 1981/82 to 1997

<i>Percentage of total per capita expenditure accruing to:</i>		<i>Urban</i>				<i>Rural</i>			
		<i>1981/82</i>	<i>1990/91</i>	<i>1995/96</i>	<i>1997</i>	<i>1981/82</i>	<i>1990/91</i>	<i>1995/96</i>	<i>1997</i>
Lowest	20%	8.4	8.2	8.4	5.4	10.2	7.0	11.3	6.6
Bottom	40%	21.0	20.3	20.4	14.8	24.6	19.7	25.7	17.7
Middle	40%	38.0	36.7	37.4	36.5	40.0	37.2	39.5	36.3
Top	20%	41.0	43.0	42.2	48.7	35.4	43.1	34.8	46.0
Top	10%	26.1	28.1	27.7	32.7	21.5	28.2	21.1	30.4
Gini									
coefficient ^a		0.322	0.340	0.331	0.385	0.275	0.360	0.235	0.321

Sources: CAPMAS 1981/82 to 1995/96 figures from Institute of National Planning (1996: Table 4.5); 1997 figures calculated from 1997 IFPRI survey.

Notes

^a The Gini coefficient is an index commonly used to measure the inequality of a distribution of expenditure. It can be represented as:

$$G = \frac{2}{n\mu} \text{cov}(y, r)$$

where n is the number of observations, μ is mean expenditure, y is the series of total expenditures, and r is the series of corresponding ranks of expenditure.

of expenditure for urban and rural areas in Algeria, Jordan and Tunisia range between 0.39 and 0.43. On the other hand, however, the figures in Table 2.6 suggest that the distribution of expenditures in Egypt does not show any significant improvement over time in Egypt. More will be said about this below.

Another way of measuring changes in expenditure distribution is by quintile groups. Table 2.6 also presents data on the loss or gain in expenditure for the top and bottom income quintile groups for the various surveys. Using the data from the three CAPMAS surveys, in urban areas there was absolutely no change in the percentage of total expenditures going to the lowest quintile group. However, using the IFPRI survey there was a large decrease in the percentage of total expenditures in urban areas going to the bottom quintile group in 1997. Data from the three CAPMAS surveys suggest that the percentage of expenditures in rural areas going to the lowest quintile group increased slightly: from 10.2 to 11.3 per cent. However, the IFPRI survey suggests that the percentage of total expenditures in rural areas going to the bottom quintile group fell to 6.6 per cent in 1997.

In summary, the data in Table 2.6 suggest quite different conclusions regarding trends in inequality in Egypt. In urban areas, the data suggest that the distribution of income worsened during the period under review. Between 1981/82 and 1995/96 the Gini coefficient of expenditures in urban Egypt increased by 2.8 per cent; if 1997 is added as an endpoint, then the Gini

coefficient increased by a full 19.8 per cent. For rural Egypt, however, the data suggest no clear findings. Of particular concern is the remarkable fluctuations in the Gini coefficient of inequality: from 0.275 to 0.360 between 1981/82 and 1990/91, and from 0.235 to 0.321 between 1995/96 and 1997. Under normal circumstances, Gini coefficients simply do *not* show such large changes over such short periods of time. In theory, the expenditures of households should be relatively stable over time, that is, they should not 'bounce' around from year to year in the manner indicated by the figures for rural Egypt in Table 2.6. In all likelihood, the large and unusual changes in these Gini coefficients are caused by measurement error. In other words, because many transactions in rural Egypt are non-monetized, measuring the expenditures of rural households is more difficult than measuring those in urban Egypt. For example, problems such as measuring the value of home-produced food items and measuring the value of goods received as payment in kind render it more difficult to accurately measure household expenditures in rural Egypt.

In any event, it is important to place these findings regarding changes in inequality in urban and rural Egypt within the context of the pattern observed in other developing countries. Kuznets' hypothesis (1963, 1966) in fact, suggests that inequality actually increases during the early stages of economic development, and only begins to decline in the later stages. Ahluwalia's econometric results (1974, 1976) also support the position that inequality and development are related in an inverted U-shaped manner. While more recent studies, such as Deininger and Squire (1996) and Anand and Kanbur (1993), have questioned the validity of this inverted U-shaped relationship between inequality and development, it seems important that in Egypt only urban income inequality – and not rural income inequality – rose during the period under analysis.

Productivity

The fifth, and final, component of our modified HDI is productivity. In many developing countries, qualitative changes in the basic economic units of production – labour and land – represent the best way for increasing people's access to food and other resources. In urban Egypt qualitative increases in labour productivity seem vital for spurring on growth and reducing poverty. However, since rural Egypt is land-scarce but labour-rich, the real need in rural areas is for qualitative increases in land productivity. In a country like Egypt, which has about 0.05 hectares of cultivable land per person, coaxing higher yields out of a limited land base represents the basic conundrum facing national policy-makers.

Turning first to the question of labour productivity, Table 2.7 compares the growth of labour productivity in industry in Egypt with that of the average of twenty-two other developing countries. While certain data deficiencies make it difficult to accurately compare growth in labour productivity between countries,¹⁵ the figures in Table 2.7 are suggestive. Between 1980–84 and 1992–96 the average annual rate of growth of labour productivity in industry

Table 2.7 Average annual growth rates^a of labour productivity in industry, 1980/84 to 1992/96: Egypt vs. twenty-two developing countries

	<i>Average annual growth in industry, value added^b (per cent)</i>	<i>Average annual growth in paid non-agricultural employment</i>	<i>Average annual growth in labour productivity in industry</i>
Twenty-two developing countries ^c	+7.39	+1.46	+5.93
Egypt	+4.72	+3.79	+0.93

Sources: Industrial GDP growth rates from World Bank, *World Tables* (various years). Growth in paid non-agricultural employment from ILO, *Yearbook of Labour Statistics* (various years).

Notes

^a Average annual growth rates are weighted by population.

^b Average annual growth in industry, value added, is measured in constant local currency units.

^c Lack of data forced the exclusion of eighteen of the forty comparison countries. The twenty-two developing countries include: Brazil, Chile, China, Colombia, El Salvador, Guatemala, Honduras, India, Indonesia, Kenya, Malaysia, Mexico, Pakistan, Panama, Paraguay, Peru, Philippines, Sri Lanka, Thailand, Turkey, Venezuela, and Zimbabwe.

for the twenty-two developing countries was *much* higher than that for Egypt: 5.93 versus 0.93 per cent.

Three reasons can be cited for Egypt's low rate of growth in labour productivity. First, since 1991 the Egyptian government has pursued an ambitious structural adjustment programme. This programme emphasizes government fiscal retrenchment, including efforts to reduce both the size and the role of the government and public sector work force. The goal here is stimulate economic growth by making the private sector become the engine of employment and economic growth. For this reason, the figures in Table 2.8 are surprising. They suggest that in terms of annual growth rates of employment, the government is *still* the leading sector. For example, between 1986 and 1995 (the last year for which data are available), the rate of employment growth in government was 5.02 per cent per year, about two and one-half times the growth rate of the private sector (1.92 per cent). In other words, during the period under review the government has remained the leading source of employment growth in Egypt, and this, in all likelihood, has had a negative impact on efforts to raise labour productivity.

The second reason is closely allied with the first. As efforts to dislodge the government as the leading sector of the economy faltered, so did efforts to privatize the economy. Law 203 of 1991 established the legal basis for privatization in Egypt by removing 314 public sector enterprises from the control of government ministries. However, subsequent efforts to privatize these 314 public sector enterprises proceeded slowly and in piecemeal fashion. By 1998, seven years after the passage of the initial law, only about one-third of the public sector firms (113 of 314 enterprises) had been even partially privatized. The factors explaining this slow progress are many and varied, including the obstructive attitude of public officials and problems over

Table 2.8 Distribution of working Egyptians by economic sector, 1986–1995

Sector	Number of persons (‘000) ^a		Average annual growth rate (per cent)
	1986	1995	
Government ^b	2,545	3,955	5.02
Public Sector ^c	1,287	1,358	0.60
Private ^d	8,062	9,565	1.92
Joint venture	–	106	–
Cooperative	–	74 ^e	–
Foreign	11	–	–
Not described	14	–	–
Total	11,919	15,058	2.63

Sources: 1986 figures from CAPMAS Population Censuses. 1995 figures from CAPMAS, *Labour Force Survey* (1996, in Arabic).

Notes

^a For 1986, working Egyptians include persons age 6 and over. For 1995, working Egyptians include persons age 15 and over.

^b Government includes the central government, which is organized into different ministries, and local government, which is organized on a regional basis into twenty-six governorates.

^c Public sector includes state-owned companies and enterprises, about half of which are engaged in manufacturing.

^d Private sector include those working in agriculture; in 1995 about half of those in the private sector were working in agriculture.

^e In 1995, cooperative and foreign sectors are combined.

how to value unprofitable and overstaffed public sector firms. In any event, while the government may have slowed down the rate of employment growth in the public sector,¹⁶ efforts to privatize state-owned enterprises and convert them into an engine of economic growth have not yet materialized.

The third reason is the low level of public and private investment in Egypt. According to Table 2.9, gross domestic investment (as a share of GDP) peaked at 35.9 per cent in 1987/88, and has been in decline ever since. Part of this decline is due to the decrease in public investment over time, which is largely desirable because it signals a reduction of government involvement in the commercial sector. However, this contraction in public investment has not been coupled with any significant increase in private investment. Although private investment has gathered some strength in the 1990s (Table 2.9), its current level (9 per cent of gross national income in 1995/96) remains well below that prevailing in the fast-growing Asian economies (24 per cent of gross national income in 1996). Without higher levels of private investment, particularly in such key sectors as manufacturing industry and communications, it will be difficult to stimulate the growth of labour productivity.

With respect to the issue of land productivity, the results are more encouraging. On the one hand, it is important to recognize that Egyptian crop yields are already very high by world standards. For example, in recent years, no developing country has posted higher wheat or rice yields than Egypt.¹⁷ However, it must be remembered that Egyptian crops – unlike those in most

Table 2.9 Gross domestic investment in Egypt, 1986/87 to 1995/96 (per cent)

<i>Share</i>	<i>1986/87</i>	<i>1987/88</i>	<i>1988/89</i>	<i>1989/90</i>	<i>1990/91</i>
Shares of gross domestic investment (GDP)	26.1	35.9	32.6	29.1	21.9
Shares of gross national income (GNI)	23.4	31.9	29.3	26.7	20.1
Gross domestic investment					
Public sector ^a	15.5	20.7	13.6	13.6	12.5
Private sector	8.8	11.3	15.7	13.0	7.6
	<i>1991/92</i>	<i>1992/93</i>	<i>1993/94</i>	<i>1994/95</i>	<i>1995/96</i>
Shares of gross domestic investment (GDP)	18.2	16.2	16.6	16.3	16.6
Shares of gross national income (GNI)	17.0	14.8	15.8	15.5	16.0
Gross domestic investment					
Public sector ^a	10.0	8.2	7.5	6.6	6.5
Private sector	7.1	6.6	8.3	8.9	9.4

Source: World Bank, *Egypt in the Global Economy* (1998: Table 2.1).

Note

^a Public sector includes central and local government, and public sector enterprises.

other countries – are almost 100 per cent under irrigation. If only *irrigated* yields were compared between countries, Egyptian yields would still show room for improvement, considering the excellent soil, sunshine and water inputs existing in rural areas. Table 2.10 compares the growth in Egyptian yields for cereals with those of the average of forty other developing countries. The data show that between the two periods 1980–84 and 1992–96 the Egyptian rate of growth in output per hectare far exceeded that of the average of thirty-six other developing countries: 2.90 versus 2.25 per cent. The reason for this is simple. After 1990 the Egyptian government removed a myriad of production and marketing controls on the most important cereal crop in Egypt: wheat. As the profitability of wheat increased, Egyptian farmers responded with ever-increasing wheat yields. Between the same two periods (1980–84 and 1992–96) wheat yields per hectare in Egypt increased at an impressive average rate of 3.7 per cent per year.¹⁸

The pattern of productivity growth in urban and rural Egypt therefore seems to be quite different, and the reasons for this difference are illuminating. In urban areas labour productivity has grown at a disappointing rate because of the slow progress of privatization and efforts to raise worker productivity in many overstaffed and technologically inefficient public sector enterprises have not met with much success. By contrast, in rural areas the main unit of production – land – has always been in private hands. Thus, when the government loosened its control over the production and marketing of wheat and other crops, the farmer was able to respond quickly and efficiently to new market signals.

Table 2.10 Average annual growth rates^a of cereal production, area harvested and output per hectare for cereals,^b 1980/84 to 1992/96: Egypt vs. forty developing countries (per cent)

	<i>Total cereal production</i>	<i>Area harvested</i>	<i>Output per hectare</i>
Forty developing countries ^c	+1.80	-0.63	+2.12
Egypt	+5.26	+2.29	+2.90

Source: FAO, *Production Yearbooks* (various years).

Notes

^a Average annual growth rates are weighted by population.

^b Cereals include: wheat, rice (paddy), coarse grains, barley, maize, rye, oats, millet and sorghum.

^c The forty developing countries include: Algeria, Argentina, Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Côte d'Ivoire, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Guinea, Honduras, India, Indonesia, Kenya, Laos, Madagascar, Malaysia, Mexico, Morocco, Nepal, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Senegal, Sri Lanka, Syria, Thailand, Tunisia, Turkey, Venezuela, Yemen and Zimbabwe.

Conclusion

This chapter has used a modified Human Development Index to evaluate the recent process of development in Egypt. According to this modified HDI, development requires changes in five key components: (1) life expectancy at birth; (2) adult literacy; (3) income and poverty; (4) inequality; and (5) productivity (labour and land). Table 2.11 summarizes the findings when this HDI is applied to Egypt.

In Table 2.11, when separate variables are included for urban and rural areas for several of the components, only two of the eight measured variables – life expectancy at birth and productivity (land) – show rates of improvement which exceed those of their relevant benchmarks. Life expectancy at birth has improved at a rate faster than other developing countries because of dramatic progress in child survival rates. Land productivity in Egypt has also improved at a rate faster than that of other developing countries because of substantial progress in boosting cereal (especially wheat) crop yields. However, five of the measured variables in Table 2.11 – adult literacy, income and poverty (urban and rural), inequality (urban), and productivity (labour) – show rates of improvement which are *below* their relevant benchmarks.¹⁹ This is disturbing, especially those rates of change relating to poverty and inequality. With respect to poverty, all of the poverty measures used in this chapter – headcount index, poverty gap index and squared poverty gap index – suggest that the incidence, depth and severity of poverty increased in both urban and rural Egypt between 1981/82 and 1997. With respect to inequality in urban Egypt, income inequality as measured by the Gini coefficient of expenditures has increased by about 3 per cent between 1981/82 and 1995/96.²⁰

In summary, it seems reasonable to conclude on the basis of the evidence presented here that development – as measured by the components of our modified HDI – did *not* take place in Egypt during the years 1980 to 1997.

Table 2.11 A summary of Egypt's developmental record, 1980–1997

<i>Variable/component</i>	<i>Egypt's developmental record, 1980–1997</i>	<i>Basis of evaluation</i>
1 Life expectancy at birth	Improving faster than average of 40 developing countries	40 developing countries ^a
2 Adult literacy	Not improving as fast as average of 40 developing countries	40 developing countries ^a
3 Income and poverty		
Urban	Poverty increasing ^b	Egypt household budget surveys ^c
Rural	Poverty increasing ^b	Egypt household budget surveys ^c
4 Inequality		
Urban	Inequality increasing ^d	Egypt household budget surveys ^c
Rural	Unclear ^e	Egypt household budget surveys ^c
5 Productivity		
Labour	Not improving as fast as average of 22 developing countries	22 developing countries ^f
Land	Improving faster than average of 40 developing countries	40 developing countries ^a

Notes

^a The forty developing countries include: Algeria, Argentina, Bangladesh, Bolivia, Brazil, Chile, China, Colombia, Côte d'Ivoire, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guatemala, Guinea, Honduras, India, Indonesia, Kenya, Laos, Madagascar, Malaysia, Mexico, Morocco, Nepal, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Senegal, Sri Lanka, Syria, Thailand, Tunisia, Turkey, Venezuela, Yemen and Zimbabwe.

^b Poverty is measured by headcount, poverty gap and squared poverty gap indices.

^c Egypt household budget surveys include 1981/82, 1990/91, 1995/96 CAPMAS Household Budget Surveys, and 1997 IFPRI Household Budget Survey. All of these surveys are nationally representative.

^d Inequality is measured by Gini coefficient of expenditures.

^e Trends in inequality in rural Egypt are unclear because of data problems. See text.

^f The twenty-two developing countries include: Brazil, Chile, China, Colombia, El Salvador, Guatemala, Honduras, India, Indonesia, Kenya, Malaysia, Mexico, Pakistan, Panama, Paraguay, Peru, Philippines, Sri Lanka, Thailand, Turkey, Venezuela, and Zimbabwe. Lack of data prevented inclusion of all forty comparison countries.

What are the reasons for this unfortunate situation? The best explanation lies in the low rate of recent economic growth. In Egypt the gross domestic product (GDP) needs to grow by an average 7 per cent per year to create the type of labour-intensive economic growth that can raise incomes and reduce poverty.²¹ To be sure, faster economic growth is not the one and only condition required for development in Egypt. However, economic growth that

provides more employment for people can – and typically does – spur growth in other key areas, such as poverty reduction (by enabling poor people to work their way out of poverty) and educational achievement (by providing parents with the economic means to keep their children in school). Yet the stark fact of the matter is that between 1990 and 1996 real GDP growth only averaged 3.95 per cent *per annum*. With a population expanding at an average rate of 2.2 per cent per year, the GDP has to grow much faster than this to provide jobs and prosperity for its citizens.

To boost economic growth, the Egyptian government needs to focus on productivity, especially total factor productivity, including all methods used to produce goods and services with factors of production (like labour and land). While total factor productivity growth in Egypt averaged 5.0 per cent a year between 1970 and 1985, it subsequently fell to 1.8 per cent a year between 1981 and 1996 (Handy *et al.* 1998: 8). Increasing total factor productivity will require both more attention to the private sector (and to the process of privatization) and higher levels of investment in human capital, particularly in the area of primary and secondary education. Privatization, in the sense of moving inefficient public firms into the domain of the private market place, and investment in human capital, in the sense of raising the literacy and technological skills of Egyptians, are needed to prepare Egyptian society for meeting the development challenges of the twenty-first century.

Notes

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- 1 These five questions represent a modified and expanded version of the original 1990 Human Development Index (UNDP 1990), which focused on just three variables: life expectancy, adult literacy and income. However, subsequent revisions to the 1990 Human Development Index added variables relating to poverty and inequality (see UNDP 1998: 15). Yet none of these revisions to HDI added the variable of productivity.
- 2 See, for example, Hansen (1992), Adams (1985) and Abdel-Fadil (1980).
- 3 President Mubarak assumed the presidency of Egypt in October 1981, after the assassination of President Anwar Sadat.
- 4 In the 1998 Human Development Index, Egypt was ranked 112. Among the forty developing countries selected as comparison countries, Chile was ranked the highest (31) and Ethiopia the lowest (169) (UNDP 1998: Table 1). For a full list of the forty developing countries, see Table 2.1 of this chapter.
- 5 For example, the 1995/96 CAPMAS survey included 14,805 households: 6,622 urban and 8,183 rural households. After writing this chapter, the 1999/2000 Survey was conducted by CAPMAS.
- 6 Minimum food requirements for the 1981/82 to 1995/96 CAPMAS surveys equal the cost of diet per adult equivalent unit to yield energy intake of 2,200 calories per day (see INP 1996: 117).
- 7 To estimate minimum non-food expenditures for the 1981/82 to 1995/96 CAPMAS surveys, Engel curves were fitted by which the food share was regressed on the log of total per capita expenditure and household size. For more details, see INP (1996: 118).
- 8 For more details on the 1997 IFPRI survey, see Datt *et al.* (1998).

- 9 In both the 1997 IFPRI and the 1995/96 CAPMAS surveys, expenditures do *not* include the actual or imputed rental value of housing, because the IFPRI study found that 90 per cent of rural households and 52 per cent of urban households own their own house.
- 10 In the 1997 IFPRI survey, minimum food requirements equal the cost of diet per individual to meet minimum caloric requirements (as set by the World Health Organization) for males and females in thirteen different age categories (see Datt *et al.* 1998: Table 1). Minimum non-food requirements are established by reference to the expenditure patterns of those households whose food expenditures are close to the food poverty line.
- 11 By comparison, adjusting the average poverty lines from the 1995/96 CAPMAS survey (in Table 2.3) into 1997 terms yields an urban poverty line of LE1,021 (US \$296) per capita per year and a rural poverty line of LE734 (US \$213).
- 12 In the absence of reliable records, there has always been much uncertainty about the actual number of Egyptians working abroad. However, over the years the remittances sent back to Egypt by workers living abroad has shown a generally upward trend. For example, net annual workers' remittances averaged \$2,516 million a year from 1981–83, \$3,495 million from 1987–89 and \$4,484 million from 1993–95. Yet since these figures only include remittances which enter Egypt through official channels, they tend to underestimate the large proportion of remittances (perhaps \$1,500 million a year) which enter the country through unofficial means.
- 13 For more on the slow pace of structural reform in Egypt, see Harik (1997).
- 14 In a study of the determinants of international migration in three villages in rural Egypt, Adams (1993) found that landless agricultural workers had the highest propensity to go to work abroad. Most of these agricultural workers went to work in Iraq, Kuwait or Saudi Arabia.
- 15 In Table 2.7 it would have been preferable to compare growth in labour productivity across countries by using data on changes in paid employment in manufacturing (or industry). Unfortunately, reliable inter-country data on this variable are not available. Thus, Table 2.8 is based on the changes in paid non-agricultural employment across countries over time. Obviously, the category of 'paid non-agricultural employment' is much larger than that for 'paid employment in manufacturing (or industry)'.
- 16 According to Table 2.8, the average annual rate of employment growth in the public sector was only 0.60 per cent, which is much slower than that for the government sector at large (5.02 per cent).
- 17 In 1992–96 Egyptian wheat and rice yields averaged 5,323 and 7,977 kilograms/hectare, respectively.
- 18 During the same period, 1980–84 and 1992–96, rice yields per hectare in Egypt also grew at an average rate of 2.9 per cent per year.
- 19 As noted in Table 2.11, it is unclear what is happening with respect to rural inequality (see text).
- 20 If the results from the 1997 IFPRI Household Survey are used as an endpoint, then income distribution as measured by the Gini coefficient increased by about 20 per cent in urban Egypt.
- 21 According to the Economist Intelligence Unit, 'Both the (Egyptian) government and the IMF admit that GDP needs to grow by an average 7 per cent annually to create prosperity, while the IMF calculates that a rate of at least 4 per cent is necessary to keep the country's unemployment situation stable' (1995: 9).

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3 The standard of living*

M. Riad El-Ghonemy

Introduction: the meaning of standard of living

It is common to find the phrase 'promotion of a higher standard of living' figuring in Egypt's development policy objectives. It is common also to hear in everyday conversation enquiries on personal self-evaluation such as how one is 'doing', 'being' and 'how is life?' (*izay al-hal, kaifa halokom?*). And yet these phrases mean different things to different people.

In principle the government's commitment to raise the standard of living is a sort of social contract between the state and its citizens provided in the constitution, assuring them of equality and justice in meeting their social needs in exchange for their duties as law-abiding citizens (see Appendix 3.1 on pp. 63–5). But in reality, there is inequality of access to jobs and basic public services, owing to variations in family background, income classes and geographical location. Consequently, there is a wide divergence in individual achievement of abilities and skills, ranging from two Nobel Prize laureates (Naguib Mahfouz and Ahmad Zouwale), the leading NASA space scientist, Farouk El-Baz, thousands of top engineers and surgeons, to nearly 18 million adult illiterates and a few million poor agricultural landless workers, shoe shiners, car-park attendants and street pedlars. There are also 2.5 million persons classified as undernourished, nearly half of whom are children under five whose health is at risk. Officially, there are some 13.7 million Egyptians classified by the Ministry of Planning as poor, living below the minimum annual expenditure of LE814 at 1996 prices or US\$240 per person (see sources below in 'Household consumption patterns', 'Nutrition and health' and Chapter 1).

For understanding the meaning of 'standard of living' and as for the definition of development, there is a wide difference in popular usage and academic concepts with regard to definition and measurement. For example, according to a United Nations' definition, a distinction is made between 'level of living' that refers to *actual* conditions of living and the standard of living, meaning material and non-material norms that we seek to attain in life.¹ There are a number of questions that may be raised. Is the level of living of a rich person suffering from ill health and an unhappy marriage higher than that of a less wealthy but healthy and happy individual? What are the criteria

for a better standard? What does 'the standard of living' consist of? Is it necessary to be broad enough to include such multiple well-being concerns as economic (productivity, real income/consumption), biological (nutrition, health care), physical (clothing, shelter and environmental conditions), psychosocial (happiness, dignity and self-respect) and politics (civil liberty, democratic participation in the political system and freedom of expression)? Can these components be free of value judgement and adequately captured in a numerically concentrated single index?

These are multidimensional components; a change in one is likely to change others and each does not alone measure the change in well-being. The usage in economics illustrates this point. Different concepts and interpretations have been made since Pogou's definition of economic welfare in 1929, separating non-economic elements from income earned by way of exchanging goods in the market and resulting in a state of mind of satisfaction/happiness (utility). While stressing their interdependence, he suggested a national minimum standard of quantity and quality of food, medical care, education, housing and sanitary convenience.² This concept of the standard of living and related fundamental issues of welfare economics have been developed by the 1998 Nobel Prize laureate in economics Amartya Sen. In his theoretical construction and empirical evidence Sen (1987) has moved away from a focus on material goods and purchasing power (commoditization) to the conversion of income to individual's capabilities above a specified minimum level. He focuses on what income does to, or for, persons in terms of opportunities/capabilities it creates towards well-being achievements of desired things in real life (good nourishment, good health, literacy, long life expectancy, active participation in the community and freedom of choice). The opposite of these achievements are the characteristics of ill-being (undernutrition, ill health, illiteracy, etc.).

Analytical procedure

It is not intended in this chapter to discuss all these multidimensional issues. The aim is modest. Subject to data availability, I focus on an observable set of necessary, but not sufficient, components of the level/standard of living in Egypt and identify challenges for the foreseeable future. The chapter begins with an analysis of the characteristics of, and major changes in, household consumption expenditure by residence and income class. The second section examines the individual nutritional status by age and location, and indicates the consequences of the prevalence of undernutrition. The third section discusses the social or opportunity costs incurred by environmental degradation as an input causing harm to health, the loss of lives and productivity (number of years lived with disability). The last section synthesizes the findings and identifies a number of challenges for the future. No attempt is made to examine the moral foundations of household income transfers to the poor, *Zakat* (i.e. mandatory alms given by the head of the household as a portion of earnings), nor to discuss the morality and income distributional consequences of corrupt

practices, leading to rapid enrichment. I have elsewhere (El-Ghonemy 1998: Chapters 3 and 7) examined these issues.

No single synthetic index of the quantitative values of the selected components of the standard of living is constructed because it requires the weighting their relative importance, which is controversial and problematic. This conclusion was reached almost half a century ago by an international committee of experts on measuring the standard of living (UN 1954) and has recently been re-emphasized (Streeten 2000: 26–9). Moreover, Egypt-specific methodological issues about the Human Development Index composed by the UNDP and which ignores distribution of income/consumption has already been examined and supplemented by Adams in the preceding chapter. Instead, my procedure is a combination of the monographic treatment and quantitative comparison of actual well-being changes over a period of nearly fifty years. This summary comparison helps towards answering the question of whether or not Egyptians are better off.

In this investigation, I do not substitute the phrase ‘standard of living’ for ‘quality of life’ and the term ‘lifestyle’. Though they overlap, they mean different things;³ the ‘standard of living’ embraces quality and quantity of life (longevity). Lifestyle on the other hand, emphasizes difference in the socially and geographically interrelated taste, preference of consumption set and work/leisure time as well as preference for residence and dialect of spoken Arabic. However, we cannot underestimate the links between locality-based lifestyle and level of living, as for example in wealthy urban areas compared with poor rural communities of Upper Egypt. Also, the lifestyle – especially in wealthy districts of Cairo (Garden City, Zemalek and El-Maadi), Alexandria, Ismailia and Port Said – has been influenced by western lifestyle since the French and the British colonial rule.⁴ In addition, as shown later under the effects of globalization on personal consumption pattern, lifestyle has been influenced by ways of life of other people in different countries, especially in the USA and Western Europe. Moreover, I shall not attempt to combine the formative elements of the standard of living to characterize a group of individuals or families, sharing features of wealth and visible consumption behaviour as a ‘social class’. This form of stratification is confronted with methodological and conceptual problems, especially in the choice of adjectives such as ‘social’ or ‘economic class’.

Household consumption patterns

The statistical approach to Egypt’s standard of living measurement was pioneered in the 1950s by Abdel-Monem El-Shaf’i and his collaborators Hassan Hussein and El-Badri, who established the foundations of the data base of household expenditure survey and quality of life measurement. These foundations were used for the first time in 1950–51 by the Ministry of Social Affairs under the leadership of its minister, Ahmad Hussein to establish the minimum level of living and social security programme (*al-Daman al-Igtima’i*) which was included in Law No. 30 of 1977. Since this pioneering work,

information on changes in household food and non-food consumption over time is necessary for understanding the major changes in the level and percentage components of consumption across family size, income class and residence. The collection and analysis of this information have become a statistical priority in the work programme of CAPMAS. The data base has been provided by the series of household income, expenditure and consumption surveys (HIECS hereafter), having, since 1958, consistent sampling frame and large size of sampled population disaggregated into rural and urban areas. Despite their statistical limitations and exclusion of housing for reasons given below, they are very useful for the analysis of changes over time as presented in Table 3.1. They are also used in estimating the extent of inequality and the percentage of population living below an established poverty line (or lines) according to the definition used as examined by Adams in the preceding chapter (Table 2.3). Moreover, the results of HIECS provide a sound basis for the assessment of policy impact on income/consumption classes (e.g. food subsidies, provision of education and health-care services by government and the private sector, etc.).

The dominance of food consumption

The Egyptians are big spenders and food consumers. The cultural and political dimensions of food have a strong influence on individual and household food spending. Table 3.1 shows that average food spending share in total family expenditure has remained high, despite fluctuating inflation rate and real income level per person during the long period under review, 1958–2000. In 1958/59, the percentage was 66.3 in rural areas and 50 in urban areas with the national weighted average being 56, and after more than forty years it remained high relative to the rise in consumer price index or the cost of living index, particularly in urban areas. For example, between 1990 and 1995 when inflation was high in double figures, the share of food fell, as it did between 1996 and 2000 when unemployment increased in urban areas. In the next two chapters, these relationships will be discussed in detail, indicating why inflation and unemployment cause concern for the well-being of the poorer sections of the society because the rich can protect themselves and the poor cannot afford to be unemployed.

The high share of food in total household consumption expenditure has persisted since the early 1940s when the Ministry of Social Affairs conducted living conditions surveys (400 policemen in Cairo in 1941 by the Department of Labour and eleven villages of al-Marakez al-Igtemaiya by the Fellah Department in 1939–43). Also the World Bank's internationally comparable data on consumption (computed from the *UN System of National Accounts and International Comparison Programme*), covering eighty-four countries, including Egypt, show a marked high share of food for Egypt (World Bank 1993: Table 10 of indicators). The average share of 49 per cent exceeds those for twenty-nine low-income economies and forty-three lower-middle economies, among whom Egypt's classification falls. The high share of food in total household

Table 3.1 Percentage share of major consumption items in total household expenditure, 1958–2000

Consumption items	1958/59		1964/65		1981/82		1990/91		1995/96		1999/2000	
	R	U	R	U	R	U	R	U	R	U	R	U
Food and beverages	66.3	50.0	62.0	50.5	60.0	53.0	57.6	53.0	57.0	49.0	50.1	41.3
Clothing	7.8	7.9	9.6	7.5	10.0	10.0	6.2	7.5	8.1	9.2	9.0	10.4
Durable goods	0.7	1.7	1.0	1.7	2.5	5.0	2.6	4.3	3.5	4.3	2.8	2.8
Education	0.6	3.0	0.4	1.5	0.7	1.7	1.6	1.8	3.0	4.2	3.3	5.7
Health care	1.9	2.9	2.7	4.0	1.6	2.6	3.4	4.2	3.1	3.6	3.5	4.6
Smoking	6.7	5.3	8.0	5.6	6.6	5.4	4.7	4.6	4.1	3.7	3.6	3.8
Transport	1.8	3.8	1.8	3.6	2.4	4.6	2.8	4.4	2.9	4.4	5.5	7.6
Others and transfers	14.2	25.4	14.5	25.6	16.2	17.7	21.1	20.2	18.3	21.6	22.2	23.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: calculated from data given in the following publications of CAPMAS, Cairo:

- 1 Derasa Muqama li-Nata'ig Bahth Mizaneyat al-Osra fi 1958/59 wa 1964/65, al-Nata'ig al-Mogam'a lil-Dawrat al-Arba' li-Bahth Mizaneyat al-Osra, Ref. 08/19/22/1986.
- 2 Bahth al-Dakhl wal-Infaq wal-Ishtlak fi Gomhoriet Misr al-Arabia (Egypt's income, expenditure and consumption survey 1990/91), December 1993, the volumes of the 1995/96 survey, and the source of 1999/2000 is the second part of Volume III, *Urban and rural areas*, published by CAPMAS, Cairo, December 2000 (Arabic).

Notes

R=rural areas. U=urban areas. Food and beverages include expenditure outside home. Clothes include linens, blankets and cloth. Others comprise expenditures on car licence, motorcycle licence, telephone bill, sports, insurance payments, mail expenses, legal dispute expenses and penalties. They do not include housing because of prevalent extended family, sharing residence with household head, particularly in rural areas. In 1999/2000 survey housing is included; 14 per cent in urban areas and 15 per cent in rural areas, comprising rent, illumination and cleaning material. Transfers comprise: payments for Zakat, Oshour and Sadaqa; payments to a divorced woman; and to family members living abroad as well as expenses during travel abroad.

expenditure is instrumental in Egypt's high consumption share in national income (GDP) and, in turn, low savings and low investment shares (see the economic implications of this in the next chapter).

Apart from the cultural factor of viewing the amount of food eaten as a status symbol, easy access to food has been made cheap by government pricing policy. Since the Second World War, wheat-based food has been heavily subsidized, and in the 1960s and 1970s, rice, cooking oil and sugar were added. At the peak of subsidization in the early 1980s, food subsidies reached 19 per cent of total government expenditure (see Alderman and von Braun 1984), before being gradually reduced – under the IMF's pressure – both in number of items and in rate of subsidization. By 1997, subsidies covered only four essential items (bread, wheat flour, cooking oil and a small portion of sugar). Hence, the drop in the share of food subsidies in total government spending to nearly 5 per cent or LE3.74 billion, of which *baladi* bread and wheat flour accounted for 77 per cent. Throughout this process, subsidized items have not been geographically targeted where the needy live, nor have *only* low-income groups benefited. Instead, bread has been available to *all* consumers at a fixed price in unlimited number of *baladi* loaves, while cooking oil and sugar are still rationed with a guaranteed monthly quota by green cards (*bitaqat tamween*). In the meantime, a red card for a low-rate subsidy of sugar and cooking oil has, since 1981, been intended for the non-poor. A recent study reveals that 13 per cent of the total poor do *not* hold any ration card, while 67 per cent of the non-poor hold the high subsidy green card, which costs the national budget nearly LE100 million (Ahmed *et al.* 1999).

Social imbalance in household spending

The high food share in household total expenditure leaves a reduced residual for non-food items, comprising health care, education, clothing, housing, transport, durable goods, smoking, etc. Public education and health services were officially declared free for all in *al-Mithaq al-Watani* (the National Charter of May 1962) and by constitutional obligations. The purpose was to ensure *equal* access to both services that have been heavily subsidized by the state until the post-1986 urge for budget cuts and demand for a greater role for the private sector in the economy as required by economic reforms of 1987 and 1991 induced by the IMF and the World Bank. This policy shift has been reflected in the results of the HIECS given in Table 3.1: the share of education in total household spending has more than tripled during 1982–2000 as a result of buying this basic service in the market by way of private lessons. A plausible explanation for this rise is inadequate public spending and the deteriorating quality of public services, combined with a steady increase in government-fostered private services in education and health care. Their shares in total public spending and national income (given in Table 3.2) have not matched the rapid growth of population. The extent of this allocation inadequacy was confirmed and statistically measured by the IMF (1990: Tables 2 and 3).⁵ It was also found that total health expenditure per head in

Egypt was one-fourth the Middle Eastern average and one-sixth that of Latin America.

In the meantime, the quality of government schooling has deteriorated in terms of crowded classrooms, frequent teachers' absenteeism, falling real value of teachers' salaries (many of whom rely on private tutorship) and rising dropout rates among pupils of government primary schools. The 1996 *Egypt Human Development Report* (Indicators N. 10 and N. 12) shows that 40 per cent of the total number of government school buildings were unfit. In education as in health care, low-income families have been left to the mercy of private profit-seeking agents such as the rapidly expanding private schools and universities, bookshops, clinics, pharmacies and medical analysis laboratories. Alarming, in government hospitals, it is not unusual that patients are charged user fees and indirectly encouraged by hospital doctors to go to their own private clinics.

Inequality of access to health and education

There is sufficient evidence of increasing inequality of access to health care and education by income class and location (urban, rural), with the poor and lower-income people spending disproportionately larger than the rest. This injustice has been confirmed by the results of the HIECS of 1990/91 and 1995/96 and the *Social Spending Survey of 1997/98*, disaggregated by household annual income categories (El-Leithy 1997: Table 17). In 1995, a study conducted jointly by Egypt's Ministry of Health and Harvard University's School of Public Health, covering a large sample of 10,600 households (50,661 individuals) in rural and urban areas, is telling. Nearly half of the health care provided for outpatients surveyed was from the private sector (doctors, hospitals and pharmacies), in addition to 6.3 per cent from mosque clinics, the balance being procured from both government facilities and syndicates of professionals. Because of the poor quality of government health care, particularly the lack of treatment with dignity, poor and rich patients alike

Table 3.2 Government spending on health and education, 1960–2000

	<i>As percentage of total public expenditure</i>					
	<i>1960</i>	<i>1975–79</i>	<i>1980</i>	<i>1990</i>	<i>1995</i>	<i>1998–2000</i>
Health	3.5	3.0	2.4	2.8	4.4	6.0
Education	17.4	9.6	8.0	13.4	14.7	16.0
	<i>As percentage of national income (GDP)</i>					
	<i>1960</i>	<i>1975–79</i>	<i>1980</i>	<i>1990</i>	<i>1995</i>	<i>1998–2000</i>
Health	0.6	2.0	0.6	1.0	1.6	2.0
Education	3.3	5.5	9.0	6.7	5.3	5.0

Sources: Institute of National Planning (INP), Central Bank of Egypt, *Annual Reports*, and IMF, *Government Finance Statistics Yearbook*, several years.

utilize the private sector: 39 per cent of the lowest income class (bottom fifth) and 60 per cent of the rich (top fifth), despite 'the availability of government health care service at little or no charge within a maximum of five kilometres from residence' (Nandakumar *et al.* 2000: 187–95).

As suggested earlier, the quality of education in government schools has deteriorated and resulted in:

- 1 parents having recourse to private schooling and tutorship (*drous khososeyah*) according to their earnings;
- 2 persistently high rate of pupil dropout, especially between the ages of 10 and 14, who are most likely to be illegally working and estimated at 51 per cent of total pupils enrolled during the period 1987–94, with the rate being higher among children from low-income and illiterate parents;
- 3 the deterioration of cognitive achievements by reducing primary education in government schools from six to five grades; and
- 4 the prevalence of child labour outside the household, numbering some one million in the age group of 6–14, being overwhelmingly high in agriculture followed by non-agricultural activities in greater Cairo.

Because of its importance to this study, the last point deserves elaboration. Despite its prohibition by law No. 137 of 1981, except in agriculture, child labour at the age of compulsory schooling (primary and preparatory) until the age of 15 is still widespread, which is indicative of a low level of living.⁶ Child labour is attributed by poor parents to the unaffordably high financial burden of schooling even in government schools; rising unemployment among university graduates is a major disincentive to continue education; and child labour helps parents with additional earnings to meet living expenditure (Abdalla 1988; and Fergany 1993 and 1996). Beside rising dropouts and child labour, the deteriorated quality of government schools is manifested in the high illiteracy among children 10–14 years revealed by the 1996 Population Census. Alarmingly, in this age category (who are supposed to have been enrolled in compulsory and free primary education) illiteracy was 16 per cent for the boys and 29 per cent for girls. Illiteracy among female adults is still high in urban areas at 33 per cent, rising to 76 per cent in rural Upper Egypt (Menya, Fayoum, Beni Sowafe, Assiut and Suhag). These rates exist despite government spending of LE17 billion (average 1998–2000) in addition to LE0.25 billion spent by the government Agency for Illiteracy Campaign and to substantial sums provided by both the Social Fund for Development and several international NGOs. Addressing the Second National Conference for Women held in March 2001, Egypt's Prime Minister Dr Atef Ebed recognized the serious implications of the extent of women's illiteracy for national development. He announced the establishment of 3,000 single-class schools in small villages and remote inhabited areas (*negou'*) in rural Upper Egypt to improve access to education among girls and women from conservative families.

Perhaps the most striking feature of both the common family financial burden and the deteriorating quality of government schooling is the wide-

spread phenomenon of private tutorship, involving an overwhelming majority of households across social classes and leading to substantial informal income transfers. The results of the 1997/98 *Social Spending Survey* show that a household spent annually on private tutorship an amount ranging from LE122 to LE730. Private tutorship spending is *in addition* to fees charged by local government administration imposed by Law No. 106 of 1976 for school construction, Law No. 139 of 1981 for local education development charges and Decree No. 227 of 1989 for the Education Support Fund. The magnitude of informal income transfers by this practice was estimated in the 1999/2000 report of the Director of the State Bureau of Tax Evasion of the Ministry of Interior. It says that most teachers charge each student LE30–70 *per hour*, reaching, in some cases, LE100 for mathematics and science. From two case studies, the report tells us that many teachers whose average *monthly* government salary was LE150–200 each has received from private tutorship a *daily* amount of LE3–700 during the nine-month academic year (*al-Ahram* 2 June 2000: 9). There is growing concern over this phenomenon expressed during the Parliament debate on 20–21 January 2002 and revealing serious public anxiety. During the debate, the Minister of Education, Dr Baha El-Din described it as an ‘illegal and a destructive phenomenon’.

Based on these sources of information and the 1996 population census data, one is tempted to venture to estimate an approximate order of magnitude of *annual* income transfers from households’ pockets to government school teachers, ranging between LE7 billion and LE10 billion (without costing the parents’ time), according to parents’ income, subject taught, education level and locality. This is an alarming magnitude of social costs of a defective system of education and is indicative of the parents’ demand to have good quality education. Hence, the supply of basic social services has been turned from what is essentially a public service to a private commodity whose price is determined by the market, namely, a violation of the constitutional provisioning of social justice and guaranteed equal opportunities for all citizens (*takaf’o al-foras*).

Growing expenditure disparities in the consumption of non-essentials

According to expenditure classes (the top 10 per cent and bottom 10 per cent, rich and poor hereafter), an examination of individual consumption items other than food, health care and education reveals flagrant disparities. The degree of this inter-class disparity is exhibited in average annual spending on transport, durable goods (carpets, refrigerators, washing machine, etc.) and what the designers of HIECS call ‘other items’ (car road licence, TV licence, sporting club membership fees, telephone bill, etc.). In 1958/59, average expenditure on durables by the rich class was 39 times that of the poor, rocketing to nearly two thousand and 3,060 times in 1990/91 and 1995/96, respectively. For an understanding of this disparity, let us consider the transport and smoking expenditures, with emphasis on two consumption items in the hidden economy, hashish and the drug Viagra.

With regard to transport, the HIECS data show that what a rich household spent on private car licence(s) combined with sports exceeded by far what a poor family spent on food during the entire year (CAPMAS 1993: Tables 1.01, 1.03 and 1997, Volume 2 and 3, and 1999/2000, Volume 3). Available data from the Traffic Department on the numbers of private cars and public buses during the period 1970–98 manifest another feature of increasing social inequalities that has deepened since post-1991 hasty trade liberalization. Whereas the numbers of private cars have increased during this period by nearly 900 per cent, public buses, including school buses, increased by a small fraction, only 35 per cent, over nearly four decades. However, the aggregate number of private cars is misleading. It conceals the difference in size and value. For example, while the numbers of small cars of four cylinders each (1000cc) more than doubled in 1987–93, imported luxury cars, mostly Mercedes (six and eight cylinders) expanded by 860 per cent in contrast to a mere 20 per cent for public buses during the same period.

Concerning smoking, whereas the *proportion* of smoking to total expenditure has declined between household surveys of 1964/65 and 1999/2000, the spread of smoking remains quite alarming, to the extent that 41 per cent of the Heart Institute's patients with ischaemic heart disease are smokers.⁸ WHO (1998: 13) reports a substantial increase in smoking in Egypt at an average annual rate of 6–8 per cent, which is more than three times the rate of population growth. Sadly, the results of HIECS show that the only superiority in consumption the poor have over the non-poor is in smoking as a percentage of total annual expenditure in both rural and urban areas (El-Leithy 1997: Tables 17 and 18). Related to smoking is the consumption of hashish (narcotic drug) that is strictly prohibited by law, and its traffic, sale and importation belong to the hidden economy. In its 1999 annual report, the Anti-Narcotic Drug Department of Egypt's Ministry of Interior states that the numbers of narcotic drug offences have sharply increased from 14,602 in 1995 to 37,462 in 1999. During the same period, the area growing hashish (*qunnab*) has also increased from 432 to 756 feddans (acres). Alarming, in 2000 a sample of Cairo secondary school boys revealed that 12 per cent of the surveyed boys smoked hashish and bango.⁹ Data on the value of narcotic drug consumption are scarce. According to a pioneer study conducted in 1981, the value of hashish consumption was estimated at LE2 billion at current prices (Abdel-Fadil and Diyaab 1985: Table 3).¹⁰ Based on data for 1981, I estimate roughly a simple average of hashish consumption per household in 1981 at around LE200 or nearly LE1,440 in 1999. The latter is based on several assumptions: total number of households being 12.7 million; average annual consumption per household being LE14,400; and the 10 per cent proportion of the 1981 hashish consumption out of national average is maintained. This is a crude estimate of an arithmetic mean calculated from a study based on several assumptions on quality and prices of hashish. Obviously, not all households consume hashish and my crude calculation reflects an approximate order of magnitude of a reality that cannot be ignored and its health risk overlooked.

The reader would be interested to learn of another consumption component that has recently emerged in the hidden economy. It is the secretively marketed anti-impotence drug, Viagra, whose importation and domestic manufacturing are prohibited by the government. Yet, the results of a study conducted by a number of pharmacists during the year 2000 reveal its availability and extensive consumption: an approximate total of 240 million tablets and nearly 3 million adult male consumers.⁷ Assuming that an average number of forty-eight tablets is consumed annually by a single adult male at an average sale price of LE45 per tablet, a total expenditure of nearly LE6–7 billion is estimated to be spent on this drug in 2000, making up 2.5 per cent of the national income (GDP). Like households expenditure on private lessons and narcotics, this disguised substantial spending should not be ignored.

The impact of globalization on household consumption

Over the past three decades, there has been a new consumption culture, resulting from Egypt being drawn gradually into a global system of production and foreign exchange, capital and commodity markets. In the 1990s, this worldwide interconnection called globalization became a fashionable subject in development studies and I shall examine it in connection with the 1991 economic reform policies in the next chapter.¹¹ My concern here is with its human welfare impact on consumers, especially low-income groups. This concern is associated with the strong links between increasing globalized production and marketing systems (fostered by multinational corporations, international advertising agencies and the information revolution via the mass media, especially TV, and the internet). It is associated also with the rapid spread of the Western lifestyle, including dress, food, drinks and leisure activities. This influence was facilitated by an earlier period of westernization during the long British rule.

There is sufficient evidence of a rapid shift in household consumption away from traditional products (which meet the taste and demand of large sections of the population) towards items consumed in Western societies, using Western raw materials and intensive capital. These products include baby food, canned food, clothes, soap and synthetic detergents, and household appliances. For example, the traditional soap (*el-mizan* and *nabulsi*) consumed by low-income groups, produced in Kafr El-Zayat with local raw materials and intensive labour, has given way to Western brands and synthetic detergents (Lux, Palmolive, Ariel, Tide, Persil, etc.). While well-off families can afford the purchase of complementary equipment of capital goods (washing machines and dishwashers), low-income consumers cannot, especially in rural areas and urban slums without electricity and piped water. Moreover, locally produced textile material, bicycles, cooking oil, and native cheese and soft drinks have been quickly replaced by imported brands.¹² In addition, imports of dairy products and cooked oil more than tripled between 1993 and 1998 and powdered milk alone represented nearly half the total milk consumption in 2000, despite the availability of domestic milk for self-sufficiency. Nutritionists

have established higher nutritional values for the displaced native food and beverage items than for most of the foreign-based brands consumed.¹³ Such traditional drinks as sour milk, *irksous* and *karkadeh* have been rapidly replaced by American carbonated drinks (Coca-Cola, Seven-Up, Pepsi-Cola, and so on).

Another impact of globalization on family consumption is in fast and take-away food. With rapid urbanization, the migrant rural poor, school children of poor parents and small-scale business workers have relied on cheap street foods, available at the time and place required. A wide range of tasty ethnic food rich in nutrient content (*foul medames*, *sogok*, *falafel*, *koshari*) are enjoyed in the street by hundreds of thousands of low-income and poor consumers, who cannot afford alternative sources of eating outside homes. Traditional street foods are very popular, and their extensive sale provides jobs for a large section of the unskilled workforce, particularly women. In spite of all its socio-economic benefits, this native food sector has been denied the necessary facilities and capital to develop its potentials on a sound basis that meet food safety requirements. Moreover, street food vendors are looked upon with disdain by traffic police and local administration staff. Yet a study by the Nutrition Division of the FAO (1990: 6) concluded:

It is believed that many poor and low-income families would be worse off if there were no street food vendors to serve fast and inexpensive foods . . . nutrition documentation do show that freshly cooked traditional meals have quite satisfactory nutrient content.

In the meantime, American brand names of fast foods like McDonald's, Burger King and Pizza Hut have invaded the large cities of Cairo and Alexandria. Backed by aggressive advertising, this new consumption culture is an integral part of a world-wide tendency for the standardization of American and European-based consumption patterns. Through its dominance of the mass media, especially TV, and street advertisements, multinational agencies for production, marketing and advertising in Arabic and in local dialects have played an increasingly important role in changing the pattern of the Egyptian family's consumption. Through the electronic information revolution of cable

Table 3.3 Advertising revenue in Egypt's radio and television, 1989–2000

<i>Year</i>	<i>LE million at current prices</i>	<i>LE million in real terms</i>	<i>Average annual rate of real value increase %</i>
1989	3.8	2.2	
1993	94.9	36.5	17.2
1998	327.4	90.3	10.8
2000	390.0	103.0	6.5

Source: *al-Kitab al-Sanawi* (Radio and Television Corporation Yearbook), 1992/93, 1997/98 and 1999/2000, Cairo.

Note

Real value is revenue at current prices deflated by the Wholesale Price Index 1986/87=100.

and satellite dishes, as well as the Egyptian Government-run domestic and satellite channels, western advertising programmes, directly reach millions of households. The data given in Table 3.3 show that in just a single decade the advertising revenue of Egypt's Radio and Television Corporation has increased in real terms fifty times between 1989 and 2000. The influence of advertising agencies on household consumption lies mostly in the belief of ordinary Egyptians that the multinational agencies are credible and that they do not use deceptive practices.

Nutrition and health

We now move from a general discussion on household consumption to an examination of what food does to personal well-being. The purpose is to identify who and where the undernourished are at the start of the twenty-first century. The concern is about individual nutritional conditions and nutrition-based poverty and ill health with emphasis on children under five, an investment with high returns over time. Individual state of nutrition is a major yardstick in understanding the level of living. It is, therefore, important to examine the nutritional status of individuals by age, gender, education, income levels and localities measured according to international standards established by WHO and FAO, i.e. persons whose health is at risk for being malnourished or undernourished.¹⁴

Health-related undernutrition at the national level

Since 1935, the Egyptian Government has systematically monitored the state of national food supply and human nutrition in relation to population growth. The mechanism has consisted of:

- 1 the preparation of annual Food Balance Sheets¹⁵ by the Ministry of Agriculture in conjunction with FAO;
- 2 the establishment of the National Nutrition Committee in 1939;
- 3 the conduct of periodic HIECS and Food Consumption Surveys; and
- 4 the pursuit of a generous but untargeted food subsidy policy.

From data on total food supply and the results of population censuses, per head average daily supply in weight and in calorie equivalent is calculated. Before we go further in the discussion, it should be understood that the national average does not automatically mean that these amounts of food and calories are accessible to and actually eaten by *all* inhabitants, especially the poor.

Food accessibility for a healthy life is judged from specially designed field surveys which provide data needed to measure individual nutritional status, and the extent of nutritional deficiency. This measurement is relative to a minimal standard requirement for conducting a healthy life estimated by FAO and WHO, the two UN organizations concerned with undernutrition. However, each agency concentrates on a different measurement. FAO uses the

calorie content of each country's total food supply available for human consumption and in turn its average per person calorie supply. WHO, on the other hand, uses human body conditions (weight, height and age measurements) and covers mainly the children under age five. The latter approach is followed by Egypt's Ministry of Health in conducting 'Demographic and Health Surveys', while the Ministry of Agriculture follows the former in its contribution to World Food Survey. Thus, we must specify which approach is used when undernutrition is assessed, keeping in mind the existence of a time-lag between deficient diet eaten and the appearance of such health symptoms as anaemia, growth retardation and heart diseases. The duration of the time-lag varies according to age and the initial body weight-height ratio, especially among young children in whom anthropometric measurements reflect clearly the time factor: present (weight-for-height) and past (height-for-age).¹⁶ For example, the results of the Sixth World Food Survey and FAO (1999) show that average daily calorie supply per head in Egypt (Kcal day) was 3,276 in 1995–97, being lower than that for 1990–92 by 2 per cent. While this slight decline may be an error in measurement, a study by FAO (1999: 6–7 and Table 1) estimated the undernourished population of Egypt at 4 per cent in 1997 or approximately 2.5 million persons whose per head calorie supply falls below an estimated minimum calorie requirement and who suffer from food insecurity, putting their health at risk.

Adult diet-related ill health: the prevalence of obesity

Irrespective of their income level and education, most Egyptian adults (females more than males) are overweight and obese. We are fortunate to have a number of studies conducted by Egyptian nutritionists who have, since 1965, examined in depth these nutrition–health relationships by income classes and place of residence. The results of several sample surveys and medical examinations show that:

- 1 Obesity and diabetes as defined by WHO are widespread.¹⁸
- 2 Obesity is considered a risk factor for diabetes and both are markedly correlated.
- 3 The prevalence of obesity and diabetes is higher among the rich than low-income people and among adult males in urban areas than in villages.
- 4 The obese person is at high risk of different forms of heart diseases, owing to a high consumption of saturated animal fat intakes, excessive dietary cholesterol and sedentary lifestyle (less exercise at work and leisure and more smoking).
- 5 Adult persons (over 20 years old) with diagnosed diabetes mellitus and obesity represent a major health problem in Egypt with high risk of heart attack and probably stroke.

In a large sample survey conducted between 1991 and 1994, of 6,052 households living in Cairo and its rural surroundings, Herman *et al* (1995) found

that only 6 per cent of total obese men were living in rural areas. When urban obese men were disaggregated by income, 19 per cent were in low-income groups, compared with 56 per cent among the rich. With regard to diabetes, the prevalence was much higher among the rich obese persons than the poor. A similar conclusion was reached from the findings of a smaller sample survey of 1,653 adults (18 years and older) conducted by Ismail *et al.* (1995) in two Cairo districts, unprivileged low-income Gabbasa (in Masr el-Qadima) and Manial whose residents are largely in the high-income brackets: obesity is positively correlated with income level; the very obese are found among the relatively wealthy residents of Manial (68 per cent) in greater numbers than among the residents of the poor district of Gabbasa (47 per cent). The researchers attribute most of the difference to quantity and quality of food intake, and to occupational and physical activities, but less to educational level because nearly half the rich obese are university graduates. Family size and housing conditions influence also income-nutrition-health relationships. Moussa *et al.* (1995a), found that 44 per cent of obese poor parents having six children or more, and 96 per cent of them are crowded in one or two rooms. This is in contrast to rich families, each having a smaller number of two to three children on average and most of them live in four to six rooms of detached houses and independent flats.

Child malnutrition and mortality

If obesity and diabetes associated with heart disease are the major diet-related health problems among Egyptian adults, anaemia (iron deficiency) and underweight are the problems for children. Since the pioneering work of Ismail Abdou in 1962 (Abdou *et al.* 1965), there has been sufficient evidence – from the results of *Nutrition Surveys* including that by Moussa *et al.* (1995b) – of a continuing high prevalence of anaemia among children (see Moussa and Nassar 1992). In 1962, the prevalence among school children (6–12 years) was, on average, 40 per cent in the Nile Delta and 53 per cent in Aswan, and in 1988 it was still widespread among 45 per cent of total children examined in several districts (*Review of Trends, 1992*: Table 13). Anaemia is also widespread among pre-school children (6–36 months) as revealed by the findings of two large samples of children disaggregated by parents' income, weight and height (Tawfik *et al.* 1996 and Abd el-Maksoud *et al.* 1997). The studies conclude that:

- 1 children of low-income parents are more undernourished (52 per cent) than those of high-income parents (7 per cent);
- 2 anthropometric examination showed that 22 per cent of anaemic children were stunted (below at least 2 standard deviations of height-for-age measurement) and 16 per cent were underweight for their age; and
- 3 at one year of age, children showed a marked deficit in both weight and height, increasing up to the age of 3 years.

At the national level, Moussa and Nassar (1992) show that 25.2 per cent of the 1,613 children surveyed were iron-deficient and 17 per cent under-weight.

Such an extent of undernutrition can lead to a child having irreversible physical, mental and to the social disabilities, and loss of the children's potential capabilities.

According to the anthropometric norms used by WHO and UNICEF, there is an improvement in under-5 stunting, though it is still high. But wasting and under-weight prevalence have increased between 1992 and 1998, becoming worse in 2000 as shown in Table 3.4. When the national average of child undernutrition (stunting) is disaggregated by governorate (*muhafazat*) the results given in Table 3.5 are telling. In 1995, child stunting in rural Upper Egypt was more than double its prevalence in urban *muhafazat*, and nearly 1.4 times the national average. Moreover, between 1992 and 1995 whereas the prevalence has increased by 33.4 per cent in the disadvantaged rural communities of Upper Egypt, the increase was only 5 per cent in urban *muhafazat* with their average real per person income being 2.3 times those of the former (INP 1997/98: Table G1). The health risk of the disadvantaged children living in the rural communities is greater if they suffer simultaneously from stunting, wasting and underweight, leading subsequently to death. For easy comparison, the available malnutrition data for 1992, 1995, 1998, and 2000 are presented in Table 3.5, together with their corresponding under-5 child mortality per thousand live births in parenthesis.

The data in Tables 3.4 and 3.5 suggest a close positive association between child malnutrition and mortality according to place of residence. It indicates

Table 3.4 Child malnutrition by anthropometric measurements, 1992–2000

	1992	1995	1998	2000
Height-for-age (stunting) per cent	26.0	29.8	20.6	18.7 ^a
Weight-for-height (wasting) per cent	3.4	4.6	5.1	6.0 ^b
Weight-for-age (underweight) per cent	9.9	12.5	10.7	12.0 ^b

Source: National Population Council, *Demographic and Health Survey* (EDHS), 1992, 1995 (Table 12) and 1998 (Table 9.5), Cairo.

Notes

^a From EDHS 2000: Table 13.8. It explained at p. 175 that weight measurements differ from other years because of its conduct in winter while the children were wearing heavy clothes.

^b Therefore these are taken from UNICEF 2001 (Table 2 of the Statistical Tables).

Table 3.5 Under-5 child malnutrition and mortality rates by *muhafazat*, 1992–2000

	1992	1995	1998	2000
Urban <i>muhafazat</i> , per cent	17	18 (57)	22 (40)	9 (45)
Rural Delta (Lower Egypt) per cent	29	29 (89)	n.a.	14 (61)
Rural Upper Egypt, per cent	30	40 (123)	n.a.	27 (99)
National average, per cent	26	30 (96)	21 (65)	19 (64)

Source: National Population Council, *Demographic and Health Survey* (EDHS), 1992, 1995, 1998 and 2000, Cairo.

Note

n.a.=not available.

also a deterioration between 1992 and 1995 in all anthropometric measurements (stunting, wasting and underweight) followed by a fluctuation until 2000. This situation is in all probability a manifestation of the negative impacts of the 1991 economic reforms on the parents which will be specified in the next chapter. We should note that during this period, the economy has experienced a sharp fall in annual rate of GDP growth per head at -0.7 per cent in 1990-95.¹⁹ The results of the EDHS suggest also an urban bias in the accessibility of child health-care, including the compulsory vaccination against diphtheria, tetanus and measles. The national average of vaccination coverage was 89 per cent, but 70 per cent in the disadvantaged rural Upper Egypt. Likewise, essential sanitary facilities, whose presence or absence influences the level of child deaths are also concentrated largely in urban areas (77 per cent) compared with 18 per cent, on average, in all rural Egypt and only 12 per cent in rural Upper Egypt (INP 1997/98: Table G2).

It is clear from the preceding discussion that variations in child mortality are multi-dimensional, and undernutrition is but one major cause. Undernutrition is exacerbated by unhygienic environment, poor living conditions and the prevalence of diarrhoea, dehydration and child exposure to infection and infestation. As will be examined below, other environmental factors include polluted water, especially when it is used to dilute condensed or powdered milk.²⁰ Another important influential factor is the mother's education: the more literate the mother, the lower the incidence of under-5 child undernutrition and mortality, and vice versa.²¹ In the comprehensive field research in rural Egypt by Kelley *et al.* (1982: 108-12) and Egypt's document presented to the International Conference on Population and Development (Hussein, Cairo, 1994), the influence of the mother's education on child malnutrition and mortality is clearly established. Both studies point out that educated mothers were able both to identify symptoms of malnutrition and related illness, and to take appropriate action. The wretched state of nutrition and health of young children in rural communities is thus related to the high female illiteracy of 69 per cent of the population (15 years +) in 1998 (INP 1998/99: 149).

Environmental impact on human well-being

In Egypt the concern over environmental problems that cause premature deaths and adversely affect human health, productivity and functioning in life is quite recent. My inclusion of these relations in a study on living standard is an attempt to treat the environmental factors as a constituent or an input in the production of level of living. It is based on my belief that the quality of environment is one of the roots of Egypt's standard of living. Using available information, an attempt is made to link environmental functioning with health and ability to perform productively. In this way, my approach is an expansion of the conventional emphasis on purchasing power (income and consumption).

Threats to well-being

Rapid urbanization and industrialization since the 1950s have resulted in health risks, caused by road traffic's high intensity combined with the extensive pollution of air and drinking water. Environmental threats to well-being have been exacerbated by the dangerous effects of excessive use of pesticides and untreated animal manure for fertilizer and sewage water for irrigation. The concern over these threats has been more governmental than from popular grass-roots organizations defending citizens' rights to breathe fresh air, drink safe water and to be protected from pollutants that threaten health. It was as late as mid-1980s that the state has recognized the serious consequences of increasing pollution dangers. A formal institutional framework was established, including the 1994 law, and setting up a specialized government department (the Environmental Affairs Agency) that was restructured as a ministry headed by a cabinet member. Since then, generous international aid has been received and notable progress made in data collection, awareness creation and monitoring effects but less in effective anti-pollution activities.²²

Ironically, the major sources of pollutants have been government-owned and operated factories, producing cast iron, aluminium, cement, petrochemicals, rubber, pesticides and fertilizers as well as electricity-generating stations producing harmful wastes. In addition, there are substantial exhaust emissions by public buses and military and police lorries. According to Helwa (1995: Tables 5 and 6), 75 per cent of Egypt's total industrial establishments in 1995 were in the public sector that constitute the major source of pollution, and were mostly situated around Greater Cairo and Alexandria. In Cairo, solid waste material was substantial, estimated in 1995 at 750,000 tons/year from the metal industry, 450,000 tons/year from cement plants and 50,000 tons/year from petrochemicals. These solid wastes contain cadmium, sulphur dioxide, chlorine and lead, some of which may cause cancer. Moreover, wastes from hospitals and factories producing medicine contain bacteria, viruses and patients' wastes that add risk of infection and chemical poisoning. Combined with an enormous quantity of garbage left in open dumps and untreated sewage effluent, these wastes are a fertile environment for flies to transmit bacteria causing diarrhoeal diseases and trachoma. These threats to health are particularly pronounced in crowded villages and in the informal urban slums (*ashwaiyat*), which, until 1999, had no basic sanitation facilities. The inhabitants of these shanty towns were estimated at 11.7 million or 21 per cent of Egypt's total population (INP 1996: Table 3.9).

On examining the data collected in 1997 and 1998 from the network of environment-monitoring stations, I found in the governorates of Cairo, Giza, Alexandria and Assiut a high degree of air pollution (measured in terms of micro grammes per cubic metre) reaching 5–6 times the permissible level of the life-threatening lead, sulphur dioxide, carbon monoxide, smoke and other microbodies in air. These pollutants are concentrated in the industrial districts of Helwan, Tebein, Badrasheen, Al-Talbeya, Abo Za'bal, Shubra El-kheima, Abo El-Saoud, Amiriya in Greater Cairo and Manqabad in Assiut. UNEP (1996:

63–8) reported that in El-Max, west of Alexandria, the local population was suffering from being surrounded by petrochemical, iron, steel and cement factories which produce sulphur dioxide that was 2–3 times WHO standard. Moreover, it was reported in March 2000 that in the poor residential areas of Helwan and Ma'sara south of Cairo the high rates of pollution were responsible for half the cases of lung cancer. In Manqabad district of Assiut governorate, where unfiltered cement factories and fertilizer plant are situated, it was found that the residents suffer greatly from lung diseases; the incidence was 17.5 per cent of a sampled population, compared with 6 per cent outside the cement-risk area. The same studies show also excessive lead emission by metal factories in Shubra El-kheima – just north of Cairo – that has contributed to a number of deaths and lowered the child intelligence measurements by 4 degrees, compared with a reference sample outside the risk area.²³

In the almost rainless country, the quality of the Nile water and its shallow underground water is vital to well-being. Looking closer at the results of the monthly sample-tests of water from Aswan to Alexandria taken in 1997 and 1998 by Imbaba Centre of the Ministry of Health, I found an alarming level of contamination from infiltrated toxic industrial wastes, pesticides, fertilizers and untreated sewage water. Importantly, I found also that the water at the sixteen water treatment stations of Cairo was nearly always safe, but the contamination has occurred in the *distribution* system. At the dawn of the twenty-first century, I am shocked to learn that a mere 30 per cent of total housing units in Suhag Governorate and 27 per cent in El-Minya (both in Upper Egypt) have purified water linked to the public water system (CAPMAS 2001: Tables 7.3 and 7.5).

Health risks from road traffic

From the analysis of household expenditure, we noted earlier the fast growth in the purchased of private cars, by 900 per cent between 1970 and 1998. If this private-car boom is added to that of other types of licensed vehicles, we realize the alarming, high density of road traffic and the resulting health risks from air pollution, injuries and deaths. The Traffic Department's data given in the *Statistical Yearbook* (2001: Table 4.16), show 3.1 million vehicles registered running in an inhabited space of 35,188 square kilometres or 3.5 per cent of the total area of Egypt. In Cairo alone, the inhabited space is 214 square kilometres, with a density of about 7,340 vehicles and 33,000 inhabitants per square kilometre. If we add traffic flowing across the Nile from Giza to Cairo the density is probably one of the highest in the world and must have increased since 2001.

Road traffic poses health risks or human capital loss and years lived with disability that includes injuries and chronic bronchitis that have contributed not only to low productivity but most importantly to heart diseases, not to mention death. Considering that 48 per cent of total vehicles in Egypt are registered in the Greater Cairo area alone and that the average age of cars is over 10 years, and generally they are poorly maintained, the health risks of

high exhaust emissions is underscored. While unleaded gasoline and the use of natural gas technologies are now available and their usage is encouraged by the Ministry of Environmental Affairs, subsidized leaded fuel and diesel are still widely used. From a study conducted by UNEP (1996) it was found that Cairo traffic policemen were highly exposed to excessive vehicle exhaust emissions, and their blood contained a lead level that was over three times the WHO permissible standard.

Social cost

By social cost is meant the sum of money to be paid to restore health, and to compensate for loss of lives and earning opportunities resulting from traffic, water and air pollution. The most deplorable consequence of Egypt's highly crowded traffic is the increasing number of seriously injured people who are made disabled for a long duration and those killed in car accidents (i.e. premature death or the difference between actual age at death and average life expectancy). Data obtained from CAPMAS show that the reported number of seriously injured people has substantially increased from 16,000 persons in 1990 to an annual average of 19,500 in 1995–97, rising further to 23,000 in 2000–1 (*al-Ahali*, 6 March 2002: 5). The data show also an underestimated number of those killed *annually* in traffic accidents ranging from 3,500 to 5,200 persons in 1995–97, i.e. nearly 13,000 lives lost in three years only. The number of those killed in traffic accidents has also increased to 5,800 in 2001, with the governorates of Giza and Qaliobeya, within Greater Cairo, ranked top in traffic deaths per kilometre. In May 2002, a rough estimate of human and material losses of road traffic was made at LE6 billion in one year (without specifying the dates and the methodology used).²⁴ Moreover, data on fatal and non-fatal traffic accidents are under-reported and those disaggregated by sex, age and occupation unpublished. Hence it is impossible to estimate the social cost of these substantial losses.

For the city of Cairo, an overall estimate of social costs of the health impact of air pollution was attempted by Smith *et al.* (1999: 433–5). The estimate includes annual premature deaths as being 3,400; health damage incidence (asthma attacks and chronic bronchitis); and the disability loss of earnings in terms of days/years of restricted activities. Using several coefficients and models constructed by other analysts, Smith and his collaborators estimated the *annual* social costs for the population of Cairo, ranging widely from US\$500 million to US\$1.2 billion, if mortality estimates were included, and US\$350–750 million if excluded. The estimate varies according to the valuation coefficient used. However, if premature deaths from pollution were included, this rough estimate of social loss for the population of Cairo alone is equivalent to nearly 1.5–2.0 per cent of the 1999 national income (GDP). It would greatly rise if we include both the losses incurred by serious injuries and accidental deaths caused by road traffic, as well as the amount paid privately for the purchase of drugs and health care during hospital treatment. Despite their limitations, these estimates are useful as an expression of an approximate indication of the order of

magnitude of social costs. Another pioneer work was initiated by Murray and Lopez (1996). In their global study, they established a methodology for estimating the number of years of life that are lost due to premature death and years lived with disability (DALY). They give more importance to a year of life lost by a middle-aged adult than to an elderly person.²⁵ However, this judgement is controversial because of cultural beliefs and values.

A third measurement attempt that is broad in scope was made by the experts of the World Economic Forum during their preparation of the 2000 *Global Competitiveness Report*. To compose an environmental performance index, they have collected data from fifty-six countries, including Egypt, on pollution control enforcement, rates of pollution, percentage of population with access to safe drinking water, environmental health risks, efficiency in fuel use and the extent of non-governmental organizations' involvement. Out of an index, ranging from zero for the worst environmental conditions to 2 for the best, Egypt's score was 0.6 which lowered its position in the global ranking to become among the bottom five, 52 out of 56, with Norway and Switzerland ranking one and two at the top (WEF 2000: Figure 1, pp. 60–5). The connection of this poor rating with the standard of living is the opportunity cost incurred by the nation, i.e. benefits in the level of living sacrificed by environmental degradation.

Conclusion: success and challenges

The downward trend in child mortality combined with the upward trend in average life expectancy over the past fifty years are significant achievements towards raising the standard of living. The results of the 1996 Population Census, the last before the twenty-first century, show that of the total births numbering 1.7 million, 132,000 children died before reaching their fifth birthday, indicating a mortality rate of 76. The rate fell to 64 in 2000 (National Population Council 2000) which contrasts sharply with 'about' 260 in 1950. I say 'about' because the published numbers of deaths between the Population Censuses of 1947 and 1960 are uncertain, probably due to inclusion or exclusion of the 60th month in considering the age category limits (0–59 months or 0–60 months), and the births and deaths of Egyptians abroad. Another possible source of discrepancy is the parents' reporting or non-reporting of deaths of infants under one month. The other demographic gain is the steady fall in fertility rate (number of children to be borne by a woman in her child-bearing years) from 6.7 in 1960 to 5.3 in 1975, declining further to 3.2 in 1998, and projected to reach 2.1 in 2017. Both benefits have reduced the annual population growth rate and have increased life expectancy at birth, meaning an addition to the stock of human capital.

For these benefits to continue into the twenty-first century, certain challenges that have emerged from our discussion must be resolutely faced. The first is the substantial increase required in investment in primary education and health care and in raising the quality of public services, particularly health care, to well above the present poor levels. Increased investment in primary

education will, more likely, realize enormous potential returns towards meeting the government's planned national income growth at 7.6 per cent a year, on average, between 2002 and 2017. For this purpose and for a speedy reduction poverty, it is essential to geographically target the limited resources towards deprived localities and people, particularly in rural Upper Egypt. It would be then possible to meet the internationally set goal of proportionate poverty reduction *by half without* increasing the numbers of the poor by the year 2015.

The second challenge to be met is to fulfil the other related targets set by international instruments to which Egypt has committed itself. For example, in the field of education, the government agreed at the 1990 UNESCO conference to eradicate illiteracy by the year 2000, yet as noted earlier, Egypt has entered the twenty-first century with nearly 16 million illiterate adults. This is a sad result of the failure of both education policy and current anti-illiteracy campaign. Likewise, meeting the target of complete enrolment in primary schooling by the year 2015 will be difficult without restructuring budgetary resources in favour of primary education because macro-measurements show that between 1980 and 2000, the enrolment ratio has not exceeded 95. It was even worse at 55–60 in poor urban and rural areas where child labour prevails. As with its education targets, Egypt was committed at the 1990 World Summit for Children to halve the 1990 level of malnutrition (it was 32 per cent stunting) among under-fives in 2000, when the level reached was 21 per cent, instead of the set target of 16 per cent.

The question is, given the weakness in governance at local level, how in the current market economy would a combination of public expenditure and private profit-seeking enterprises, as well as the voluntary services of NGOs, realize the delivery of the best results in health care, education and family planning services without jeopardizing the interests of the poor? However, the government remains responsible both for the choice and implementation of anti-poverty policies and for the realization of the targets to which it has committed itself. These topics deserve serious debate. Systematic and *micro* field studies are also needed to clarify these issues. There is an additional challenge of how to cope with the changing age structure, particularly the aging population (over 60 years, Egypt's official retirement age) whose number has jumped from 1.6 million in 1960 to 3.5 million elderly in 2000, half of whom were salaried before retirement. Considering the fast rise expected in their numbers because of declines in both fertility and mortality rates, they require policy change with regard to health care, social security and employment age limits.

The final challenge is to substantially reduce health risks, including premature death from widespread environmental degradation, tobacco smoking and use of narcotics. The consumption of these harmful goods is expected to increase slowly until 2008 when the addiction starts falling as estimated by the National Conference on Smoking and Narcotic Addiction (Cairo, April 2001). Of wider concern is the eradication of the environment-based health hazards which cannot continue to be suffered in silence. We have now a preliminary idea of the direct and indirect substantial human costs of extensive pollution and traffic-related disabilities and deaths.

Each of these challenges addresses an important component or the means to well-being because, as explained at the start of the chapter, they are mutually reinforcing. Preserving an understanding of their plurality and interdependence is important for creating and sustaining well-being. Raising the educational level of the present generation and protecting the environment from degradation, for example, raise people's productive ability to create additional incomes/consumption now and in the future. As I have frequently stressed throughout the chapter, the most determinant factor for well-being sustainability is the state's commitment and the attitudes of its bureaucracy towards the right of citizens to equal access to basic social services because the government is held accountable for meeting targets declared for the first and second decades of the twenty-first century. On this obligation, Pigou (1932: 29) says, 'The State should protect the interests of the future . . . against our preference for ourselves over our descendants'. He adds, this is 'the clear duty of Government, which is the trustee for unborn generations as well as for its present citizens'.

There are grounds for some optimism. One is the success in the reduction of population growth rates, combined with a modest upturn in income/personal consumption per head. The other is Egypt's climatic fortune of not being exposed to the devastating effects of such severe natural/physical shocks as cyclones, floods, earthquakes and hurricanes. Important also is the increasing awareness that the potential benefits from saving lives and living longer and healthier are much higher than the social costs incurred by delay, inaction and the progressively increasing burden of red tape in public services.

Suggested reading

On the concepts of the standard of living and well-being:

Dasgupta, P. (1995) *An Inquiry into Well-Being and Destitution*.

Pigou, A. (1932) *The Economics of Welfare*.

Sen, A. (1987) *The Standard of Living*.

Streeten, P. (2000) 'Looking Ahead: Areas of Future Research in human development'.

Additional reading can be found in Notes and References, especially empirical studies on the suggested components of the standard of living in Egypt.

Appendix 3.1

Selected summary articles of the 1971 Constitution and 1980 Amendments

The State

Egypt is an Arab Republic with a democratic, socialist system.

Sovereignty is of the people alone which is the source of all powers.

The protection, consolidation and preservation of the *socialist* gains is a national duty: the sovereignty of law is the basis of the country's rule, and the

independence of immunity of the judiciary are basic guarantees for the protection of rights and liberties.

The Fundamental Elements of Society

Social solidarity is the basis of Egyptian society, and the family is its nucleus.

The State *ensures* the equality of men and women in both political and social rights in line with the provisions of Muslim legislation.

Work is a right, an honour, and a duty which the *State guarantees* together with the services of social and health insurance, pensions for incapacity and unemployment.

The economic basis of the Republic is a *socialist* democratic system based on sufficiency and justice in a manner preventing exploitation.

Ownership is of three kinds: public, co-operative and private. The public sector assumes the main responsibility for the regulation and growth of the national economy under the development plan.

Property is subject to the people's control.

Private ownership is safeguarded and may not be sequestered except in cases specified in law nor expropriated except for the general good against fair legal compensation. The right of inheritance is guaranteed in it.

Nationalization shall only be allowed for consideration of public interest in accordance with the law and against compensation.

Agricultural holdings may be limited by law.

The State follows a comprehensive *central planning* and compulsory planning approach based on quinquennial socio-economic and cultural development plans whereby the society's resources are mobilized and put to the best use.

The public sector assumes the leading role in the development of the national economy.

Public Rights and Duties

All citizens are equal before the law. Personal liberty is a natural right and no one may be arrested, searched, imprisoned or restricted in any way without a court order.

Houses have sanctity, and shall not be placed under surveillance or searched without a court order with reasons given for such action.

The law safeguards the sanctities of the private lives of all citizens.

The freedom of opinion, the press, printing and publications and all information media are safeguarded.

Press censorship is forbidden, so are warnings, suspensions or cancellations through administrative channels. Under exceptional circumstances, as in cases of emergency or in wartime, censorship may be imposed on information media for a definite period.

Egyptians have the right to permanent or provisional emigration and no Egyptian may be deported or prevented from returning to the country.

Egyptians also have the right to form societies which have no secret activities. *Public meetings* are also allowed within the limits of the law.

Sovereignty of the Law

Recourse to justice is a right of all citizens. Those who are financially unable will be assured of means to defend their rights.

Except in cases of *flagrante delicto*, no person may be arrested or their freedom restricted unless an order authorizing arrest has been given by the competent judge or the public prosecution in accordance with the provisions of law.

1980 Amendments

- (i) the regime in Egypt is *socialist-democratic* based on the alliance of working people's forces.
- (ii) the political system depends on multiple political parties; the Arab Socialist Union is, therefore, abolished.
- (iii) the President is elected for a six-year term and can be elected for other terms.
- (iv) the President shall appoint a Consultative Council to preserve the principles of the revolutions of 23 July 1952 and 15 May 1971.
- (v) a Supreme Press Council shall safeguard the freedom of the press, check government censorship and look after the interests of journalists.
- (vi) Egypt's adherence to Islamic jurisprudence is affirmed. Christians and Jews are subject to their own jurisdiction in personal status affairs.
- (vii) there will be no distinction of race or religion.

(Note: emphasis in italics is mine.)

Notes

- * I am grateful for helpful comments on earlier drafts by Azza Aglan, Galal Amin, Mohamed El-Ghamry, Heba El-Leithy, Wafaa Moussa, Gill Short and my son Anwar.
- 1 The promotion of higher standards of living is set forth in the United Nations Charter. In order to help countries in understanding and monitoring changes in living conditions, a committee of experts prepared a report (UN 1954).
- 2 See Pigou (1932, 4th edition 1962), chapters 1 and 13, especially p. 759. See also Dasgupta (1995), especially chapter 1 'The Commodity Basis of Well Being' and chapter 4 'Well-Being: From Theory to Measurement'.
- 3 See Nussbaum and Sen, eds (1993).
- 4 Western cultural influence is still so powerful that, as recently as January 2000, my cousin, who is always dressed in rural style, was not admitted to El-Maadi Club to join the family members residing in Cairo at my invitation to celebrate Ramadan *Fotour*. Surprisingly, the club rules dating back to the British occupation era prohibit entry of men with native dress, *galabia*. It was only after writing a petition to the club manager that the cousin was exceptionally allowed entry!
- 5 IMF calculated the extent by comparing the share of actual public expenditure on health and education in national income with its expected share. See IMF (1990), for the calculated ratio of actual to expected levels multiplied by 100 producing an index for inter-country comparison during the period 1975–6.
- 6 In his field survey of 150 working children (age 4.5–14) and their employers in a leather-tanning factory (*madabegh*) south of Cairo, Abdalla (1988) found out that

average daily working hours were 8–11, conditions of work 'as they were in the nineteenth century' and labour law was unenforced.

- 7 The study has been widely reported in the press. See Farouk Abdul-Maguid on the front page of *al-Ahram*, 12 February 2001. GDP was LE287 billion in 2000.
- 8 The prevalence of smoking as a risk factor in hypertension, lung cancer and heart diseases has been examined by several researchers, e.g. El-Gengaihy (*Medical Journal of Cairo University*, 1993: 61), Mansour *et al.* (*Zagazig Medical Journal*, 1995: 8) and Deif *et al.* (*Bulletin of Alexandria Faculty of Medicine*, 1994: 30).
- 9 Information in this paragraph is taken from the journal of the Egyptian Society for the Prevention of Alcohol and Anti-Narcotic Drug Campaign (*al-Mokhadirat*), issues No. 9 and 10, October 2000 and January 2001.
- 10 Hashish estimates constitute one component of several others in the hidden economy. See Abdel-Fadil and Diyab (1985) for estimates based on quantities of hashish seized and that of United Nations experts, by which the seized quantity represents 10 per cent of total quantity available for consumption, or 335,000 kilogrammes (1980/81 average).
- 11 There have been several interpretations and definitions of globalization and its different aspects (economic, cultural and political aspects). On its effects on poor countries, see *Human Development Report 1997*, Chapter 4 (UNDP 1997). On a general discussion, see the special issue of *Oxford Development Studies*, Vol. 26, No. 1, 1998. On a comprehensive debate on globalization in Egypt, see the American University in Cairo 1998.
- 12 CAPMAS, *Statistical Yearbook* 1994, 1998 and June 2000.
- 13 Nutritional values of traditional foods are described in FAO (1990, 1992)
- 14 Malnourishment or malnutrition is a broad term describing physiological conditions resulting from imbalance in food intake and deficiencies in certain nutrients (iron, protein, vitamins). Undernutrition refers to a prolonged low level of calorie intake. Both terms overlap and imply ill health. For the *total* population, inadequate food intake is estimated by FAO by comparing actual food intake by sex and age groups with the country-specific average calorie requirements per head.
- 15 Food Balance Sheets show, on one side, 'assets' consisting of the quantities of domestic food production plus food imports, including food aid, and accumulated stocks from previous period, and on the other side 'liabilities' comprising non-human food consumption (animal feed, seeds, food processing, an allowance for food wasted between production and consumption and the quantities of food exports). The net represents total supply used for the calculation of calorie and protein equivalents, total and per head per day. For an assessment of early Food Balance Sheets (1934–51) see Farrag (1954), chapter V and Appendix 1; and Amin (1966), 54–60.
- 16 For a detailed discussion on time-lag, see Osmani, ed. (1992) pp. 11–13.
- 17 See Field and Ropes' composed index of literacy, infant mortality rates and the percentage of the provision of safe drinking water by provinces (1979). This is a modified world-wide index established in the same year by Morris. The scores of Upper Egypt's provinces were 20, on average, compared with 77 Alexandria, 95 Port Said and 57 Damiet.
- 18 Obesity is measured by the Body Mass Index (BMI)=weight in kilogrammes divided by square of the height in metres. A person is obese when BMI=25 or more, raised to 30 or more by WHO in 1998.
- 19 For a detailed discussion on this sharp fluctuation, see my Chapter 4 in this volume.
- 20 See the results of WHO's study on the causes of child death in UNICEF 1998, pp. 10–11. Concerns over health risk are based on illiterate mothers' inability to read the specifications of content and the instructions, particularly with regard to the date of expiry and the appropriate preparation of foreign-made powdered or condensed cow's milk (e.g. water to milk dilution ratio, the maximum temperature and time needed for heating and cleaning bottles).

- 21 See FAO (1985), pp. 31–2, and Moussa with Nassar *et al* (1992), pp. 94–6.
- 22 See the agency's programme by Salah Hafez and Salwa Sha'rawi Gomm'a in Nicholas Hopkins, ed. (1992) and the Ministry of Environmental Affairs proceedings of Environment 99, Cairo.
- 23 Sources are: *al-Ahram* 10 and 20 March 2000, *derasat El-bi'ah*, edited by Wagdi Riad. For the effects in Cairo, see Mahmoud Nasralla, Ghaly *et al.*, and for Sohag, see Abu Gharbia *et al.*, both in the Ministry of Environmental Affairs, Environment 99 Conference Proceedings, *ibid.* For the effects in Assiut, see Khalafalla Hassan Mohammad, *al-Seha wal Bi'ah*, 1995 (Health and Environment) University of al-Menia, pp. 134–7.
- 24 The rise in the numbers of traffic deaths are given by Professor Esam Sharaf, College of Engineering, University of Cairo in *al-Ahram*, 14 April 2002. The estimate of social cost of road traffic in one year is reported in *al-Ahram*, 7 May 2002, p. 3.
- 25 Murray. ed. (1996) suggests in Chapter 4 some methodological procedures for estimating the number of years of life lost by the main causes (malnutrition, smoking, occupational risks, respiratory and heart diseases, road traffic accidents, suicide and self-inflicted injuries, etc.). See preliminary results of their study in *World Development Report*, 1993, Appendix B.

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Part II

Evaluating development experience and sectoral performance

4 Development strategies, 1950–2001

Progress and challenges for the twenty-first century*

M. Riad El-Ghonemy

Introduction

As its title suggests, this chapter examines Egypt's experience in tackling development problems through strategic planning during the past half century. The examination allows the reader to understand some dimensions of development such as:

- 1 How have development objectives and means been defined over the periods studied? Is human development, relative to economic growth, considered as means or ends in development, and if so, how?
- 2 Does the current strategy (1997–2017) address the principal development concerns characterized in this volume or are they areas of neglect and overshadowed by other concerns?
- 3 After nearly forty-five years of tight planning of an economy dominated by the public sector, is the planning mechanism and the pattern of designed development that began in the late 1950s relevant to an era of ever-expanding private sector, within increasing global competitiveness and the limited role of government in the twenty-first century?
- 4 Under what conditions have economic growth and equitable distribution of wealth been realized simultaneously, and economic stability or instability prevailed?

Because of the long duration of this investigation, it is divided into different periods according to the initial situation of development problems, the set of policies pursued and the underlying rationale of the strategy. My assessment of development strategies in specific periods places emphasis on the changing roles of government/public sector and market/private sector in the national economy and it examines the political/institutional arrangements that underlie them and how the presence or absence of adequate institutions have induced or restrained the pace of development. Besides, my examination is broad in consideration of detailed sectoral assessment made in the rest of this volume. However, this way of presentation faces three difficulties; overlapping, possible misinterpretation of policy objectives, and whether my

division of the whole duration into four periods is acceptable to the reader or not. In the next section, the discussion moves away from the chronological arrangement of events, to an overall assessment of the performance of the economy.

In judging changes over the last fifty years, my emphasis on economic growth (level of total and per person income and their rates of growth) does not mean that I see it as the purpose of development. Rather, it is viewed as a necessary means, but not a sufficient condition for development, and it is a chief performance test of the economy, in general, and its key macro-economic variables (production, consumption, savings and investment, including technology) in particular. My primary concern is with the pace and pattern of growth that benefits the poor. The last section identifies the main challenges of development into the twenty-first century – actions needed and inaction consequences – suggested by my assessment.

Shifting development strategies

Since the 1950s, we have witnessed significant policy shifts in the roles of the state and the market in pricing, wage determination, monetary policy, employment expansion, production, trade and in the distribution of both income and opportunities. These shifts are grouped into four periods with distinct development features. The first is between 1950 and 1955, during which a radical institutional change was introduced in July 1952 by the Free Officers under the leadership of the late President Gamal Abd al-Nasser. Despite this, the private-enterprise market economy that for long had existed was maintained. The second period (1956–70) was characterized by a different strategy, combining industrialization-based economic growth and rapid reduction of poverty and inequality, through state intervention in a tightly planned economy and dominant public enterprises operating on non-capitalist lines. During this period, the foundation of the welfare state was laid, and the emphasis on egalitarianism, guaranteed employment and reliance of the economy on the control of a powerful central government was greater than at any other period over the past half century. The third period (1971–90) witnessed a strong fluctuation in economic performance and a piecemeal financial liberalization and structural adjustment, but the public sector continued to be dominant. The last period (1991–2001) is characterized by a pronounced policy shift towards economic liberalization and the preparation of the economy for technology- and efficiency-based global competition. During the same period, the 1997–2017 strategy was designed and the economic shock resulting from the 11 September 2001 events in the USA has taken place.

Before evaluating policy content and outcome of each period, three observations are made. The first is the excessive and confusing usage of such terms as plan/planning and strategy/strategic formation. The formalized process of managing the economy began with the President's strategic thinking that has been articulated – by the highly qualified professionals of the Institute of

National Planning and the Ministry of Planning – into deliberate plans with quantified targets for specified periods in the future.

The second observation is that historical experience suggests that, with the exception of the 1952 land reform and state-led industrial expansion, policy choice was largely unintended or was, in Mintzberg's terminology (1994: 26), 'emergent strategy' made in response to internal and external events. A good example of this policy reaction is the nationalization of the Suez Canal in July 1956 in response to the refusal of the World Bank and the USA government to finance the construction of the Aswan High Dam after Egypt's conclusion, in September 1955, of an arms purchase deal with Czechoslovakia, followed by its negotiations with the former Soviet Union for financial aid.

The third observation is that we should keep in mind the fact that the wars with Israel (1956, 1967 and 1973) and Egypt's heavy military involvement in the Yemen Civil War (1962–68) have, for three decades, affected investment priorities, government expenditures, the Suez Canal earnings of foreign exchange, the prices of oil and tourism revenues.

Continuation of market mechanisms and slow transition to planned economy, 1950–1955

Apart from government control of irrigation and a few imports to protect industry, especially textiles, this period was characterized by a private-property and free-enterprise economy, i.e. a continuation of the pre-1950 capitalist system of market economy. Despite the effects of the Korean War on cotton prices (1950–52), the period witnessed an economic stability in terms of national output growth, low inflation rate and liberal investment in the private sector led by Bank Misr. Helped by the industrial growth during the Second World War, this stability was realized through a series of regulations, including the closure of the Alexandria Cotton Exchange for two years and raising direct taxes and import duties on non-essential consumer goods. There were also strategic decisions such as the promotion of exports by way of concluding several bilateral agreements and attracting direct foreign capital investment, through granting generous incentives in 1953–54, especially in the oil industry. In the meantime, multi-sectoral projects were prepared by the newly created National Production Council, covering a wide range of activities from agricultural land development (e.g. Tahreer Province) to schemes for manufacturing iron, steel, paper and fertilizers that contributed later towards the expansion of the public industrial sector in the 1960s.

The major policy for reducing poverty and inequality of opportunities during this relatively short period was the assault on corruption and the expansion in housing schemes for low-income groups and the redistributive land reform of September 1952.¹ Supplemented by the second land reform of 1961, it redistributed 13 per cent of total agricultural land in family units of 2 feddans on average among small tenants, representing only 10 per cent of total agricultural households (one feddan equals nearly one acre or 0.42 hectare). In addition, the reform programme confiscated the royal family

estates and substantially reduced land rental values in real terms by fixing them at seven times the already low land tax that was assessed in 1947. For the first time in Egyptian history, a maximum limit on private landownership was established at 200–300 feddans per household in 1952, reduced in 1961 to 100 feddans (42 ha.) and 50 feddans (21 ha.) per person (changed to 100 feddans by Law No. 96 of 1992). In spite of its modest scale of landownership redistribution, the land reform has introduced a fundamental change in Egypt's socio-political power structure towards an equity-oriented policy intended to benefit the *fellaheen* (peasants and landless workers). It seems that the late President Abd al-Nasser and his 1952 Revolutionary Council wanted to deliver tangible results at an early stage by modernizing agriculture based on its institutional reorganization. They maintained private property rights and consequently agriculture and urban real estate have, since then, been the major private-enterprise sector of the economy.

State intervention for the creation of a mixed economy and welfare state, 1956–1970

It seems that the success of both land reform and the nationalization of the Suez Canal in 1956, combined with the sequestration of British, French and Israeli properties, following the Suez War in the same year, encouraged the Nasser Administration to extend government strategic control over the economy in different ways. The major features of this control were tightly planned investment allocations, large-scale nationalization, administered pricing and wage-fixing, as well as the controlled foreign trade and resource use in farming. The main thrust of foreign trade and manufacturing expansion was the deliberate import-substitution industrialization for which nearly one-third of total investment was allocated in 1956–65. Thus, the pattern of development has gradually shifted away from a market economy towards a tightly planned mixed economy of private and public ownership. The objective was to realize both a high annual growth of GDP at the planned average rate of 7 per cent and a speedy human development based on a solid foundation of an equitable distribution of wealth and growth benefits between the social classes, safeguarding the interests of workers and the poor. Faster annual growth of industry (8 per cent) and construction (11 per cent) pulled up the average growth of total and per head output (productivity) in which investment in human capital – in terms of education for all and health care – has contributed. This is what Adam Smith (1776) emphasized in the first three chapters of *The Wealth of Nations* as the cause of improvement in the productive labour powers in terms of increased return per unit of labour – what we now call productivity – through diversification of production and skills, in which technological progress enters.

The justification of this welfare-oriented strategy was based on a strategic thinking expressed in a few ideas of social justice that have had profound effects on the economy and the development path. These ideas were contained in the first five-year plan (1959–64), the second five-year plan

(1965–70) and expressed in general terms, in *al-Mithaq al-Watany* (The National Charter of May 1962). The *Mithaq* stressed the necessity for actions to mitigate market failures through central strategic planning and the adoption of Pan-Arabism and Arab Socialism ideology, creating a 'socialist, co-operative and democratic society'. This broad concept of socialism aimed at a socialist path, permitting private ownership to function beside public ownership under 'guided capitalism' free of monopoly (*ihhtikar*). Egalitarianism was articulated in terms of access of *all* citizens to free education and health services, the provision of cheap housing to working classes and the elimination of exploitation in transactions (*istighlal*) by way of creating a large public sector, regulating wage rates and subsidizing consumer prices. Besides, it protected farm and urban real estate tenants from eviction, ensuring their income gains from a substantial rent reduction. In a developing economy like Egypt, a *rapid* achievement of these aims simultaneously justifies centralized investment allocations directed into channels generating job expansion. In fact, a policy of guaranteed employment of graduates was adopted in 1964, in addition to an expansion in military drafting of conscripts between 1965 and 1970. Thus, for the first time in Egypt's recent history a government ensured that everyone seeking employment would be able to find a job. Together with the extended scope of free public services, the foundation of the welfare state was laid.

Moreover, substantial jobs were created by the construction of Aswan High Dam and related large-scale land reclamation projects, the public sector expansion, particularly after the wave of nationalization in 1961–63, and by the sequestration of the property of nearly 600 wealthy Egyptians, immediately after the separation of Syria from Egypt in September 1961 within the hastily created 'United Arab Republic' of February 1958. Later in 1963, the state took over half the capital of nearly eighty-two private business establishments. Consequently, government employment expanded rapidly and half the total paid employees were in the public sector by the early 1970s. Income of waged labour force increased further in real terms by several fringe benefits. Through labour legislation, non-agricultural workers benefited a great deal from: raising minimum daily wage; lowering working hours per week; paid holiday; compulsory social insurance; and from making the dismissal of workers illegal. Other benefits included workers' representation on company boards of directors and transfer of one-fourth of enterprises' profit to their employees. This socialist-oriented strategy has led to an almost full employment in the 1960s that co-existed with over-staffing, low productivity and permanent disguised unemployment (Hansen 1991: 176–80). It has also led to a centralized economic bureaucracy of a few managers of large public enterprises and well-positioned senior staff of newly established agencies who constituted the elite of economic bureaucracy at the heartland of the centrally controlled economy.

In this tightly controlled economy, the planners' belief was that, given the market's failure to increase post-1955 savings and investments, nationalization was necessary to meet these needs.² Hence, the expansion of the public sector whose share in national income in 1963 reached 60 per cent in industry

and electricity, and 75 per cent in transport while it accounted for only 6 per cent in agriculture. However, the planned average growth of GDP at 7 per cent could not be realized owing to: the collapse of the cotton crop in 1961; the diversion of investment from commodity-producing sectors to armaments purchase for the wars in Yemen (1962–67) and with Israel in 1967, and the resulting withdrawal of US aid combined with the loss of earnings from both the Suez Canal traffic and tourism. The annual growth rate realized was 6 per cent for the first plan period (1959–64), but slowed down at an average of 3.5 per cent till 1970 (Hansen and Marzouk 1965: Chapter 11 and Mabro 1974: 166–9).

In retrospect, it seems that the design of the development strategy and its articulation in two formalized plans during the period 1959–70 were influenced by the emergence of analytical models in the 1950s and 1960s, as well as ideas of the two Nobel Prize laureates in economics, Jan Tinbergen and Roger Frisch whose assistance was sought by the Ministry of Planning at that time. Also influential in Egypt's development thinking were Oskar Lange's ideas on competitive socialism and Hirschman's 1958 model for a development strategy that gives industry an investment priority to absorb manpower, accelerate capital accumulation, and to become the economy's engine of growth through its several linkages with other sectors. Accordingly, agriculture is to be kept as a reservoir of labour and food.

Transition to reluctant piecemeal economic liberalization, 1971–1990

After the October 1973 war with Israel and related oil prices boom (400 per cent rise), the late President Anwar al-Sadat initiated a new development strategy contained in the officially entitled *October Document* of 1974. The strategy was supported by the IMF according to agreements signed in 1974, 1976, 1978 and 1980. While maintaining centralized planning and the leading role of the public sector, the strategy relaxed restrictions on imports and domestic trade and implemented the principle that the public sector could not alone meet the increasing demands of development. Consequently, imports, mostly consumer goods, increased from an average annual rate of a negative 1 per cent in 1960–70 to 15 per cent in 1970–75 and imported cars increased thirty times in the same period. Known as 'Open Door Policy' (*Siyasat al-infithah*), it coincided with a sharp rise in oil prices in 1973 and 1979, increasing inflation and raising both the value of oil exports ten times that of 1966 and migrant workers' remittances by nearly eighty times the average of 1961–70. During this period, the government continued to be the major employer, resource allocator in manufacturing industry and electricity, and the major provider of both basic social services and subsidized food items.

Two important features of the post-oil boom emergent strategy merit attention. One is the encouragement of skilled and unskilled labourers' migration abroad; and the other is the enactment of the Foreign Investment Law No. 43 of 1974, providing investors with generous incentives, including

cheap land allotment in the newly established Free Zones (known elsewhere as 'Export Processing Zones'). In these zones, special incentives are provided to investors, as long as most, if not all, of the processed and stored goods are exported (e.g. Port Said and Nasr City).³ Consequently, the share of gross investment in GDP increased from an average of 12.5 per cent in the period of 1967–73, to 26 per cent, on average, during the short period 1975–83. The bulk was *public* investment compared with the very low shares of 4.6 per cent for domestic private investment and only 3.4 per cent for foreign private investment, mostly by oil companies (Hansen 1991: Table 4.10). In 1977 and in response to the IMF's pressure, an attempt was made to reduce the huge budget deficit of 19 per cent of GDP by cutting food subsidies, an ill-advised action that was halted after violent street riots, resulting in a tottery economic liberalization path (El-Gritly 1977: 250–62). By 1980, while government spending on education and health was cut by half and one-third of the level of their 1960 shares in total expenditures, respectively, food subsidies peaked at 17 per cent of government expenditure and 10 per cent of GDP.

The second half of the 1970s witnessed unintended but significant inter-sectoral shifts in the economy. Following the return of oil wells in Sinai (after the Camp David Agreement with Israel in March 1979) combined with the sharp rise in oil price, Egypt became a net exporter of oil; and the economy grew at 9.6 per cent in the second half of the 1970s. With this external shock, oil represented 75 per cent of total merchandise exports, while that for cotton fell sharply from 45 to only 7 per cent. In addition, there was the high economic rent received by the government from oil companies. With the increasing demand for labour in oil-exporting Arab countries, especially Iraq due to its war with Iran, workers' remittances rocketed as noted earlier. In response to the rise in real wages and temporary labour shortage in agriculture, the government vigorously promoted and subsidized capital-intensive mechanization in 1975–88, financed largely by donor countries and the World Bank, a low labour-absorption trend that has continued since then.⁴ The oil boom in rich Arab countries increased both out-migration of Egyptian workers and significant official aid (Handoussa 1990: 146).

The boom was short lived and the economy suffered a recession, leading to a slump in 1990/91. The effects of this poor performance of the economy particularly in 1982–90 will be examined later under 'erratic development'. At present, I want to stress the sharp inflationary increase above 20 per cent (1987–91) that resulted in a substantial rise in costs of living and falling real wages of civil servants by 25 per cent during the same period. Consequently, corruption of the well-entrenched bureaucracy expanded as many government and public sector employees took advantage of: (a) the government's tight control of the distribution of scarce and subsidized consumer items over whose distribution the officials exercised command; (b) the many loopholes in the laws regulating the *infatih* policy; and (c) the ambiguity in the judicial parallel structure, caused by the 1980 controversial law Qanoun al-Aib (Law of vice or shame).

In May 1987, following long negotiations with the IMF,⁵ the government adopted a partial stabilization package contained in the five-year plan 1987–91. The Egyptian pound was devalued by nearly 100 per cent from US\$1=LE1.36 in 1987, to LE2.60 in 1989/90 and steps were taken to reduce budget deficit of 11.3 per cent of GDP in 1981–85 and 16 per cent in 1987–90 through budgetary cuts, including the removal of non-food subsidies (electricity, fuel and transport), and the reduction of food subsidies from 10 per cent of the national income in 1981 to only 2.5 per cent in 1990. In short, the economy in 1983–90 was in trouble indeed, and entered a slump phase. So what went wrong? Real income per head declined by 20 per cent, from US\$750 in 1986 to US\$640 in 1989, and declined further to US\$600 in 1990. There was also a severe deterioration in both the manufacturing output and the trade balance, and total foreign debts reached one and a half times the GDP and accumulated arrears on its service totalled US\$14 billion (IMF 1997: 7). These dismaying statistics are manifestations of serious underlying economic problems for which piecemeal and partial *infatih* solutions have not worked.

Rapid transition to a market economy and global integration, 1991–2001

Influenced by its close ties with, and pressure from, the United States Government, Egypt agreed in 1991 to undertake a comprehensive adjustment programme. This intended strategic change is officially called the Economic Reform and Structural Adjustment Programme (ERSAP), and was combined with sizable external assistance and debt relief from Arab and Western donors after Egypt's support of the Gulf War. Despite the obvious need for the programme, no public debate was conducted on its economic merits and the conditions attached to it.

In essence, the programme's conditionalities suggest that the World Bank and the IMF (and the major government creditors, known as the Paris Club) have become key policy-makers and promoters of America's style of capitalism, without providing alternative models. The hidden objective is to recover the creditors' debts, thus contradicting the aims of their establishment at the UN Monetary and Financial Conference at Bretton Woods, New Hampshire (USA) in July 1944. Being a standard programme of the World Bank and the IMF, ERSAP contains a set of corrective measures for government and public sector failures. They belong to two main categories: short-term 'stabilization' and longer-term 'structural adjustment'. The former is the responsibility of the IMF, and entails the reform of fiscal and monetary policies (cuts in government spending, devaluation, raising taxes without reference to income distribution effects, reduction in real wages and liberating interest rates). These actions are intended to reduce public and personal consumption (i.e. demand-reducing policy), and generate higher savings to be directed to investments, mostly by private entrepreneurs. On the other hand, the structural adjustment programme which lies in the domain of the World Bank is designed to improve long-term efficiency in resource allocation (supply side in favour of commodity-

producing sectors). Both programmes complement each other, and overlap in some elements.

ERSAP has been carefully phased, the last phase before the end of the twentieth century, being the third, is contained in the five-year plan for 1998–2002.⁶ It has also been assessed from different perspectives. While there is a consensus about some economic achievements, opinions vary with regard to social effects (employment, wage rates, income distribution and poverty).⁷ In brief, the macro-economic achievements suggested by data given in Table 4.1, on page 85 are:

- 1 The recovery of GDP growth rates in 1995–2000, reaching 6.0 per cent in 1998–99, falling to 4.9 per cent in 2000 at 1996 prices;
- 2 A sharp reduction in inflation rates, budget and balance of payment deficits, and in total foreign debts, but *not* total domestic debt owed by the government and its public enterprises, which continues to be very high, reaching LE174 billion in 2000;
- 3 Rapid expansion in foreign exchange reserves (excluding gold) as an immediate effect of the hasty liberalization of domestic interest rates that has resulted in a substantially increased demand for the Egyptian pound, by way of the sale of US dollar holdings and purchasing pounds. The reserve expansion amounted to a sixfold increase from US\$3.8 billion in 1991 to US\$19.5 billion in 1998, falling to US\$14.5 billion in 2000 but is high enough to absorb financial market shocks;
- 4 The activation of the Cairo Stock Exchange, particularly after the privatization of several public enterprises.⁸ Foreign direct investment (FDI) jumped from US\$140 million in 1991 to US\$1.2 billion in 1994, and to US\$1.6 billion in 2000. Nevertheless, FDI remains very low in spite of the excessive tax exemptions and guarantees given to investors by laws cited earlier; besides the Presidential Decree No. 304 of 1989. Also FDI amounts to only 4.5 per cent of total private investment and much less as a percentage of GDP (0.5 per cent–1.0 per cent) compared with several Latin American countries where FDI accounted for nearly 14 per cent of GDP in 2000.⁹

By early 2001, the share of the private sector in economic activities was 67 per cent of total investment, compared with only 8 per cent in the 1980s, the balance being provided by the shrinking public sector (CBE 2000/2001: 45). Yet this share, however, is still lower than that in the early 1950s (85 per cent).

Despite all that, ERSAP has not brought all the promised benefits. There are failures that merit particular attention. First, several institutional problems have not been addressed at national and micro-economic levels (factory, bank and taxation, export and investment authorities, etc.) on which the nation's total output and competitiveness depend. To illustrate this point, export-led GDP growth acceleration has been continually hampered by bottlenecks in the institutional arena that should have been addressed much earlier. These impediments were stressed by the World Bank (1999: 28) saying, 'Egypt would

have to achieve growth of exports at 30 per cent a year for 5 years to just regain its 1970 share of global export' instead of the present annual average of 3.8 per cent. The weak influence of ERSAP on export-led growth was examined by Morley and Perdakis (2000) over a long period (1955–96). Their statistical analysis shows an insignificant but positive relationship between GDP and export growth before 1991 but statistically significant and *negative* relationship during 1991–96. They conclude, 'One explanation for the failure of export-led growth in Egypt, is that the essential infrastructure was not in place during most of the time period investigated' (p. 50). I reached a similar conclusion in my study of the effects of economic reforms on merchandise exports in eight Middle Eastern countries, including Egypt, saying, 'One possible explanation is that export growth requires both the removal of bureaucratic red tape and increased public investment in roads, ports and telecommunications' which suffered from cuts in government capital expenditure (El-Ghonemy 1998: 200 and Appendix 10.1).

The second but related failure is the wrong sequencing in the implementation of ERSAP: trade liberalization has been concentrated more on imports than on exports. The implementation has also disadvantaged manufacturing in two ways. One is the IMF-pushed import liberalization *prior* to safeguarding domestic products from dumping and unfair dealing. The other is the suffering of public enterprises from the speedy liberalization of interest rates that have reached 18–22 per cent on borrowing. Hence, the substantial increase in both costs of production and debt servicing. It made also capital investment very costly and almost impossible for creating jobs and for competing with foreign companies. In addition these weak firms suffered from high value added taxes. The third failure is that, despite their reduction since 1991, domestic and foreign debts and their annual servicing costs continue to be a burden on the economy. By the end of the fiscal year 1999/2000, servicing debts accounted for about 25 per cent of total budget expenditures.¹⁰ In addition, vested interests in the public sector have hampered the promised privatization. In early 2001 and according to the Ministry of Public Enterprises, only 122 public enterprises, out of a total of 314, have, since 1993, been privatized through partial and total sale arrangements.¹¹

Fourth, there is evidence of the ERSAP increasing unemployment and seriously hurting the vulnerable low-income people, and creating a group of a 'new' poor (i.e. those living in poverty for the first time), especially in urban areas. The official statistics of CAPMAS on the labour force published in February 2002 tell us that the rate of unemployment increased from 8 per cent in 2000 to 9.1 per cent in 2002 and the numbers of unemployed, males and females, rose from 1.5 million to 1.8 million, respectively. While this serious defect will be carefully examined in the next chapter, I wish to stress here its linkage with the government's increasing reliance on monetary instruments (interest rate, exchange rate and inflation control mechanism), instead of increasing capital expenditure for greater labour absorption.

Fifth, ERSAP treated the land market not as a social institution but as other commodity markets (like fertilizer, for example) in which land price is

determined by a supply and demand mechanism. Available data on the effects of Law No. 96 of 1992, abrogating the 1952 land reform's provision for protection of farm tenants both from eviction and from payment of the high market-based rental values starting October 1997, show that such abrogation has increased landlessness, social tension and inequality of income distribution where farm tenancy is dominant and inelasticity of land supply is high.¹² These socially adverse effects are in accordance with the prevalence of cash rent in units of one acre and less) recorded by the 1990 and 2000 Agricultural Censuses. Reliable estimates show that by 2000 about 50,000 tenants were evicted, 13,344 of whom were allotted 2.5 feddans each of public land. The rest have become wage-dependent workers and net food buyers. Helping the evicted tenants by way of lending them an approximate amount of land-purchase price has proved to be ineffectual.¹³ Under the resulting conditions of insecure duration of tenancy, and rental values being subject to the imperfect land market, the tenant's preference would likely be for quick return to pay the high cash rent, instead of investing in soil conservation and land improvement, a practice that prevailed during the pre-1952 land reform era.¹⁴

The character of the performance of the economy

I have divided the discussion of Egypt's development experience over the past half century into four distinct periods; this section now identifies two major characteristics that have emerged from our chronological examination and which are common to the four periods.

Erratic and unbalanced development: underperforming economy

Ranked higher than South Korea in economic terms until 1965 when it was among the poor nations in the 1950s, Egypt's income per head in 1999 was one-seventh of that of South Korea.¹⁵ This superior ranking of Egypt applies also to the other so-called 'giants', Thailand and Taiwan, which were all among the world's poor nations in the 1950s. Since then, instead of catching up with them, Egypt's economic disparity has greatly widened. Moreover, Egypt's ranking by the World Bank's country classification also fell in 1990 from the lower-middle income category to that of the poorest or low-income category, but the ranking was reversed in 1996 as a result of the slow recovery of the economy. During most of the post-ERSAP period (1991–2001), Egypt was a poor performer in terms of investment and export, and workforce value productivity or real wage rates declined as documented by Adams and Radwan in this volume. In addition, the 1997–99 actual level and rate of growth of GDP per head are lower than those predicted for the same period by the Centre for International Development at Harvard University and the World Economic Forum which classified Egypt as an 'under-performing economy' (WEF 2000: Table 4).

Egypt's development performance has been erratic and unbalanced, despite its political stability during the Mubarak Administration coupled with deliberate

strategic planning, the long duration of tight wage and price control, and several favourable changes. The latter include: the significant slow down in population annual growth rate from an average of 2.5 per cent in the 1960s and the 1970s, reaching 2.0 per cent in 2001; the introduction of a series of macro-economic stabilization and structural reforms combined with a sizable foreign debt relief in 1992; and the massive development assistance and grants, reaching US\$5.6 billion in 1990 falling to US\$1.3 billion in 2000.¹⁶ Moreover, and in response to Laws No. 43 of 1974, No. 32 of 1977 and No. 230 of 1989 providing generous tax concessions and investment incentives, the foreign direct investment increased from US\$734 million in 1990 to US\$1.2 billion in 2000 (World Bank, *World Tables*, 2002: Table 6.7).¹⁷

Erratic performance of the economy is pronounced in a single decade, the 1980s, when the GDP annual growth rate (calculated by the Ministry of Planning) fluctuated from a high of 11.3 per cent in 1982 to a low of 4 per cent in 1986 and 1987. Besides, economic instability was manifested both by the sharp devaluation of the Egyptian pound in 1985, 1987 and 1989 and by the abrupt downfall of oil export value that, in 1989, was only 44 per cent of its 1985 value. Also gross domestic investment as a proportion of GDP fluctuated from 29 per cent in 1984/85 to a high of 35 per cent in 1988, falling sharply to 21 per cent in 1991. Yet, as shown by Figure 4.1, the GDP component of consumption has remained almost stable; government consumption at an average of 12 per cent of GDP and private consumption fluctuated within a narrow scale around the high average level of 70 per cent. This high propensity to consume has continued even during the period of low economic growth (1986–90) and into the 1990s, despite declining population growth. As income cannot be the sole determinant of stable high private consumption, part of the explanation may be political, i.e. government having preference for political stability via meeting the population's immediate personal consumption demands for at the expense of the economy's need for long-term greater investment in agriculture and manufacturing (Mabro 1974: 232). Another part of the explanation is in the psychological and cultural basis of consumers' behaviour and expectations as explained in Wilson (1948: 115) and Amin (1994: 53–5), or as expressed by Kaldor (1978: 113–14) in terms of sources of increase in consumer demand other than the market prices.¹⁸

Fundamental structural weaknesses

The erratic features of development performance over the past half century expressed in Table 4.1 and Figure 4.1 manifest the close links between high inflation and a budget deficit which are associated with low rate of GDP growth and high unemployment in 1986–94. In broad terms, the opposite is observed in 1997–99. Erratic development performance is attributed also to weakness of both export capacity (examined earlier) and domestic savings required to generate investment in physical and human capital, and to accelerate job creation. Any junior student of economics knows that, given the

Table 4.1 Selected indicators of development, 1950–2000

Indicators	1950– 1960	1961– 1970	1971– 1980	1981– 1985	1986– 1990	1991– 1995	1996	1997	1998	1999	2000
1. Population average annual growth %	2.0	2.5	2.5	2.7	2.4	2.3	2.1	n.a.	n.a.	2.0	2.0
2. GDP average annual growth %	3.7	4.5	7.6	8.1	4.7	3.3	4.9	5.3	5.7	6.0	4.9
3. Total consumption as % of GDP	88	77	78.0	84.0	90.0	91.0	n.a.	85.1	84.1	86.0	83.0
4. Domestic investment as % of GDP	13.6	22.5	26.0	25.0	28.0	17.6	16.6	17.7	22.0	23.0	24.0
5. Domestic savings as % of GDP	11.5	12.0	14.0	13.7	14.0	15.0	12.7	14.6	16.0	14.0	17.0
6. Workers' remittances US\$millions	n.a.	29 (1970)	2181 (1980)	3960 (1985)	3386 (1988)	5430 (1992)	n.a.	n.a.	n.a.	3710	n.a.
7. Inflation, annual rate %	3.8	2.7	8.0	13.0	19.5	13.1	7.3	6.2	3.8	3.2	2.2
8. Foreign debts US\$billion	Zero (1952)	1.6 (1970) 0.7 (1963)	13 (1980)	18 (1985)	31 (1989)	31 (1995)	30	30	28	28.2	28.9
9. Budget deficit as % of GDP		10.2	12.5	-11.3	-14.5	-5.0	-1.3	-0.9	n.a.	-1.2	-2.0
10. National account deficit as % GDP	-1.0 (1950)	n.a.	-1.9	-7.0	-5	3 (1992-5)	1.6	3.0	-3.4	-0.1	-1.2
11. Exports, average annual growth %	-1.0	3.2	-0.7	7.3	5.5	3.8		-0.9	-20.2	13.7	10.3
12. Imports, annual growth rate %	3.5	-0.9	9.4	14.9	11.85	-3.0	10.9	1.3	22.4	-0.9	2.6
13. Unemployment %	4.7	3.3	2.5	5.7 (1982)	6.9	10.8 (1995)	8.9	8.8	n.a.	n.a.	9.1 (2002)
14. Adult illiteracy	75	68	62 (1975)	n.a.	54	47	45	n.a.	45	n.a.	M33 F56
15. Infant mortality per 1000 live births	189 (1960)	157 (1970)	120 (1980)	100 (1983)	75	62 (1992)	34, 57A	n.a.	51	41	42
16. Life expectancy	41 (1950)	49 (1965)	57 (1980)	61 (1985)	61	63	65	n.a.	67	67	67

Sources:

1–12. Based on data given in El-Gritly (1977: Statistical Appendix), Central Bank of Egypt Annual Report, *Economic Review*, several issues, and *Monthly Statistical Bulletin*, February 2002, *World Development Report*, Indicators, several years and *UNCTAD Handbook of Statistics* (2001: Table 1.6).

13. The first three periods are based on Hansen and Radwan (1982: Table 67), the rest are from Central Bank of Egypt, *ibid*. Data for 1996 are from INP, *Egypt Human Development Report*, 1997/98 and 1997 from World Bank (1999: Table 17, Statistical Appendix).

14. UNESCO, *Statistical Yearbook*, several years, and CAPMAS results of Population Census 1986 and 1996 in *Statistical Yearbook* and World Bank's *Development Indicators* (2002: Table 2.14).

15 and 16. United Nations *Statistical Yearbook*, several years, UNICEF *The State of the World's Children*, several years; INP, *Egypt: Human Development Report*, 1996, 1997/98, and *Egypt Demographic and Health Survey*, 1992–97. The rate 34A in 1996 is that of INP 'adjusted' and 57 is taken from UNICEF (1998).

Notes

n.a.=not available. M=male adult and F=female adult.

In 1950, one US\$ equalled 0.28 Egyptian pounds (1£ which has been repeatedly devalued, reaching 3.3 pounds in 1994 and 4.2 pounds in 2001 and 4.6 pounds in January 2002).

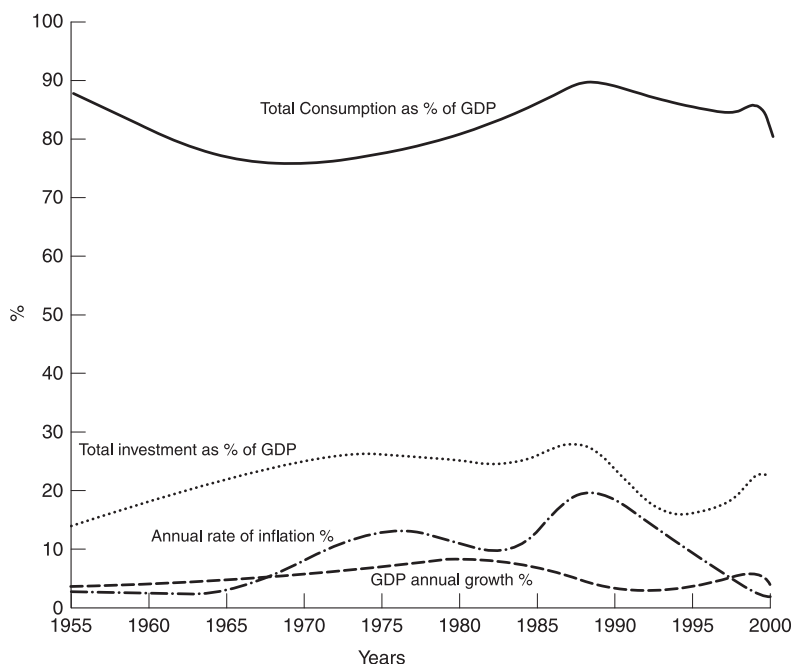


Figure 4.1 Fluctuation of GDP and annual inflation growth rate and the share of total consumption and investment in GDP, 1955–2000.

Source: Data in Table 4.1.

technical relationship between capital investment and output, economic growth depends on the capacity to save or the proportion of income saved. In Egypt, this capacity is weak. As shown in the table, domestic savings (private and public) as percentage of GDP have remained, during the past half century, at a low level, and its share in GDP has fluctuated from a low average of 13.6 per cent in the 1950s to 17 per cent during the first development plan (1959–64), rising fast to 25–31 per cent for a few years in the 1970s and 1980s, before falling to an average of 17.6 per cent in 1991–95, and rising later to an average of 20.6 per cent in 1996–2000. Yet the rates are still very low compared with 39 per cent in the fast-growing economies of South East Asia. Other fundamental structural weaknesses include:

- 1 Heavy reliance on external sources to finance development programmes over which the government has no, or very little control, e.g. foreign demand for Egyptian labour and the resulting remittances, the Suez Canal revenue, tourism and the uncertain earnings from oil and gas exports,¹⁹ as well as the politics of foreign grants and development assistance.
- 2 Deficient tax administration (in 1999/2000, it was reported that an amount of LE19.2 billion was uncollected, representing 37.6 per cent of the total

assessed tax), leading to revenue deficit, government borrowing and domestic debt of LE177 billion in 2000 (CBE 1999/2000: XL, 3 and Hassan 1996).

- 3 Continual deficit in balance of trade and foreign capital shortage, leading to mounting foreign debts that reached US\$28.9 billion in 2000.
- 4 The unbalanced output growth in the key non-oil tradable sectors (agriculture and industry) whose growth rates were lagging far behind the non-tradable sectors (government services and administration, construction, commerce and other services).

An example of the GDP sources of instability is the erratic receipts from tourism, owing to externalities such as the Arab States' boycott of Egypt in rejection of its 1979 peace treaty with Israel, the attack on the Mediterranean cruiseship *Achille Lauro* in October 1985, the Muslim extremists' massacre of fifty-eight foreign tourists in Queen Hatshepsut's temple in Luxor in November 1997 and the recent attacks on the USA. These incidents have their adverse multiplier effects on other economic activities such as employment, transportation and the hotel business. The economic instability created in the wake of 11 September 2001 deserve particular attention.

The immediate effects of the 11 September 2001 events in the USA

The vulnerability of the economy and its structural weakness was strongly demonstrated immediately after the attacks on the World Trade Center Towers of New York and the Pentagon in Washington, DC on the 11 September 2001. I concentrate on the effects on the key sources of foreign exchange: tourism, exports and the Suez Canal revenue and the resulting change in the balance of payments during the short period September–December, 2001. At the time of writing this preliminary assessment (April 2002) information available on the short-term effects are given in Table 4.2.

In a short period of just four months, the magnitude of the negative impact is significant, particularly with regard to tourism and trade with the

Table 4.2 Some effects of the 11 September 2001 events

	<i>Average March–June 2001</i>	<i>Average September–December 2001</i>	<i>Change %</i>
Total number of tourists (1,000)	509	290	–43
US tourists (1,000)	29	11	–62
Value of total exports (\$ million)	1,804	1,744	–8.9
Exports to USA only (\$ million)	722	685	–5.1
Imports from USA (\$ million)	1,258	1,104	–12.0
Total receipts of the Suez Canal (US \$ million)	480	465	–3.2
Balance of payments (\$ million)	1,635	1,566	–4.2

Source: Central Bank of Egypt, Monthly Statistical Bulletin, February 2002.

USA. The resulting loss of tourism was estimated by the government at US\$1.5 billion. Although this was an estimate of a swift loss, several tourist agencies criticized it for being low. They argued that it does not include losses of sixty-five existing complementary activities employing about 2.2 million persons. The critics estimated the losses at US\$3.5 billion (on these views, see for example the study prepared by Sallam, *al-Wafd*, 26 November 2001). The effects on tourism were devastating in sea resorts such as Sharm el-Sheikh and Horgada and in the capital of tourism, Luxor. The collapse of tourism was compounded by speedy actions taken by the insurance companies that raised their rates excessively on air and sea transport to the Middle East. It was also worsened by lengthened travel time and extended delays in airports and customs for security reasons. Oil exports were also hit by the fall of Egypt's petroleum price per barrel from US\$21 to US\$17 in a very short period, a response to the decline in world oil market prices from US\$27 to US\$23 per barrel. Furthermore, the Egyptian pound was devalued against the US\$ from 4.2 to 4.5 under increasing demand for dollars to finance imports. These tremendous losses came swiftly when the economy was already in the midst of a slowdown.

The gravity of the situation prompted the government to convene a meeting with the World Bank and donor countries on 2–3 February 2002, at Sharm el-Sheikh. It was reported that Egypt would receive immediate aid amounting to US\$1.2 billion in addition to the pledged amount of US\$10–11 billion spread over a period of three years (2003–5). Donors would also provide Egypt with concessional export arrangements for improving its balance of trade. In my view the aid is a temporary medicine to a temporary economic shock, because, as proved by the flow of substantial aid in the early 1990s, Egypt's underperforming economy needs a bundle of continuing structural and institutional reforms. Past experience has shown that aid *alone* would not realize the desired development targets, and that aid is not an alternative to these reforms. Above all, the disruption in the economy should reinforce the drive for continuing structural reforms and embarking on institutional reforms in light of Egypt's deteriorating competitiveness ranking in the World, from 41 in 2000 to 51 (out of a total of 75 countries) at the end of 2001 (WEF 2001–2: Table 1).

Sectoral imbalance

Weaknesses in the underperforming economy are also rooted in sectoral imbalance, despite central planning and designed allocation of capital investment. Amid this ordeal of economic calculations since 1959, one wonders about the government's missed opportunity to use its high share in oil and gas export values reaching about 70 per cent during the oil boom (1974–82) in order to balance the economy. One would expect that the mechanism of tight planning should have carried out this adjustment by way of greater investment in the commodity-producing key tradable sectors of agriculture and manufacturing which are able to create capital and jobs during the slump

period of oil. Instead, greater emphasis was placed on sectors that neither produce exportable commodities nor substitute for the possible loss of oil and gas revenues, resulting from uncertain world demand.

This brings me to the strongest indication of sectoral imbalance over the past half century. It is the striking high growth of the non-commodity producing services sector (including government administration and real estate) that exceeded by far both the value added share in GDP and the growth rates of the key tradables, combined. Investment in residential construction, including luxurious villas in sea resorts, supported by the Ministry of Housing, has expanded in 1997–99 at an annual average of 11 per cent, a rate that almost equalled to the combined average growth rates of agriculture and industry. Given the considerable difficulties in the valuation and calculation of the contribution of the ‘services’ sector to GDP and the ambiguous variation in classification of ‘production service’ and ‘social service’, the CAPMAS data show a steady average annual growth in services from 3.2 per cent in the 1950s to 11 per cent in 1976–79, to 15.5 per cent in the 1980s, increasing further to 21 per cent during the 1990s. Apart from tourism which is tradable and the expansion in the shares of health and education services in GDP which I view as being essential to human capital investment, these features of unbalanced structural change deviate sharply from the conventional development principles of dynamic stages, and the historical pattern, of development experience analysed by Clark (1957), Kaldor (1978), Chenery (1979) and Bhalla (1992). Considering the country’s low income per head and weak investment and export capabilities, these principles suggest that the Egyptian pattern of sectoral change over the past fifty years is *premature*.

In simple terms, prematurity means the abrupt transition of Egypt’s economy from its primary agrarian stage to the tertiary stage of a services-dominant economy, without staying in the secondary or intermediary stage of manufacturing long enough to attain its potentials for fast growth, employment expansion and high productivity per head. In this way, the two commodity-producing sectors, agriculture and manufacturing, which employ most of the workforce and produce major exportable goods have contracted prematurely, and are outperformed by services sector. Using the terminology of Nicholas Kaldor, the Egyptian economy suffers from ‘premature maturity’ (1978: 102). I attribute part of this premature contraction to the state’s own planners’ neglect of investment allocation to a manufacturing sector whose share in total investment fell from 35 per cent in 1960 to 28 per cent in the early 1970s and fell further to 19 per cent in 1995/96 (Hansen 1965: Table 11.3 and Abdel-Khalek 2001: Table 4.2). The slow growth of manufacturing in the 1990s is attributed also to the speedy and wrong sequencing of the ERSAP implementation as argued earlier. Judging these sectoral relations in terms of ‘unbalanced development’ – which like ‘prematurity’ is a relative term, describing the characteristics of Egypt’s prevailing form of development process during a certain period of time – we find an increasing imbalance suggested by data given in Table 4.3.

The extent of imbalance is judged by the magnitude of deviations of each of the manufacturing and services sectors’ annual growth rates (weighted by

Table 4.3 Characteristics of the unbalanced form of development, 1980–2000

	<i>Average annual growth %</i>	
	<i>1980–1990</i>	<i>1995–2000</i>
Gross domestic product	5.4	5.1
Manufacturing production	4.3	6.5
Services	7.8	8.5
Index of imbalance	<i>1990</i>	<i>2000</i>
Manufacturing	6.5	7.7
Services	55.4	114.0

Sources: 1980–90, *World Tables*, 2000 and 2002. 1995–2000 (at constant prices) from Ministry of Planning published in Monthly Statistical Bulletin, Central Bank of Egypt, February 2002.

Notes

Index of imbalance=the square root of (sectoral growth – GDP growth rate) multiplied by the share of the sector in total GDP and divided by GDP growth rate. On the methodology used, see Bhalla (1992: 28).

their shares in the total GDP) from the total average annual growth. My estimate of this imbalance (the higher the index, the greater is the form of unbalanced development) is that it was high during the period 1980–2000, when the deviation of services growth exceeded by far that of manufacturing, and that the index of imbalance has more than doubled between 1990 and 2000. When the services sector data of the Ministry of Planning are decomposed into sub-sectors, I find a strikingly greater imbalance. For example, the average annual growth of the unproductive and unexportable real estates and personal services increased by 23 per cent between 1995 and 2000 against 6.5 per cent for manufacturing and 3.1 per cent for agriculture. There is also a fast growth in the services sub-sectors of business for trade and insurance which are conducive to the growth of exportable goods produced by agriculture and industry.

Human capital gains

This is the second character of development performance that I have identified in order to understand what economic growth within strategic planning has done to increase human capital and capabilities in life over the past half century. Both are linked via the distribution of income, poverty reduction, higher return to labour employment and higher public revenues allocated to investing in people. As I stressed in Chapter 3, illiteracy, low life expectancy, high infant mortality and polluted air and water are manifestations of under-investment in human capital. The importance of these linkages has, since 1994, been manifested in the Ministry of Planning's annual issue of *Egypt: Human Development Report*, and analysed by Osman (2001) for Egypt's Third World Forum.²⁰

In my view and as stressed in Chapter 3, the most important human gain since the 1950s is the substantial decline in the interlinked infant and child mortality, resulting in an increase in longevity by 26 years from 41 to 67

during the same period. Life expectancy at birth or longevity or the life span is projected by the UN Population Division to rise further to 72 years in 2025. Long life span presents policy-makers and parents with challenges to increase investment in schooling and in increasing productivity of the workforce. This is why increased public health and expenditure on education should be considered not as consumption (reducing savings) but investment in future earnings that make human development sustainable, benefiting future generations.

At the start of the twenty-first century, the prevalence of illiteracy, especially among females in rural Upper Egypt, is shameful, and represents a large scale of lost opportunities for gaining self-respect and exercising literacy's ability in the person's life. This is because, unlike other human gains, education determines life-time earning abilities. Being a productive asset, it also determines the rate of economic growth, and through years of schooling individuals' ideas, aspirations and perceptions change. Analysis of empirical evidence from developing countries including Egypt, indicates that rates of return on investment in education, in general and primary education, in particular are much higher than other types of investment; primary education has a productive value of about 25–6 per cent. This means also that – other things being equal – a country with a large stock of educated people tends to enjoy high productivity and fast growth, and that Egypt has consistently underinvested in education (Psacharopoulos 1994).

Nearly 48 per cent of all population in the age category of 15 and older are female, and raising their capabilities and effective participation in public life enhances their earning ability, and contributes to total output growth. Over the past fifty years, the female share in total economically active population has increased fourfold from nearly 6 per cent in 1947 to 23 per cent in 1996. Yet, and despite their underenumeration, nearly half of them are still engaged in agriculture, which is a low earning sector, and one in which it is the tradition to have a large number of children. From his research during the period 1972–75, covering 21 rural districts and 91 urban districts, El-Bindary (1976: 59–69) found a positive and statistically significant correlation between women's occupation in urban areas and low fertility ratio, namely, the higher the female urban occupation, the lower the fertility (number of children per woman of child-bearing age). Since then, the results of the population censuses show a considerable expansion in women's non-agricultural gainful occupations, including: an increase of 500 per cent in the *numbers* of female workers in manufacturing industry; 400 per cent in commerce, financing and business managerial positions; and a twelvefold rise in the numbers of female professionals (doctors, pharmacists, engineers, lawyers, journalists and university academics and school teachers). However, we should not overlook the income factor, inasmuch as many of these women are driven to work by rising cost of living and low wage income. These developments combined with rapid urbanization and housing scarcity have brought about a significant change in women's norms and attitudes towards the effective use of contraceptive methods.²¹ In addition, the rising living costs have resulted in

rising age at first marriage, delaying the birth of the first child, and reducing the number of children they bear.

We should not underestimate the important institutional arrangements that have contributed to raising women's capabilities in life. They include:

- 1 Official support for birth control that began in 1953, followed by the establishment of the Supreme Council for Family Planning in 1965 and the non-governmental Family Planning Association in 1967, integrating the birth reduction programme into government and NGOs' local community services.
- 2 The abolition by law in 1996 of the cruel, unhygienic practice of girls' circumcision that exposed them to diseases and humiliation.
- 3 The adherence to such internationally established rules on gender equality as the 1979 United Nations' convention on the elimination of all forms of discrimination against women, ratified by Egypt in 1981.

Importantly, these changes have contributed to the reduction of fertility and the slowing down of population growth, the annual growth rate of which fell from 2.5 per cent in 1960–65 to 2.0 per cent in 1995–2000, and it is projected to decline further to 1.6 per cent in 2010. Hence, these measures are recouping the benefits of investment in human capital since the 1950s.

Challenges in the twenty-first century

In contrast to the 1950s, the central issue at the beginning of the millennium is not state management of key economic activities versus competitive market and freedom of entrepreneurs. The choice has already been made with the adoption of ERSAP in 1991. Thereupon, policy instruments have established the leading role in the private sector and the integration of the economy into the competitive international market. Rather, the central strategic issue to be addressed is the realization of sustainable human development combined with a clear, consistent policy for rapid labour absorption, poverty reduction and the removal of institutional obstacles that have frustrated economic progress and made the economy underperform. The Ministry of Planning analysts know from past experience that full employment, equity and growth objectives were simultaneously attained in 1959–70 without trade-offs and could be met now and in future, with consistent political will and selective government intervention. We should not overlook the development successes of the egalitarian welfare state policies during the 1950s and 1960s. While these challenging issues compose the theme of this volume, the present section looks at them under two major headings: overpopulation and reforming economic institutions.

Overpopulation

Overpopulation is the single subject over which most of the writers on development problems of Egypt around mid-century expressed common concern. They include, in particular, Cleland (1936), Crouchley (1938), Anis (1950:

chapter VI) and Issawi (1954: 60 and 240). Each in his or her own analytical way characterized poverty in association with overpopulation (or increased population pressure on the cultivable land and physical capital – and technology-scarce economy) as the major challenge that Egypt would face in the foreseeable future. This remains a central concern to the country's leadership, and is expressed in the design of the National Development Strategy for 1997–2017 (the Strategy, hereafter) that addresses the population pressure on the present limited inhabited area and the geographical allocation of investment. The challenge is the fast expansion of productive employment opportunities for the fast-rising labour force whose annual growth reached 5.6 per cent in 2002, and even higher among females (8.6 per cent). The Strategy was preceded by the issue of Law No. 59 of 1979 on the establishment of new urban communities located on desert land (but adjacent to heavily populated areas) to be centres for future development, e.g. Sadat City, Tenth of Ramadan, Badr, Sixth of October and Borg el-Arab).

Even after the country had undergone the ordeal of the centralized management of the economy since the late 1950s which has had the aim of rectifying deep social ills, persistent absolute poverty, inequality and unemployment remain a formidable problem. And in labour-abundant Egypt, labour relative to capital used in industry has diminished since the mid-1970s, despite the planners' continued economic calculations of allocative efficiency, and in spite of their declared concern about population pressure. The results of available studies on factor proportions (value of the capital stock divided by the number of workers employed, i.e. the capital–labour ratio) show a deepening capital use and diminishing labour intensity between 1975 and 1996 in the industrial activities, particularly textiles, steel and the food industry.²² In addition, the causes of falling productivity of labour and real wages are examined in Chapters 2 and 5.

I have elsewhere (El-Ghonyemy 1953: 79–82) addressed these inter-related issues in my study of Egypt's rural economy in the mid twentieth century, before the obsession with central planning began. After making allowance for seasonal peaks, the estimated excess labour was about 40 per cent of total farming population in 1947 which was 10 per cent less than that made ten years earlier by Professor Cleland. Both estimates assumed constant technical change. It seems that poverty conditions of low value productivity were behind Arthur Lewis' (1954) model of unlimited supply of labour. However, his assumption of marginal productivity declining to zero in Egypt was challenged by Hansen and Marzouk (1965: 161) and by Mabro (1974: 37) on grounds of *seasonal* surplus and simultaneous employment expansion in non-farm work (road and irrigation infrastructure).

At the beginning of the twenty-first century, Egypt continues to be overpopulated in terms of increasing density, diminishing supply of cultivable land, diminishing average size of landholding, and a downward trend in rates of real wage/value productivity in all sectors of the economy, especially the overcrowded government administration. In addition, the numbers of people living at subsistence level and in poverty have increased. Also, population

pressure on the economy continues in terms of high consumption rates and reciprocally low savings and investment rates. For readers who are not well versed in the literature of overpopulation, surplus labour and zero marginal productivity, it may be helpful to understand the issues by concentrating on population density and pressure on the cultivable land.²³

Since 1950, the population size has more than tripled from 20.3 million to 67.9 million in 2002. In the meantime the total inhabited area has virtually remained unchanged around 3.5 per cent of the total area of the country. These figures mean an average density of 540 persons per square kilometre (PK) in 1950, rocketing to nearly 1,860 PK in the year 2000. This national average makes Egypt one of the world's most densely populated countries, and it has the most thickly populated cultivable land, with the exception of a few areas in eastern and southern Asia. The national average conceals, however, wide variations of density within Egypt's geographical areas, a phenomenal 31,440 PK in Cairo, 1,800 PK in the province of Menoufeya and 1,425 PK in Aswan province, according to the results of the 1996 Population Census. Combined with high inflation rates, rapid farm mechanization and the return of sizable numbers of rural migrants owing to the Gulf War, population density has led to a downward trend in agricultural real wages between 1986 and 1999 (CAPMAS, various years; Abu-Mandour and Seyam 1995; and El-Banna 1999).²³ In his study, El-Banna shows that the 1999 real wage rate was only 41 per cent of its 1986 level and that production per worker declined steadily between 1988 and 1997. Besides, and in spite of their continuous migration to urban areas, total agricultural workers have increased from 4.2 million in 1950 to 4.9 million in 1998. This trend and other dynamic forces have increased the incidence of rural poverty. As shown in Table 4.4, the number of the poor (mostly landless workers) increased from 7.7 million in 1950 to an estimated number ranging widely from 13.7 to 29.5 million in 1996, depending on the poverty line used specified in Chapter 2. Moreover, the density ratio of agricultural population/cultivable land has more than halved from 0.48 feddan per person in 1950 to 0.19 feddan in 1999 and the average area per landholder has diminished rapidly during the same period.²⁵ Other features of overpopulation in the cultivable land-scarce areas of rural Egypt include:

- 1 Seasonal unemployment and underemployment estimated at 180 working days per year.
- 2 Widespread use of child labour (less than 15 years of age) estimated from the results of agricultural censuses of 1950 and 1990 at 45 per cent and 47 per cent of the total agricultural workers, respectively; a remarkably stable proportion over 40 years.
- 3 The increasing importance of non-land sources of rural employment and income, whose share ranged from 20 to 30 per cent of total household income and 59 per cent of total per capita income of the poor, suggesting how crucial – in land-constrained Egypt – is the promotion of non-farm employment raising the rural poor's capabilities to participate in remunerative activities *within* rural areas.²⁶

Here again, despite the tight planning and central management of the economy since 1959, one wonders, with alarm, why the post-High Dam area of reclaimed lands has been outstripped by urbanization, and the aggregate supply of cultivable land has declined. Two explanations are offered. The first is the neglect of agriculture, in terms of its share in total investment since the 1970s. As indicated earlier in the discussion of unbalanced development on pp. 88–90 and shown in Table 4.4, the share of agriculture peaked at 23.4 per cent in 1960–65 during the construction of Aswan High Dam, fell sharply to 7 per cent in the 1980s, and has fluctuated in the 1990s around the low average of 9 per cent.²⁷ Accordingly, the average annual area of reclaimed land has declined from 111,600 feddans in 1960–65 to 16,700 feddans in 1976–86 and to 20,115 in 1999–2000 (El-Ghonemy 1992: Table 3 and CAPMAS 2001: Table 2–22). The second explanation is the loss of most fertile land for non-agricultural purposes, through unregulated rapid urbanization and the construction boom (fostered by the Ministries of Housing and Industry) that consumed 640,000 feddans between 1955 and 1977 (El-Gritly 1977: 29). Since then and up to 2000, I estimate that an additional area of nearly half a million feddans of highly fertile cropped old land has been lost at an average annual rate of 20,000 feddans by public and private transformation into non-agricultural use. Part of this loss resulted from the illegal private practices of the removal of 2–3 metres of top-soil for making bricks during the 1980s, despite its prohibition by several ministerial decrees and laws. It resulted also from the illegally constructed and environmentally degrading shanty towns and squatter housing areas (*ashwa'eyat*) on the fringes of Greater Cairo, Assiut and in the El-Bohera and Beni Suef.

The big challenge for alleviating population pressure lies in the sound implementation of the broad-based development strategy for 1997–2017, requiring an annual investment estimated by the Ministry of Planning at LE80 billion (80 per cent of which is to be contributed by the private sector and most of the physical infrastructure is to be constructed by the government). Thus, the government and the private sector are seen as complementary in resolving overpopulation problems. However, there is no clear commitment in the strategy to expand labour-intensive farming and manufacturing, and to reduce private consumption from its present high annual growth of 3.3 per cent compared with the developing countries' average of 2.0–2.5 per cent, the rate of the middle-income group to which Egypt belongs.²⁹

Apparently, the Strategy aims to alleviate population pressure by way of a two-track approach. First, to substantially create new agro-industrial communities complete with social services and physical infrastructure. In particular, it is expected to bring in new lands for cultivation, estimated at 3.4 million feddans to the west of Lake Nasser and Owaynat, and in Sinai, using both the Nile water and groundwater reservoirs; the implementation of this project is closely monitored by President Mubarak personally.³⁰ The second track is to encourage private capital investment and population mobility, towards geographically targeted and carefully studied regions. Available information indicates an existing wide gap between intentions and realities. Most of the

Table 4.4 Selected indicators of the main features of the rural economy, 1950–2000

Indicators	1950	1960	1970	1980	1990	2000
1. Rural population as % of total	68	62	n.a.	55 (1986)	n.a.	56 (1996)
2. Share of agriculture in total GDP %	43	32	29	23	21	17
3. Share of agricultural labour force in total %	58	56	n.a.	47	36	31
4. Share of agriculture in total investment %	19.7 (1953–60)	23.4 (1960–65)	9.7 (1971–75)	8.5	7.2 (1985)	8.5
5. Cultivable land per capita agricultural population, feddans	0.48	0.39	n.a.	0.31	0.21	0.19
6. Average size of landholding, feddans	6.1	5.9	n.a.	3 (1982)	n.a.	n.a.
7. Rental value per feddans at current prices LE	34 (1951)	25	26	53	80 (1986)	1500
8. Poor rural households as % of total	56.1	35 (1959)*	26.8 (1965)* 23.8**	28.0 (1975)* 17.8 (1982)** 16.1 (1982) ^a 29.9 (1982) ^b	28.6 ^a 39.2 ^a (1991)	23.3 ^a 50.2 ^b (1996)
9. Number of rural poor, million persons	7.7	3.6	3–4.2	4–5.7	8–11.5	13.7–29.5

Sources:

- 1 CAPMAS *Statistical Yearbook*, several years.
- 2.4 Ministry of Planning, Cairo, Egypt.
- 3 ILO, *Yearbook of Labour Statistics* (economically active population) several years.
- 5 El-Ghoneimy (1992: Table 1) and FAO *Production Yearbook*, several years.
- 6 El-Ghoneimy (1953: Table 22) and the results of Agricultural Census 1982 and 1990, Ministry of Agriculture.
- 7 El-Ghoneimy (1992: Table 2) for 1951–86 and the Ministry of Agriculture for the rest.
- 8 1950 taken from El-Ghoneimy (1990: 247) * Radwan and Lee (1986) ** Adams, Jr. (1985: Table 1) (a) and (b) INP, Egypt: *Human Development Report*, 1996: Tables 2.1 and 2.7.
- 9 Calculated from data in rows 1 and 8. The numbers vary by poverty line used and average size of household assumed. On poverty lines, see Adams: Chapter 2 and El-Ghoneimy: Chapter 3.

Notes

n.a. = not available

In row 8 (a) means poor=below the lower poverty line (b) means moderate poor=below upper poverty line. For definition, see INP (1996) and Adams (Chapter 2) and El-Ghoneimy, Chapter 3 in this volume.

Free Zones and new towns created on desert land are operating below their space and productive capacity by an average estimate of 60 per cent. Also, the regions identified by the Strategy lack the primary infrastructure, particularly good heavy-duty roads (40 per cent of roads studied were inadequate owing to poor quality of construction and maintenance).

With regard to the projected expansion of cultivable area by the reclamation of 3.4 million feddans of desert land, the challenge lies with the state's committing itself to create a reasonably egalitarian agrarian structure dominated by medium and small-size family farms, having a labour-intensive cropping pattern capable of absorbing the increasing number of landless households which constitute the majority of the disadvantaged rural poor in the Nile Valley. Scattered information on Toshka and Owainat areas of the 'New' Valley suggests a trend towards labour-displacing mechanized large farms (around 40,000 feddans each). Hence, a trend towards the future polarization and duality that evoked the 1952 land reform, only six weeks after Nasser's revolution. Egypt's planners and policy-makers should take into account the following three development relations learned both from Egypt's long farming experience, and that from other developing countries:

- 1 Productivity of agricultural land and labour declines with increasing farm size;
- 2 Greater inequality in land distribution has a positive relation with the prevalence of undernutrition and rural poverty; and
- 3 Small-size farms are compatible with the production of both food and cash export crops, and they provide their holders with security for both food and family-labour employment.³¹

Above all, in the virtually rainless climate of Egypt, the strategy seems to underestimate the critical scarcity of water availability and the economics of its alternative uses within agriculture and between it and other non-agricultural demands. The importance of this point is in its relevance to the ability of strategically adopted private-enterprise within a capitalist market economy to realize an efficient allocation of resources that goes with water scarcity; to eliminate the substantial losses caused by current irrigation malpractices; and to conserve soil fertility and prevent related environmental degradation for the welfare of future generations. These are serious questions, having significant implications for the land expansion planned to occur by 2017. Elimination of water losses, for example, means saving nearly one-fifth of Egypt's internationally established quota of 55.5 billion cubic metres of Nile water at Aswan High Dam. Losses comprise the outflow of drained irrigation water into the Mediterranean plus about one-third of total irrigation water wasted by way of evaporation and overconsumption of scarce water supplied *free of charge* at the field level. The seriousness of this scarcity is the fact that additional Nile water availability for future land expansion beyond 2017 is uncertain without the agreement of all African countries sharing the Nile water, especially Ethiopia.

The arguments in the preceding paragraph suggests rethinking of development objectives and instruments of the Strategy, especially with regard to the supremacy of public interests over private concerns in water usage by way of pricing and sharing in the costly established equipment and constructed canals in sandy soil, which have high rates of seepage and evaporation. I am aware of the political sensitivity of these pricing issues. Yet, in Egypt's strategically adopted economic reforms of 1991 for transition to a dominant market economy, marginal value productivity per unit of alternative water usages is a significant criterion for judging economic efficiency of irrigation. But efficiency calculation is likely to be uncertain if published data on crop yields and areas and on irrigation water consumption continue to be doubted, let alone the uncertainty of the officially calculated total agricultural output, exports and food security estimates.³² Both Ministries of Agriculture and Irrigation have the specific skills to address these issues, for which they must be backed by political commitment. Doing nothing about these crucial issues of sustainable development is not an option.

Lastly, there is the Strategy's planning for rural development (RD) the connotation which is broader than agricultural development (AD). My understanding of the Strategy's documents with regard to RD is that it means such projects as schools, clinics, roads, electricity, and provision of credit, fertilizers and purified drinking water. Thus the ambiguity seems to lie in the sense in which the word 'development' is used. Though necessary, these projects, like income, are only means or instruments to realize the main objectives in life: increasing people's capabilities (literacy, nutrition, lower child mortality, longer life expectancy and so forth) as stressed earlier. This process of RD could be speeded up *if* it is accompanied by greater access to productive land and more equal distribution of opportunities. In the Strategy, the ambiguity has increased with a repeated reference to 'sustainable' development *without* a specification of what is to be sustained, implying a confusion about sustained economic growth as an end but not as a means for the realization of well-being.³³ Greater access to land by the *fellaheen* enables them to benefit from both RD and AD with a lasting influence in the future. On this point, the Nobel Prize laureate in economics Robert Solow (1991: 3) says, 'sustainability is a moral obligation for conserving a capability to create and produce well-being of the future generation'. Thus it is odd to be concerned with the future welfare of big investors in the mega agricultural project, while ignoring the poverty of the millions of landless today. It is also an obligation to preserve the present wealth of productive land and such water as there is to pass on to the next generation. So in investment allocations as in policy choice, the challenge of the unambiguous resolution between the public interest and the increasing vested private interests in the market economy must be faced.

Reforming economic institutions

Sustaining the post-1995 recovery of the economy and the realization of the aims of the 1997–2017 strategy requires changing the current focus from getting prices and the monetary system right (interest and exchange rates), to

getting institutions right. An explanation of the meaning of institutions has been given in Chapter 1, and weaknesses in institutions explain, in part, the slow progress in the principal parameters of the economy (savings, investment, total output, export growth and the collection of taxes). The challenge is to enforce the myriad of laws and formal rules after amending their loopholes, *without* which private investment would not be sufficiently attracted nor exports increased, and without which markets cannot effectively function. The need to address these crucial issues has emerged since the partial stabilization attempts made in the 1970s and 1980s and the ill-advised sequencing of the implementation of (1991) ERSAP, whose emphasis on monetary and fiscal reforms has overshadowed the importance of institutional reforms in determining the pace and direction of economic development.

The past experience of Egypt's development suggests a negative correlation between governance weakness in terms of widespread corruption, the rising burden of red tape on private investors, centralized decision-making and poor enforcement of banking and investment laws, on the one hand, and expansion of investment, exports and GDP, on the other. A large body of literature on the experience of developing countries, including Egypt, confirms these relationships.³⁴ Governance weakness is manifested also in the incomplete implementation of Free Zones and new towns, and in the mis-targeting of subsidies and social fund resources that do not reach the intended income groups. Another lesson learned is that the loss of investor's confidence accompanied by high transaction costs, deficient tax administration and insecure protection of property rights have adversely affected investment. Together, they represent high risks to a speedy development.

Failure to change the regulatory structure

Among institutional barriers to speedy economic development are those related to the erroneous sequential implementation of ERSAP: rapid price and interest rate liberalization before the sale of public enterprises and reforming the deficient banking system. The latter was recently manifested in the bitter experience of bank overlending and increased non-performing loans with emphasis on high risks, speculative real estate and other fictitious projects, resulting from weaknesses in the enforcement of Law No. 163 of 1957 and Law No. 159 of 1981 on banking transactions.³⁵ We should not forget that these institutional deficiencies, together with too much trust placed in the inflow of foreign capital and shrinking domestic deposits in banks were behind the financial crisis in five Asian countries between mid-1997 and 1998. The prominent lead-up to this Asian crisis were the excessive number of non-performing loans, lack of stringent underwriting and the high moral hazards, making the personal cost to selfish investors far less than the cost to society.³⁶

Following the adoption of ERSAP in 1991, economic agents such as private investors and producers looked to the government to redesign old rules and regulations in order to enable them to complement public actions in the market economy. Several institutional problems in government/private sector relations were identified, and their particular set of remedies were proposed

by the Egyptian Businessmen's Association and the American Chamber of Commerce in Egypt. They stressed, in particular, deficient tax administration and complicated legal procedures for solving disputes within the judicial system. They also emphasized the high transaction costs incurred by private exporters that impede export promotion.³⁷

Similar institutional obstacles have, since 1992, been unfolded in agricultural production and marketing services, owing to regulatory failures in the implementation of cooperative laws of 1980 and 1981. The sudden collapse of thousands of rural cooperative institutions could have been avoided by the enforcement of these laws and by making appropriate arrangements for the gradual preparation of these societies to withstand the rapid policy shift from cooperatives, which were heavily protected by government, to their swift exposure to compete with the private sector. In addition, these widespread rural institutions numbering some 5,000 local societies were ignored by the recently introduced irrigation improvement scheme of the Ministry of Irrigation, requiring the establishment of Water Users Association by Law No. 213 of 1995. This results in an unnecessary duplication of work and deficient organizational arrangements, given that the board of directors and staff of existing cooperatives have the knowledge and the established accounting procedures that could have been mobilized for irrigation improvement purposes. Without effectively involving agricultural cooperatives, it is unlikely to realize the full benefits of irrigation improvement schemes. This is important, particularly in the new lands that are reclaimed at high costs where 40 per cent of these land areas were found to be left uncultivated by the new owners (Saad 2002: 8).

The investment Law No. 230 of 1989 itself is deficient on two grounds. First, in spite of establishing the General Authority for Investment (GAI) as the sole government body in charge of its enforcement, the investor has to approach several government offices for settling taxation and social insurance. Even after the commencement of the project, the investor has to seek the approval of GAI for several activities. Examples are: the proportionate content of domestic and foreign material, purchase of land or leasing a building for the project management, importation of equipment, the provision of water, sanitation, electricity, and so forth. Second, the items in this investment law and related regulatory rules are often ambiguous, and allow both for different interpretation and for making exceptions and changes 'for the sake of national interests'. This uncertainty is also manifested in the frequent appearance of the word '*Yagouz*', meaning that the GAI and the Cabinet of Ministers *may introduce changes* to tax exemptions and the activities to undertake after the commencement of the investment project.

Bureaucracy: making information source for rent-seeking

Frequently, investors tend to judge public administration inefficient, pursuing secrecy, lacking transparency and susceptible to bribery. All these judgements are persistent ingredients of what undermines confidence in government administrative machinery with regard to investment, tax payment, imports

and exports. These confidence problems are compounded by an oversized government, with employees numbering 5.6 million in 1999 and an estimated surplus of 25 per cent in 2001, raising the wage bill to 35 per cent of total public expenditure and increasing the red-tape burden on investors and ordinary citizens.³⁸ The inefficiency of the swollen size is particularly worrying in the main department in which would-be investors seek services, and whose head says: 'If I were to start up this office, I would need about 50 people to run it efficiently, but I have 1,400.'³⁹ The view of foreign investors is also telling: 'There are thousands of relevant laws' . . . 'there is always the risk of a bureaucrat plucking an old law and applying it today . . . Some laws are contradictory . . . Get a good lawyer.'⁴⁰ An experienced business authority⁴¹ adds, 'International investors are usually scared away by the labour Code's complexity and rigidity, perhaps the foremost constraint to entering the Egyptian market' . . . 'Recent surveys show that 42 per cent of private businesses had court cases that lasted two years or more.' This is why the improvement of the institutional arrangements that in effect determine the environment within which a productive market economy operates should have been given priority in the 1991 economic reform.

Politely termed 'rent-seeking behaviour' in economics and 'irregular payments' in business management, bribery/corruption is a strong indication of ambiguity of rules governing property rights and the secrecy prevalent in providing information. Both property rights and information are prerequisites for a competitive market economy. It also indicates poorly functioning state institutions, with a very inefficient civil service that links illegal payments for private gains with high transaction costs incurred by ordinary citizens and investors. It results from unenforced rules, lack of transparency and the abuse of power and privilege for unlawful rapid enrichment and wealth accumulation.⁴² In some sections of government, several corrupt practices are no longer viewed as shameful or immoral. Instead, bribery payment is taken for granted and considered by many as a self-serving process necessary in dealing with official transaction affairs. In the absence of transparency, government officials create secrecy of information in their personal favour by way of charging for the access to this commodity that is made scarce, i.e. in economic terms, it is a rent for the disclosure of information. A combination of these institutional defects tend to lower the quality of Egypt's business environment and its global competitiveness. In particular, the inferior score allotted to 'institutions' (ranking 42 of a total 58 countries) has contributed to this low index (WEF 2000: Profile of Egypt). Also, the poor score allotted to corruption (ranking 54 of a total 75 countries) in 2002 was behind Egypt's weak ranking in global competitiveness. These strong connections should send a strong message to policymakers and analysts of Egypt's development experience.

Concluding remarks

Economic planning that began in the late 1950s and has been pursued since then was justified within a dominant public sector and extensive government

intervention to deal with market failures. It was a powerful tool for the government to expand its control over the economy and to realize the welfare aims of the 1952 revolution. With the adoption of ERSAP in 1991, long-term development perspective must be different from the hitherto centralized imperative planning that has for so long determined the sectoral allocation of investment, controlled output and administered the wage and price regime. The expectancy is an *indicative* planning that coordinates economic activities between government and the private sector's investors, persuading them to raise output and employment targets, proposing technological development strategies, and to ensure the flow of information about the economy. Since the success of the quite deliberate strategic planning for the period 1959–64 within the socialist conceptions of *al-Mithaq* (1962) there has been an obsession with centralized planning combined with an excessive usage of the terms 'strategy' and 'planning', even when they are inconsistent with changing economic environment. They are almost considered sacrosanct. The intended strategy for 1997–2017 is an example in which my assessment has identified several flaws and inconsistency with regard to the relevance of the strategy's policy instruments to the challenges identified. One finds it awkward to maintain the judicial apparatus of the socialist prosecutor (al-Muddai al-Ishtiraky) and the two old Ministries of Planning and Labour Force that may send wrong signals to investors in the context of increasing dependence upon the market.

The reform of the institutional framework of economic activities is a *necessary* but not sufficient condition both for a speedy development and for the realization of the current perception of a partnership between government and the private sector. In particular, effective enforcement of existing investment laws and banking regulatory rules, coupled with a sound financial sector, are essential for the reduction of transaction costs required for gaining the confidence of investors, in particular, and in making markets work, in general. This urgency has increased in importance especially after the recent slow-down in economic growth and the deterioration of Egypt's world competitiveness ranking. The private sector, on the other hand, should support government efforts, particularly with regard both to the implementation of tax and labour laws and to transparency in the capital market and other business transactions. Without this complementarity, productive free market economy cannot be ensured in the twenty-first century. The next two decades are a testing time.

Suggested reading

On the concepts of strategy, planning, globalization and fluctuation in development performance:

Kaldor, Nicholas (1980) *Essays on Economic Stability and Growth* (2nd edition).

Mintzberg, H. (1990) *Strategy Formation Schools*.

— (1994) *The Rise and Fall of Strategic Planning*.

Steglitz, Joseph (2002) *Globalization and its Discontents*.

On the importance of institutions in development performance:

Hayami, Yujiro (1997) *Development Economics: From the Poverty to the Wealth of Nations*.

North, Douglas (1990) *Institutions, Institutional Change and Economic Performance*.

On Egypt's economic development experience, 1950–2000:

Abdel-Khalek, Gouda (2001) *Stabilization and Adjustment in Egypt: Reform or De-industrialization*.

Amin, Galal (1994) *Mo'delat al-Iqtisad al-Misri (The Predicament of the Egyptian Economy)*.

El-Gritly, Ali (1977) *Khamsa wa-Ishrouna Aman: Dirasa Tahliliya Lil Siyassat al Iqtisadiya fi Misr, 1952–1977 (Twenty-Five Years: An Analytical Study of Economic Policies in Egypt)*.

Hansen, B. and Marzouk, G. (1965) *Development and Economic Policy in the UAR (Egypt)*.

— and Radwan, Samir (1982) *Employment Opportunities and Equity in Egypt*.

Issawi, Charles (1963) *Egypt in Revolution: An Economic Analysis*.

Mabro, Robert (1974) *The Egyptian Economy, 1952–1972*.

Further reading is to be found in Notes and References. See detailed information on this suggested list in References.

Notes

* I am grateful to Galal Amin, Gouda Abdel-Khalek, Samir Radwan and my son Anwar for helpful comments on earlier drafts.

- 1 On pre-1952 land tenure system and the 1952 land reform and its effects, see El-Ghonemy (1953) and (1968).
- 2 For a detailed account of nationalization and interpretation of the motives behind it, see Issawi (1963), Galal Amin in Vatikiotis (1968), and Hansen and Marzouk (1965: 166–71).
- 3 On policy features, see El-Gritly (1977) and Hansen and Radwan (1982). On free zones, see World Bank (1997: Vol. 3, pp. 1–3).
- 4 On the mechanization programme and sources of its financing, see Commander (1987: Table 9.1).
- 5 For a detailed record of the negotiations between Egypt and the IMF, see *Middle East Economic Digest*, Vol. 31 (Nos 13 and 21) and Vol. 32 (7 May 1988). See also conditionality and directives concerning budget cuts in World Bank 1992a Table A2.1 and p. 6 of the Executive Summary. See the list and numbers of conditions associated with Structural Adjustment Loans (SAL) in World Bank (1990: Annex).
- 6 Source: Central Bank of Egypt (CBE), Annual Report 1997/98: IV. See also a detailed account of privatization of manufacturing public enterprises in Chapter 7 of this volume.
- 7 See for example (a) World Bank Country Report No. 16207, Egypt, March 1997; (b) Institute of National Planning, *Egypt: Human Development Report* 1995 and 1996; (c) IMF (1997: 49–50) praising highly the success of Egypt's stabilization programme, despite its acknowledgement of increased unemployment, poverty and declining real wages; (d) CBE, *Annual Report*, 1997/98; and (e) El-Ghonemy (1998: Chapter 10 and Appendix Tables).
- 8 IMF (1997) and CBE *Economic Review* Vol. XLI No. 1 1999/2000 and No. 2 of the year 2000/2001, and Annual Reports 1999/2000 and 2000/2001.
- 9 For an examination of domestic public debt, see Abdel-Khalek (1998 and 2001).
- 10 See Amin (1994: 59–63) and Hansen (1991: Table 4–10). The data for 2000 are taken from the Central Bank of Egypt: *Annual Report* 1999/2000, and *Economic Review* Vol. XI, No. 4, pp. 72–3 and Table 5/2.

- 11 There are some criticisms of overpayment to displaced workers. See for example, Assaad (1999).
- 12 On the impact of Law No. 96 of 1992, see the studies prepared by: (a) the Agricultural Policy Reform Program, ARPR Unit, of the Ministry of Agriculture (December 1997 and March 1999); and (b) the Social Research Centre of the American University in Cairo (Abdel-Aal 1998).
- 13 The APRP (1999) and Abdel-Aal report several reasons for the ineffectual plan, including strict conditions for lending required by the Agricultural Credit Bank (PBDAC); ownership title must be recently registered; lack of collateral; and the high price of land purchase averaging LE80,000 (US\$2,857) per feddan payable in annual installments of about LE8,000 which is quite unaffordable.
- 14 In 1953, I examined resource use and income in Egyptian agriculture before the 1952 Land Reform, and the results show that between 1935–38 and 1948–51, average productivity of land under cash tenancy declined and over time soil conservation deteriorated. See El-Ghonemy (1953: Tables 28, 29, 30 and 31). See also El-Ghonemy (1992: Table 2 and Figure 1).
- 15 According to the World Bank's data (1973: Table 2.6) and *World Development Report 1979 and 1995*, Egypt had higher GNP per person in 1950 and 1965 (US\$180 and 230) than South Korea (US\$100 and 160). But by 1993, South Korea surpassed Egypt, with US\$7,600 and US\$660 respectively. During the same period, the share of industry in the GDP in Egypt declined from a higher proportion of 24 per cent to 22 per cent, while that of South Korea rose from a mere 19 per cent in 1965 to 43 per cent in 1993. Similarly, the share of exports in the GDP declined in Egypt from 20 per cent to 6 per cent while it rose in South Korea from 3 per cent to 25 per cent over the same period.
- 16 On development assistance, see World Bank, *World Development Report* (1992, indicators Table 20) and *World Development Indicators*, 2002: Table 6.10). On the Arab states' grants, see El-Gritly (1977) and Amin (1994: Table 1–4). Total aid *per capita* was US\$35 in 1995 and \$21 in 2000.
- 17 Annual FDI (direct Foreign Capital) represents 69 per cent of total private capital flows including borrowing from abroad in 2000. For a careful examination of investment in 1975–88, see Handoussa (1990).
- 18 For other theoretical explanations, see for example Wilson (1946), and Lance Taylor (1979) and a summary of these theories in Abdel-Fadil (2000) (Arabic).
- 19 For the instability of oil prices in the 1980s, see CAPMAS *Statistical Yearbook*, 1981–95 issues and Central Bank of Egypt's *Annual Reports*, 1989/90 and 1991/92. As a result of this instability, the balance of trade deficit increased fivefold in 1980–84, and export revenue received by the government fell, in real terms, by an average of 55 per cent in 1985–89.
- 20 See for example Sen, A. (1983), Psacharopoulos (1985 and 1994), Summers (1994), Gustav Ranis and Frances Stewart (2000: 197–219), the UNDP *Human Development Report*, several years, Allen Kelley (1988) and Keith Griffin (2000: Chapters 1 and 4). For a recent study of the demographic/economic links in Egypt, see David Bloom and David Canning of Harvard University (1999) and Magid Osman (2001).
- 21 Use of contraceptive methods by married women as a percentage of total in child-bearing age has increased from 10 per cent in 1970 to 68 per cent in 1996. See Egypt Demographic and Health Surveys 1992, 1995 and 1998 of the National Population Council.
- 22 See El-Gritly (1977: 101) CAPMAS: 1985 *A Study of the Labour Market in Egypt: The Industrial Sector*, Abdel-Khalek and Soliman (1998: 161–7), Abdel-Khalek (2001: Tables 4.4, 4.5 and 4.6), CAPMAS 1998 (*Census of Annual Industrial Production, 1995/96*) and Hansen and Radwan (1982: Chapter 10).
- 23 To understand the economics of these issues, see N. Georgescu-Roegen (1960) and Anne Booth and R.M. Suhdrum (1985) especially Chapter 3, 'Population Pressure and Labour Intensity in Agriculture'.

- 24 Abu-Mandour and Seyam's study covered five provinces, and shows that real wage rates in 1992 were 51 per cent of their 1992 level, 69.3 per cent of the sampled labourers (15 years and over) were illiterate, and that average annual income of household was only 37.2 per cent of the established poverty line in 1992 (1995: Table 5.2, 5.3 and 5.7). It must be noted that the size of the sample was small (354 landless workers not owning and not renting land).
- 25 Cultivable land means the area of land available for farming irrespective of its intensive use. On the other hand, cropped area is the area of different crops cultivated in one feddan during the same agricultural year. The number of crops and the variation in both areas are indicative of the application of technological advance, especially irrigation. Agricultural population are those adults engaged in farming as their main occupation and their dependents. See Nassar and Mansour in this volume for data on increased yields.
- 26 The data on these three features are taken from: El-Ghonemy (1953: 60–5), Hansen and Marzouk (1965: 60–4), Commander (1987: 210–18), El-Ghonemy (1990: 235–7) and Adams (2002: Table 2).
- 27 In my 1990 book (p. 39) I estimated the extent of inadequate capital investment in Egyptian agriculture in 1982. The estimate was based on data on the share of agriculture in: total output (GDP), total labour force and total capital investment (GFCF) and a capital–output ratio of 4:1. This crude estimate shows that agriculture should have received at least 21 per cent of total investment in 1982 instead of the actual 7.1 per cent.
- 28 This loss of land is a dismantling of a social asset, created over many centuries from the Nile water silt, while 95 per cent of Egypt's total area is desert. The annual average of lost land is based on estimates made by Ibrahim Antar the head of the al-Gahaz al-Tanfizi Iitahseen al-Arabi (*Al-Ahram*, 10 April 1990: 3 and Biswas (1991: 19).
- 29 There are several development models for reducing population pressure up till 2020, primarily by reducing fertility rate to 2.1 child by the year 2016. See for example 'Egypt 2020 Project of the Third World Forum' (still in progress) summarized in Osman (2001).
- 30 For a detailed discussion on this long-term strategy, see Nassar and Mansour's Chapter 6 on agriculture in this volume and the Ministry of Water Resources and Public Works, January 1997 (Arabic). See also a detailed description of this planned irrigation expansion by the Manager of the Toshka scheme in *al-Ahram*, 11 May 2001, p. 8.
- 31 These relationships between size of farm, productivity and poverty are results of my analysis of data from twenty developing countries including Egypt and other studies discussed in El-Ghonemy 1990: Chapters 4 and 5.
- 32 There are several studies on the economics of irrigation water; see for example El-Sayed (1998) and Abdel-Hamid Saad (2002). Doubts about data published are raised by IFPRI in its 1997 survey and by the USAID in Egypt in 2001, both sources are documented in Ali (2002).
- 33 The term 'sustainable development' owes its widespread usage to the Report of the World Commission on Environment and Development 1987 '*Our Common Future*', New York: Oxford University Press, known in the literature as the Brundtland Report. It defined sustainable development as 'development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs'. It contains two basic concepts: the needs, and the limitations imposed on the ability to meet present and future needs.
- 34 See for example Hansen (1991), Alesina and Rodrik (1994 and 1998) and Stiglitz (1998 and 2001). On governance in contemporary Egypt, see Chapter 9 in this volume and Kassem (1999).
- 35 On this question, see for example the studies prepared by Mohamed Soliman (1984 and 2000). See also Hazem Hassan (1996) on the multiplicity of taxes,

- excessive number of rules with frequent changes and the defective accounting system followed by banks. On corrupt practices, see Hamouda's account of ten Egyptian millionaires and the reporting on the trials of the executives of the Nile Bank in April 2001.
- 36 These Asian countries are: Indonesia, Malaysia, the Philippines, Thailand and South Korea. For understanding the causes and consequences of the crisis, and their relevance to the Egyptian situation, see Wade (1998).
 - 37 For a detailed discussion on these problems voiced by the private sector, see Giugale and Mubarak, eds (1996).
 - 38 See the Prime Minister's statement in parliament on 10 February 1998 and the interview with Mr Mohamed Zaki Amer, Minister of State for Administrative Development, in *al-Ahram*, 21 March 1998. See also a study summarized in *al-Ahram*, 13 March 2001.
 - 39 From an interview with Mr I. Fawzi, the ex-President of the General Authority for Investment (GAI) in the *Financial Times*, 12 May 1998, Annex 'Egypt', p. 1.
 - 40 These excerpts are taken from a survey conducted by the *Financial Times*, 22 April 1994, Annex 'Egypt', p. 6.
 - 41 The authority refers to the American Chamber of Commerce in Egypt, and the excerpts are from their contribution in Giugale and Mubarak 1996: pp. 35 and 40, respectively.
 - 42 Examples of the influence of personal relations, corrupt practices, combined kinship relationships and disguised partnership arrangements are the cases of Ismat Sadat, Tal'at Mustafa, Rashad Osman, al-Rayan brothers, Ashraf al-Saad, Mustafa El-Belidy, Aleya al-Ayouty and Tawfik Abdul-Hadi. Their trials between 1984 and 2001 revealed alarming criminal acts of corruption such as unlawful possession of public lands, embezzlement of public funds, illegal borrowing of enormous sums, clandestine trading in foreign currency, importation of meat harmful to health and dried milk that was past its sell-by date and put children lives in danger, etc. For a detailed account, see El-Ghonemy (1998: Chapter 7) and Hamouda (2000).

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5 Full employment

The challenge in the twenty-first century*

Samir Radwan

Introduction: time for a strategic shift?

There is a growing consensus in professional circles, as well as in the press, that Egypt's potential for economic take-off has never been better (Ministry of Economy 1996: 9).¹ The Government's recent declarations also emphasize the need for a 'great leap forward'. The economic stabilization programmes adopted in the early 1990s have achieved most of their objectives, and there has been a turn-around in growth performance, reversing the negative or stagnant growth rates which characterized the period from 1985 to 1992.

Yet this progress at the macro-level has not been matched in two crucial areas: employment creation and poverty reduction. Open unemployment is estimated at 10 to 13 per cent of the labour force, and given the high rate of growth of the latter (2.8 per cent annually), the economy must create 500,000 to 600,000 jobs a year over the next decade to absorb the new and predominantly young entrants to the labour market. Poverty remains high and has continued to increase from 29 per cent of the population in 1981/82 to 35 per cent in 1990/91. There are indications based on the 1995/96 *Household Income and Expenditure Survey* (CAPMAS 1997) that as much as half of the population may be living in poverty, which suggests a deepening of economic inequality (the share of total income of the upper 20 per cent increased from 42.3 per cent to 45.1 per cent between 1991 and 1993, while total income of the bottom 40 per cent declined from 19.5 per cent to 17.0 per cent (INP 1995: 63). It is against this backdrop of persisting unemployment and poverty that the need for a major shift in development policies is urgently needed.

This chapter attempts to contribute to the current debate on the future orientation of the Egyptian economy. Its primary assertion is that Egypt must build upon the current recovery of the economy, and take the high road to growth with the long-term objective of achieving full employment. That is to say, establishing effective demand high enough to create sufficient employment with a minimum unemployment rate of some 2 to 3 per cent and without high rates of inflation. But is this a realistic objective? There are compelling reasons to believe that this is an attainable goal. This chapter shows that such a strategy is viable provided a consistent and mutually reinforcing set of policies (at the

macro-, sectoral and micro-levels) is implemented within the framework of an overall long-term strategy for sustainable growth with equitable distribution. Undoubtedly this is a formidable challenge at both the theoretical and policy-making levels.

To elucidate these issues, the chapter begins by outlining the nature and magnitude of the employment problem in Egypt with emphasis on labour market outcomes in terms of unemployment and incomes. This is followed by an interpretation of the present situation, in which the discussion sets the stage for suggesting an alternative policy framework and arguing its viability. The basic argument is that while the diagnosis of the problem and its causes is well known, unconventional policies and institutions are required if the present trends were to be reversed. The last section concludes by pointing to some essential pre-conditions for this strategic shift into the twenty-first century.

A profile of the employment problem

Unemployment has been Egypt's primary economic concern in the 1990s. With population growing at 2.2 per cent a year, and a labour force increasing at an even faster rate of 2.8 per cent a year, the economy, growing at an average of only 2 per cent a year, is unable to generate sufficient demand to absorb the new entrants to the labour market annually. But how many are they and who are these new entrants?

Demographic trends explain partly the increase in labour supply over demand. Between 1988 and 1998, the labour force increased at an average annual of 523,000, while according to official estimates, employment increased by 435,000 on average, thus leaving a deficit of 88,000 annually to join the ranks of the unemployed. These trends are likely to continue in the near future as the labour supply is forecast to grow at 2.6 per cent for the period 2001–10 (World Bank 2001: 57). For the next ten years, the average number of new job seekers will increase to 638,000 per year compared to the capacity of the Egyptian economy to create 435,000 jobs annually over the last decade. A more significant measure of labour supply should take into account the output of the educational system as well as the drop-outs who join the labour market every year as job seekers. These have been estimated at 896,000 persons in 1999/2000.² Assuming that the domestic economy generates 435,000 jobs and 90,000 migrate annually, this suggests that the total labour absorption amounts to only 58.6 per cent of the total supply, or a deficit of 371,000 jobs a year.

The economic history of Egypt can be seen as a continuous attempt to cope with unemployment. Throughout its history, the state has played a major role in job creation particularly through public works. At times, the private sector has taken the lead in employment creation as in the Misr Bank experiment during the 1920s and 1930s and later when a vibrant private sector developed during the Second World War. Over the last three decades, however, the state has resumed its role as the primary job provider. The following sections summarize the legacy of this policy approach.

From surplus labour to high unemployment

Notwithstanding the inadequacies of labour market data, we have assembled in Table 5.1 and Figure 5.1 information on unemployment from the *Population Census* and the *Labour Force Sample Survey* for the period 1960 to 1995.³ Based on this data and the results of the 1998 sample survey, we can divide the past thirty-five years into three sub-periods:

The 1960s: the labour surplus economy. In this era open unemployment was negligible and declined to levels below the natural state of 2 to 3 per cent. The state was the major actor in economic life, and jobs were created through massive investment in agriculture, infrastructure and import-substituting industries, as well as the rapidly expanding government and public sector. Graduates and men completing military service were assured of jobs under the employment guarantee scheme, and the state became the primary employer in the country after agriculture.

The development problem during this period was under-employment, with the majority of workers relying on low-productivity jobs in agriculture or the informal sector. Arthur Lewis cites Egypt during this period as a textbook example of surplus labour waiting to be shifted to more productive sectors (Lewis 1954). The state pursued a full employment policy at a low level with both low wages and productivity, until the early 1970s when it became clear that such policies were not tenable and the whole system was caught in what may be called a low-level productivity trap.

1975–1985: the beginning of open unemployment. During this decade, the government launched its Open Door Policies, and the economy grew at the unprecedented rate of 8 per cent per year, fuelled by a steady flow of resources from the Suez Canal, oil exports, tourism, workers remittances, foreign assistance and borrowing. The employment problem became more complex than ever before.⁴ The employment-creating sectors were saturated and construction and services were not creating sufficient jobs. The employment problem was alleviated through the increased demand in the Gulf States for migrant labour following the increase in oil prices in 1974. Some 10 to 15 per cent of the Egyptian labour force emigrated. The labour market became tight, labour shortages began and real wages went up. Paradoxically, labour shortages existed side-by-side with open unemployment resulting from various structural and frictional rigidities. This period demonstrated the limits of growth which relies too heavily on exogenous factors and showed that the composition of growth is just as crucial as the rate of growth when considering employment creation.

1985–2000: slow growth, high unemployment. This period may be described best as one of retrenchment. The major factors that fuelled the high-growth performance of the previous decade (massive resource flows from abroad and a domestic boom based on construction, services and remittances exhausted their impact). Emigration peaked in the early 1990s, and net return migra-

tion became a reality particularly after the Gulf War. This was reflected in a slowing of growth that continued until 1993 (the economy grew at rates ranging from 0.3 per cent to 2.5 per cent per year, and per capita income registered zero or negative growth rates). The major source of growth during this period was vigorous government-led investment in infrastructure. Given this rate and pattern of growth, it is not surprising that open unemployment climbed to new heights, reaching 10 per cent in May 1993, and fluctuating at this level since. If the data are corrected for shortcomings, such as underestimating female participation and under reporting employment of individuals under 15 and above 60 years, unemployment may be as high as 13 per cent (Fergany 1995).

The optimism of the mid-1990s has not been realized, and there is now a consensus that unemployment remains as the crucial challenge. The huge rush for government jobs in the summer of 2001 has belied the official unemployment statistics, in which the Central Agency for Public Mobilization and Statistics (CAPMAS) remains the only believer.⁵ The government is fully aware of this problem, and in particular since late 1999, the unemployment problem has been at the top of its agenda. The first 'government programme', submitted to parliament on 18 December 1999 stated that 'all our efforts should be directed at increasing incomes, sustaining this increase and ensuring equality in its distribution, and the creation of maximum employment opportunities'.⁶ Since then, various measures have been taken with this objective in mind. Basically, the government response to the situation followed two tracks:

- 1 Macro-economic management focused mainly on monetary and fiscal policies to achieve stability and protect the Egyptian pound.
- 2 An employment programme was launched to absorb the 896,000 new entrants to the labour market in government jobs, training, social fund programmes, local development, and the private sector.

Despite these efforts, the unemployment problem continues to vex the policy makers and the society at large.

The structure and performance of the Egyptian labour markets

It is useful to take a closer look at the structure, performance and outcome of the Egyptian labour markets during the 1990s. A serious aspect of the labour market outcomes is the rise in unemployment over the last decade. The growth performance of the economy has failed to create sufficient jobs to match the rapid increase in labour force (2.7 per cent a year). Estimates of unemployment vary. Official statistics suggest a decline from 12 per cent in 1986 to 9 per cent in 1996 and 7.4 per cent in 2000. However, Ragui Assaad (1998) estimates that unemployment increased from 5.4 per cent (0.89 million) in 1988 to 7.9 per cent (1.72 million) in 1998. If corrected for female unemployment it goes up to reach 11.7 per cent. As mentioned earlier,

unemployment amounted to 11 per cent in 1995, and, if corrected as suggested by Fergany (1995), it increases to 14–15 per cent (or 2.5 million compared with 1.5 million reported by the 1996 census). Whatever the estimates, the fact remains that unemployment is on the rise.

Table 5.1 and Figure 5.1 show that the private sector employed the greatest number of people (38.2 per cent), followed by public employment (30 per cent), consisting of government (22.3 per cent), and public enterprises (7.7 per cent).

It is important to note, however, that agriculture is still the primary source of private employment and constitutes one-third of the overall economy (World Bank 1994: 10 and Table 16). Thus the state continues to be the main provider of non-agricultural employment, and public employment has increased slightly since the 1980s when it accounted for 28 per cent of total employment.⁷ After agriculture, the *private sector* was the leading employer, in tourism (95.3 per cent of total employment in 1987/88 to 91/92), real estate (89.2 per cent), construction (73.7 per cent) and manufacturing (55.5 per cent) (World Bank 1994: Table 16). These sectors are not generally large employers and tend to

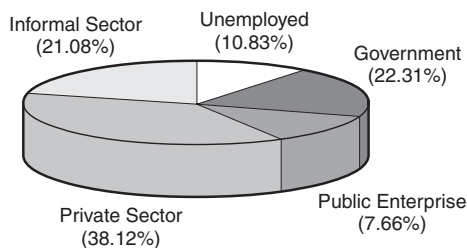


Figure 5.1 The structure of the labour market, 1995.

Table 5.1 The labour market in 1995

Total labour force ^a	17,726	100%
Unemployed	1,919	10.8
Employed	(15,808)	(89.2)
Government	3,955	22.3
Public enterprises	1,358	7.7
Private sector ^b	6,758	38.2
Informal sector ^c	3,737	21.0

Source of this table and Figure 5.1: CAPMAS, *Labour Force Sample Survey (LFSS)*, 1995.

Notes

^a Does not include immigrants.

^b Including agriculture and self-employed.

Agriculture employed 5 millions +, 28% of the labour force.

^c Includes self-employed outside establishments. This is an under-estimate, as a large proportion of private sector employment, especially in trades and services, is in the informal sector.

be more capital-intensive than labour-intensive. Another element central to the labour market is the *informal sector* which absorbs one-fifth of the total labour force. According to Handoussa and Potter (1992), the informal sector has been, and is likely to become, even more essential to employment and income generation for more than half of the non-agricultural population. According to recent estimates, employment share of the informal sector (outside establishments) has increased from 51 per cent in 1990 to 54 per cent in 1998. In this sector, the share of women increased while that of men declined, suggesting a trend towards the increased feminization of the informal sector (Wahba and Mukhtar 1999: 51).

Considering the impact of various economic activities on employment, Table 5.2 shows that between 1989/90 and 1994/95 some 1.8 million jobs were created at an average of 370,000 jobs per year (Handoussa and Potter 1992: 23). The leading sectors were manufacturing followed by services and construction. Agriculture, which experienced a decline in both relative and absolute terms during the 1970s, appeared to attract new workers as a result

Table 5.2 Employees by economic activity, 1989/90 to 1994/95 (000s)

<i>Sector</i>	<i>1989/90</i>	<i>Sector share %</i>	<i>1994/95</i>	<i>Sector share %</i>	<i>Growth % 1989/90– 1994/95</i>	<i>Sector share increase %</i>
Agriculture	4,478	34.4	4,744	31.9	1.16	14.4
Industry	1,638	12.6	2,031	13.7	4.39	21.3
Petroleum and its products	35	0.3	41	0.3	3.22	0.3
Electricity	97	0.7	114	0.8	3.28	
Housing and construction	780	6.0	1,038	7.0	5.88	14.0
Transportation, communication and Suez Canal	452	3.5	690	4.6	8.83	12.9
Finance, trade and insurance	1,325	10.2	1,624	10.9	4.15	16.2
Tourism, hotels and restaurants	140	1.1	136	0.9	(0.58)	(0.2)
Real estate	207	1.6	230	1.5	2.13	1.2
Social and personal services	1,227	9.4	1,506	10.1	4.18	15.1
Public utilities, social insurance and government services	2,653	20.4	2,725	18.3	0.54	3.9
Total	13,032	100.0	14,879	100.0	2.69	100.0

Source: CAPMAS, *Statistical Yearbook*, July 1996: 288.

Note

We relied on data from the Ministry of Planning to obtain a longer series. It should be noted, however, that these data under-estimate the labour force compared with the Labour Force Sample Survey (LFSS) which reports a total employment figure of 15,808,000 for 1994/95, or one million more than that of the Ministry of Planning.

of the shift to high-value, labour-intensive fruit and vegetable crops, and the re-emergence of family farms as a major source of income (due to the shifting terms of trade in favour of agriculture). It is surprising to note that employment in tourism declined slightly despite the tourist boom in recent years. One explanation is that the data report employment in the formal sector only and omit the numerous workers in the informal tourism sector.

Characteristics of the unemployed

The pace and pattern of job creation indicated by the data given in Table 5.2 resulted in a steady rise in unemployment. Although the rate of unemployment is an important indicator of the economy's performance, equally important are the trends and characteristics of unemployment. We have established earlier that open unemployment has risen steadily since the mid-1970s, but what are the salient features of unemployment and who are the unemployed?

The picture that emerges from Tables 5.3D and 5.4, based on the 1995, 1988 and 1998 *Labour Force Sample Surveys*, respectively, is very telling. First, unemployment is essentially a problem of the youth. It peaked among the 15–29 age group whose share in total unemployment has increased from 82 per cent in 1988 to 84 per cent in 1998. At the same time, the average duration of unemployment is high amongst youth, reaching 37 and 64 months for the age groups 20–25 and 25–30 respectively. Second, the incidence of unemployment is highest among first-time job seekers (95 per cent), most of whom are in the 15–25 age group in 1995. Third, the relationship between unemployment and educational attainment appears to be negative as the incidence of unemployment is highest among those with intermediate education reaching 55 per cent in 1998, followed by university and higher institutions graduates (14 per cent), compared to only 1 per cent unemployment among illiterates in 1995 and 8 per cent in 1995. As Fergany puts it, 'This pattern indicates negative labour market returns to education.' Fourth, unemployment is higher among females than males especially in urban areas. Lastly, unemployment is higher in peripheral regions such as Western Lower Egypt (Delta) and the Frontier Governorates.

These characteristics of the unemployed underscore the seriousness of the unemployment problem especially among the young, whose position in the labour market does not correspond to their rising expectations.

Labour income and poverty

To complete the picture, we must look at labour market outcomes in terms of incomes and returns to labour. Wage labour represented 72.1 per cent of urban employment in 1995; 42.9 per cent of rural employment; and 55.5 per cent of total employment that fell slightly to 54 per cent in 1998. The movement in real wages is, therefore, a significant indicator of changes in income for a significant part of the labour force whose main source of income is labour.

Table 5.3 Characteristics of unemployment, May 1995

A. Unemployment by gender and rural/urban residence (6 years and above)									
<i>Item</i>	<i>Males</i>			<i>Females</i>			<i>Total</i>		
	<i>urban</i>	<i>rural</i>	<i>total</i>	<i>urban</i>	<i>rural</i>	<i>total</i>	<i>urban</i>	<i>rural</i>	<i>total</i>
Unemployment (000s)	453	545	998	453	467	920	906	1,012	1,918
Unemployment rate (%)	7.5	7.0	7.2	27.5	20.7	23.6	11.7	10.1	10.8
First time job seekers (%)	88.3	97.2	93.2	96.2	99.6	98.0	92.3	98.3	95.5
Average duration of unemployment in months (12–64)									
<i>First time work-seeker</i>	39.0	41.6	40.5	42.3	45.3	43.8	40.7	43.3	42.1
<i>Previously employed</i>	20.9	21.5	21.0	22.0	28.3	22.6	21.2	22.3	21.4
Total	36.9	41.1	39.2	41.5	45.2	43.4	39.2	43.0	41.2

B. Unemployment by age category, 1995

<i>Item</i>	<i>Age category</i>									
	<i>6–</i>	<i>12–</i>	<i>15–</i>	<i>20–</i>	<i>25–</i>	<i>30–</i>	<i>40–</i>	<i>50–</i>	<i>60–</i>	<i>65+</i>
Unemployment rate (%)	1.3	2	25.5	39.4	20.3	2.2	0.2	0.1	0.2	0.1
First-time job seekers/unemployed (%)	a	80.0	97.3	97.8	95.3	85.0	19.0	a	a	a
Average duration of unemployment in months (12–64)	–	21.4	17.4	37.1	64.1	67.2	19.8	27.3	42.3	–

Notes

^a the sample is less than 10

– not available.

C. Unemployment by educational status (age bracket: 15–64), 1995

	<i>Illiterate</i>	<i>Reads & writes</i>	<i>Less than intermediate</i>	<i>Intermediate</i>	<i>Advanced intermediate</i>	<i>University & higher</i>
Unemployment rate (%)	0.4	0.6	2.8	33.3	19.4	11.8
Average duration of unemployment in months (12–64)	29.2	27.3	28.2	42.8	42.2	35.0

D. Unemployment by region (age bracket: 15–64), 1995

	<i>Greater Cairo</i>	<i>Other major cities</i>	<i>Eastern Lower Egypt</i>	<i>Central Lower Egypt</i>	<i>Western Lower Egypt</i>	<i>Northern Upper Egypt</i>	<i>Southern Upper Egypt</i>	<i>Frontier Governorate</i>
Unemployment rate (%)	8.3	11.8	13.1	10.8	20.0	7.9	11.7	17.4

Source: CAPMAS, *Labour Force Sample Survey*, May 1995.

Table 5.4 Unemployment by age (15–64), 1988 and 1998

	15–19		20–29		30–39		40–49		50–59		60–69	
	1988	1998	1988	1998	1988	1998	1988	1998	1988	1998	1988	1998
Share in unemployment %	26.5	23.1	55.2	60.5	9.2	9.4	5.5	3.3	1.3	3.0	2.1	0.7

Source: ERF (1998) *Comparing Egypt's Labour Force Sample Survey 1998 and Labour Market Survey 1998*. The Economic Research Forum for the Arab Countries, Iran and Turkey.

Table 5.8 and Figure 5.4 provide a dramatic picture of real wage trends in the different economic activities since the early 1980s. The wage increase that began by the mid-1970s, as a result of labour shortages, gave way to more than a decade of continuous decline in all economic activities without exception. On average, real wages in 1994/95 were only two-thirds of the 1985/86 wages in both public and private sectors alike. Average annual real wages for the private sector in 1991/92 amounted to 55.6 per cent of the 1982/83 level (World Bank 1994: Table 23). This downward trend has continued in almost every sector of the economy during the decade 1988–99 at an annual average rate of 3.6 per cent for males and 1.3 per cent for females (World Bank 2001: VIII). Naturally, this trend has to be set against the low average annual rates of growth of labour productivity, being only 1.6 per cent, compared with the labour force higher rate of growth at 2.7 per cent per annum. As a result, wage earners had to devise survival strategies to cope with declining real incomes by working several jobs and resorting to rent-seeking behaviour. The fact remains that the decline in many people's main source of income has been devastating.

As explained by Adams in Chapter 2, there are serious limitations of data on poverty and income distribution. However, the *1995 Human Development Report for Egypt*, shows that the

incidence of poverty at the national level has increased from 29 per cent of the total population in 1981/82 to 35 per cent in 1990/91, and indications are that it may be as high as 44 per cent at present. This applies to both urban and rural areas, where the incidence of poverty increased from 30 per cent and 28 per cent, to 36 per cent and 34 per cent respectively.

(INP 1995: 63)

The *1996 Human Development Report for Egypt* shows that the incidence of poverty in 1995/96 was about 23 per cent; however, if the 20 per cent of the population living in so called 'mild poverty', is added, the incidence of poverty increases to 44 per cent (INP 1997). A World Bank report comes to a similar conclusion noting that,

In Egypt the proportion of the population under the poverty line (US\$30 a month per person in US\$real value), increased by 30 per cent between 1985 and 1990 and has likely continued to rise because labour demand has remained weak and consumption subsidies have been reduced/

(World Bank 1995)

Table 5.5 Distribution of employees in 1998 and the labour market demand, 2001–2005, by economic activity

Sector	Employed		Labour market demand	
	Thousand	%	Thousand	%
Agriculture	8,993	42	85	4.6
Mining	41	0.2	7	0.5
Industry & petroleum	2,494	11.6	661	46.5
Electricity	149	0.7	3	0.2
Building & construction	1,098	5.1	87	6.1
Transportation	938	4.4	50	3.5
Trade	2,479	11.6	104	7.3
Financial services	327	1.5	12	0.8
Tourism & hotels	–	–	275	19.4
Business services	–	–	11	0.7
Personal services	4,900	22.9	81	5.7
Education	–	–	33	2.3
Health	–	–	32	2.3
Total	21,416	100	1,41	100

Source: Employed: CAPMAS, *Labour Force Sample Survey*, 1998; Labour market demand: *Demand Side in the Egyptian Labour Market*, 2001.

Table 5.6 Labour force distribution and unemployment, 1998, and labour market demand, 2001/2, by educational status

Sector	Labour force ^a		Unemployment ^b		Labour market demand	
	Thousand	%	Thousand	%	Thousand	%
Illiterate	7,192	33	135	8		
Read & write	2,076	9	73	4		
Below intermediate	3,522	16	143	8	531	66
Intermediate	5,305	24	947	55	28	4
Above intermediate	1,267	6	181	11	108	13
University & higher	2,705	12	242	14	138	17
Total	22,061	100	1,721	100	805	100

Source: Labour force and Unemployment: CAPMAS; Labour market demand: *Demand Side in the Egyptian Labour Market*, 2001.

Notes

^a represents persons at working age (6 years or more)

Greater Cairo and Alexandria dominate new demand

Beyond the academic debate over measuring poverty, two things are important for the policy-maker: the *trends* and the *characteristics* of poverty. Evidence suggests that the poverty trend in Egypt is worsening. The results of the 1995/96 *Household Income and Expenditure Survey* show that average incomes and expenditures in real terms declined during the period 1990/91 to 1995/96, and average incomes declined by about 19 per cent, while average expenditures declined by 23 per cent (Fergany 1997). This is further corroborated by data

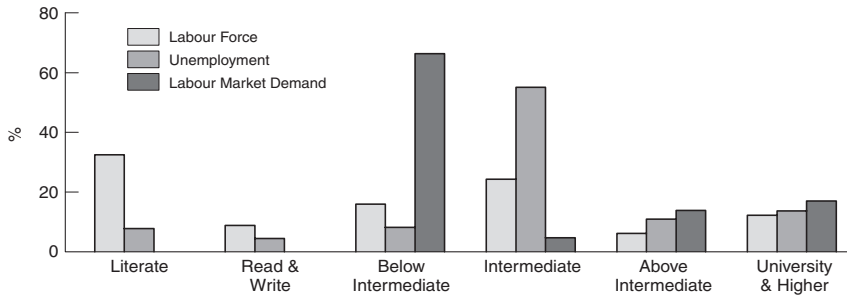


Figure 5.2 Little demand for the unemployed, 2001/2.

Table 5.7 Distribution of labour force and unemployment, 1999/2000, and labour market demand, 2001–2005

Governorate	Labour force		Unemployment		Labour market demand	
	Thousand	%	Thousand	%	Thousand	%
Cairo	2,423	12.8	117	4.8	492	34.6
Alexandria	1,133	6	43	3.8	216	15.2
Port Said	187	1	8.2	4.4	45	3.2
Suez	150	0.8	15.8	10.5	34	2.4
Damietta	293	1.5	21	7.2	28	1.9
Dakahliya	1,458	7.7	174	11.9	29	2
Sharkiya	1,332	7.1	127	9.5	72	5.1
Kalyobiya	1,075	5.7	67.7	6.3	44	3.1
Kafr El Sheikh	710	3.8	73.2	10.3	14	1
Gharbeya	1,214	6.4	118	9.7	25	1.8
Monofiya	1,024	5.4	55.2	5.4	24	1.7
Beheira	1,270	6.7	167	13.2	21	1.4
Ismaillya	231	1.2	18.6	8.1	54	3.8
Giza	1,337	7.1	52.2	3.9	248	17.5
Beni Suef	629	3.3	30.2	4.8	4	0.3
Fayoum	550	2.9	24.3	4.4	15	1.1
Minia	1,157	6.1	81.2	7	6	0.4
Aslut	719	3.8	78.7	11	7	0.5
Sohag	824	4.4	81.4	9.9	7	0.5
Kena	546	2.9	54	9.9	8	0.6
Luxor	92	0.5	1.8	2	2	0.1
Aswan	262	1.4	49.8	19	5	0.3
Red Sea	72	0.4	11.5	16	12	0.9
New Valley	57	0.3	9.5	16.7	2	0.1
Matrouh	64	0.3	4.7	7.3	4	0.3
North Sinai & South Sinai	83	0.5	6.2	7.5	2	0.1
Total	18,891	100	1,491.2	7.9	1,419	100

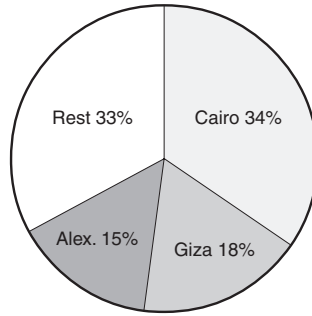


Figure 5.3 The distribution of demanded labour by governorates, 2001/2.

Sources of data in Table 5.7 and Figure 5.3: CAPMAS, *Survey of the Demand Side in the Labour Market*, 2001.

from national statistics which indicate that real per capita GDP in 1990 dollars has declined from US\$620 in 1990 to US\$528 in 1995 (Handoussa 1996). Increasing poverty and eroding incomes have led to deepening inequality, as explained by Adams earlier in this volume.

Who are the poor?

The social and economic characteristics of the poor have remained largely unchanged from 1990/91 to 1995/96. The results of the 1995/96 *Household Income and Expenditure Survey* conducted by CAPMAS indicate the following: first, poverty is concentrated in rural areas and in Upper Egypt in particular; second, the incidence of poverty is highest among the illiterate, although it also exists among university graduates; third, poverty is highest among the unemployed and the self-employed; fourth, poverty is concentrated among the young and newly married (15–25 years) and the elderly (65+ years); and fifth, poverty increases with the number of children (than ten years old) in the household.

The characteristics of the poor suggest that a growth strategy focusing on the quality and intensity of employment will alleviate poverty. Efforts at human capital formation and accumulation through reform of the formal education system and promotion of training and retraining programmes would increase the returns to the poor by providing them with the necessary education and skills, and hence the opportunities for productive and remunerative employment. In the rest of this chapter, these development issues are examined.

Explaining the trends in and patterns of employment and unemployment

In examining the evolution of employment and labour markets in Egypt over the last four decades, the picture that emerges is far too complex for a simple explanation. In general, the literature on employment policies has lagged far

Table 5.8 Index of real wages, 1980–1995^a (1985=100)

Sector	1980/ 1981	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95
Agriculture	60.2	57.7	130.8	119.3	107.0	100.0	88.2	85.5	81.6	75.0	72.0	66.3	65.8	67.0	68.6
Industry	99.8	113.5	131.4	118.9	107.0	100.0	85.0	80.5	76.1	57.6	52.2	69.8	65.0	65.0	68.4
Petroleum	78.8	80.5	114.8	110.5	104.8	100.0	87.0	82.7	77.8	70.7	69.1	63.5	55.7	79.2	57.8
Electricity	69.2	69.3	97.6	98.9	100.1	100.0	84.2	79.4	75.9	69.8	68.8	67.9	66.0	66.2	67.6
Housing and construction	64.4	62.1	135.3	121.4	107.9	100.0	85.0	80.1	75.4	82.1	77.1	70.2	65.8	63.2	63.3
Transportation & commerce	60.2	84.4	122.7	113.9	104.5	100.0	86.5	81.5	77.8	89.2	85.8	77.7	58.4	55.9	55.2
Finance & trade	98.7	96.7	124.8	114.7	104.2	100.0	87.0	89.6	84.2	81.3	79.4	73.6	68.9	69.2	70.9
Other services	82.3	130.7	110.8	108.8	104.8	100.0	85.0	82.4	76.6	68.6	66.3	55.8	57.3	58.2	62.0
Grand total	80.4	87.4	120.0	113.0	104.9	100.0	86.4	84.3	79.7	73.6	70.9	66.4	64.4	65.3	67.8

Source: Based on data from CAPMAS.

Note

^a Real Wage Index=average annual wage per employee/consumer price index.

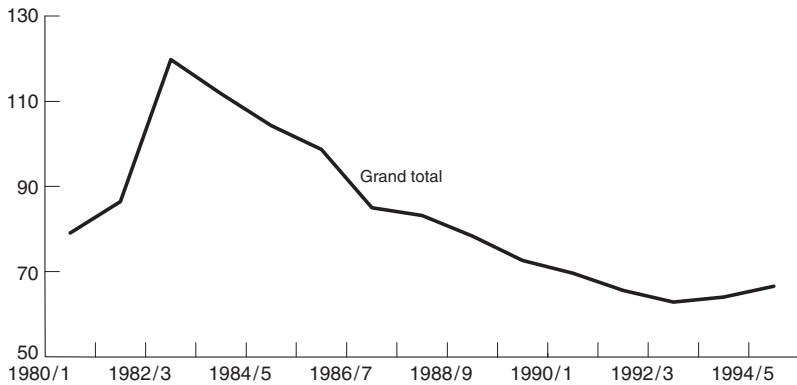


Figure 5.4 Index of real wages, 1980–1995.

Source: Data given in Table 5.8.

behind the evolution of thought on macro-economic issues. Most of the post-Keynesian debate has focused on wage determination or on the different factors that influence labour market behaviour. In this respect, the recent discussion emphasized the polarization of the ‘distortionist’ and the ‘institutionalist’ schools. The ‘distortionists’ regard regulation of the labour market as intervention detrimental to efficiency, while the ‘institutionalists’ argue that labour markets are more flexible and that a measure of regulation is necessary for an equitable labour market. Both views oversimplify the case. The objective of economic policy is to create the conditions necessary to sustain a level of aggregate demand and guarantee maximum employment based on a given rate of investment at a tolerable rate of inflation. Within this framework, regulations should be kept to the minimum necessary to compensate for market failure and to guarantee broad-based access to factor and commodity markets. Macro-economic policy should be concerned with sustaining a rate of growth sufficient to increase aggregate demand; sectoral policies should guarantee the allocation of investment to sectors with higher labour demand; and the incentive system should rely on a set of strategic prices that reflect the labour market realities and can thus achieve the efficient allocation of resources.

The determinants of employment performance

Given this perspective, how should the Egyptian labour experience be interpreted? In our view, it is the combination of three major factors that determines employment performance: the rate of GDP growth, the management of labour demand and the extent of labour market flexibility or regulation. Additionally, employment creation is the most effective mechanism of income redistribution. Based on this perspective, we must examine the three sub-periods identified earlier in the section on ‘the profile of the employment problem’, and highlight the major results of the Labour Demand Survey for the period 2001–5.

The near 'full employment' situation in the 1960s can be explained in terms of a high rate of GDP growth 1960–65 (6 per cent, on average, per year); a tremendous upsurge in labour demand as a result mainly of public investment; and a tight regulation of the labour market through the employment guarantee scheme, on the one hand, and a low wage-inflation regime, on the other. This system was not sustainable once the state's capacity to finance investment, especially through foreign exchange, was largely curtailed.

The decade of 1975–85 may best be described as one of 'jobless growth', as unprecedented high rates of growth (8 per cent, on average, per year) were associated with rising open unemployment, despite the fact that emigration accounted for some 10 to 15 per cent of the labour force. This paradox was due to the failure to use the massive flow of resources to increase investment in the employment-intensive sectors of the economy and because a sound employment policy as 'an insurance policy for the future' was not developed (Hansen and Radwan 1982a). A number of lessons can be drawn from the experience of this period. First, growth of GDP is certainly a necessary but, by no means, a sufficient condition for increased employment. The employment intensity of growth is equally important. Macro-economic policies to ensure higher growth of output must be complemented by a sectoral policy to maximize labour demand. Second, the danger of excessive reliance on external resources, especially those over which the country has little control, is twofold: the temptation to neglect the contribution of domestic savings and the tendency to direct most investments to short-term, high-return activities which are not necessarily employment-intensive. Third, if growth takes place in an environment where the relative roles of the state and the market are ambiguous and the private sector is overregulated, growth may be curtailed, rent-seeking behaviour may begin and capital flight from the private sector may ensue.

As noted earlier, the 1985–95 period was one of slow growth and high unemployment. Clearly, the stagnation in output growth, coupled with the decline in emigration, largely explain this. It may also be argued that despite the slow turnaround in growth since 1993, the labour markets have not responded positively, due to over-regulation.⁸ However, this argument is exaggerated. Real wages in all sectors of the economy declined over the last decade (see Figure 5.4), and the decline in private sector wages was greater than that of the public sector (World Bank 1994: Table 21). Moreover, if we look at manufacturing industry, where the private sector growth was notable, we find that the growth of real earnings was much less than that of value added and productivity (see Table 5.8 and Figure 5.5).⁹

Slow economic growth and inadequate investment

We must seek an explanation that goes beyond the 'deregulation argument'. Rising unemployment in the 1990s was primarily due to slow economic growth and inadequate investment. This is not to deny the importance of an enabling environment that encourages foreign and domestic investment; the legal framework are preconditions for future growth. The private sector in general,

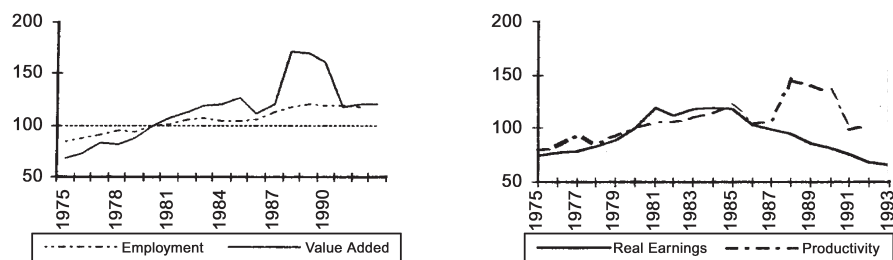


Figure 5.5 Manufacturing employment, value added and real earnings, 1975–1993 (1980=100).

Source: Data given in Table 5.9.

Table 5.9 Manufacturing employment, value added, real earnings and productivity, 1975–1993 (1980=100)

Year	Employment	Value added	Real earnings	Productivity
1975	84.28	68.18	74.90	80.90
1976	86.92	72.33	77.98	83.21
1977	89.89	83.51	79.17	92.90
1978	95.00	82.03	82.96	86.34
1979	92.92	86.75	88.52	93.32
1980	100.00	100.00	100.00	100.00
1981	100.8	107.00	118.71	106.07
1982	105.20	112.50	111.38	106.94
1983	107.73	119.28	117.81	110.72
1984	104.04	120.12	119.00	115.45
1985	104.50	126.38	117.24	120.94
1986	105.26	111.06	103.04	105.51
1987	112.58	120.25	99.22	106.82
1988	117.44	171.16	94.45	145.74
1989	121.08	169.84	86.70	140.27
1990	118.35	160.40	82.00	135.52
1991	119.60	117.64	75.89	98.36
1992	116.87	120.74	69.08	103.31
1993	–	120.44	65.62	–

Source: UNIDO Industrial Statistics 1996

Notes

Trends are calculated from constant national currency.

Productivity is defined as value added in constant national prices divided by employment.

Employment is defined as number of employees.

and small and medium-size enterprise in particular, is indeed burdened by many regulations that hamper growth. But the lack of employment growth is not primarily due to labour market regulation, and, therefore reversible through deregulation, but rather due to the fact that growth and investment did not create effective demand corresponding to 'warranted' full employment level. The policy objective must, therefore, be the resumption of growth based on reform of labour market policies and institutions.

The necessity of the reform of the labour market policies and institutions, which together with GDP growth determine employment performance, has been confirmed by the results of the CAPMAS *Survey on the Demand Side in the Egyptian Labour Market* for the period 2001–5, compared with the actual employment structure revealed by the 1998 *Labour Force Sample Survey*.¹⁰ The main results given in Tables 5.5, 5.6 and 5.7 show a number of serious imbalances in the labour market summarized as follows:

- 1 *The majority of the currently unemployed are not likely to be needed:* The educational and training systems continue to churn out graduates, taking little or no account of the actual demand for labour. The demand for the major unemployment category, those with intermediate education, is minimal (4 per cent) while they represent 55 per cent of the unemployed. The bulk of demand (66 per cent) is for unskilled labour (below intermediate education) with only 17 per cent of the demand for graduates of higher education institutions (Table 5.6).
- 2 *Labour demand conforms to existing sectoral structure of employment:* Agriculture, the major employer (42 per cent of the total persons employed), generates very little *new* demand (less than 5 per cent); industry including petroleum accounts for the highest demand (46.5 per cent) followed by services (28.1 per cent) and trade (7.3 per cent). It is surprising that the construction sector accounts for 6.1 per cent of total new demand which is almost equal to its share in current employment (5.1 per cent). More surprising, perhaps, is the *modest share* of the sectors of the 'New economy' as the demand for labour in 'Financial services' represents 0.8 per cent and 'Business Services' as little as 0.7 per cent (Table 5.5). Technicians account for the highest share of demand (31 per cent) followed by services (7.8 per cent) and sales (7.5 per cent) but the expected demand for occupations of the new economy account for a modest share where demand for 'technicians in mathematics, statistics and computers' represent as little as 0.4 per cent of total expected demand, while 'specialists' in the same occupations account for 1.2 per cent.
- 3 *Geographical distribution of demand strengthens present disparities:* Spatial distribution of demand favours relatively rich governorates (where Cairo, Giza and Alexandria account for two-thirds of total demand), with little demand for deprived governorates in the Delta and, especially, in Upper Egypt where unemployment is higher than the national average (Table 5.7).

Looking to the future: the need for a coherent strategy

Like most developing countries, Egypt does not have a systematic strategy for job creation. Policies often focus on investment, with the assumption that employment will automatically follow. A major challenge is designing a coherent strategy with the explicit objective of maximizing the employment content (elasticity) of growth and ensuring access to productive employment opportunities for the poor. Thus an employment-intensive growth strategy to achieve full employment in the medium- to long-term is essential. To this end, employment creation is the most effective mechanism for achieving equity.

Critics may say that such an objective is unrealistic for a developing country like Egypt, where the majority of workers are engaged in low-productivity work. But as the ILO's *World Employment Report* argues, 'the fact that full employment has to be interpreted as a long-term goal does not detract from its usefulness as a policy objective.

There are three reasons for this. First, it focuses clearly on the two key dimensions of the employment problem that must be tackled in tandem, that is, to accelerate the rate of job creation in the modern sector while increasing employment opportunities, productivity and income in rural and informal sector activities. Second, the focus on these two dimensions of the employment problem is a powerful strategy for achieving equitable growth. Expanding productive employment opportunities for the poor is the most effective means of reducing poverty and income inequality. Third, the objective of full employment incorporates the need to improve employment conditions and eliminate violations of basic labour standards as an integral part of overall employment policy (ILO 1996/97: 141). Although the full employment goal is long term, 'being a long-term objective does not mean that it cannot be translated into a series of interim short-term objectives against which progress can be measured (ILO 1996/97: 142).'¹¹ The question is, what are the features of the strategy?

Sustained growth

Sustained growth can be achieved through deepening macro-economic stability and increasing investment. The government's policy framework, *Egypt and the Twenty-First Century*, seeks to double the national income every ten years over the next two decades by raising real GDP growth from 4.8 per cent to 6.8 per cent during the five years (1997–2002) and to 7.6 per cent until the year 2017 (Cabinet of Ministers 1997: 65). This will require an annual investment of LE100 billion, or 25 per cent of GDP per year over the next twenty years. The objective is to create about 550,000 jobs a year by the year 2002 while maintaining an employment rate of 97 to 98 per cent of the labour force.

Can these goals be achieved? The World Bank has estimated the employment outcomes of three growth scenarios for the year 2002 (see Table 5.10). These estimates show that Egypt can reduce unemployment to less than 7 per cent with GDP growth of 6 per cent a year from now until the year 2002. Otherwise, with 2 per cent GDP growth a year, Egypt will have an unemployment rate of 20 per cent by 2002. Preliminary estimates of employment elasticity, using the World Bank base case (most likely) projection for value added growth, support the Bank's conclusions. The *Country Forecast* for the first quarter of 1997 by the Economist Intelligence Unit predicts that between 1997 and the year 2001, higher foreign and domestic investment will help to fuel real GDP growth rates of around 4.5 to 5.0 per cent per year (EIU 1997: 3).

There is a general consensus that the objective of a 6 per cent growth rate over the period 1997–2002 is attainable and will significantly reduce unemploy-

Table 5.10 Economic growth and employment

	1995	1997	2002
Unemployment (%)	9.6	–	–
At 2% GDP growth	–	11.0	20.0
At 4% GDP growth	–	10.3	14.0
At 6% GDP growth	–	9.0	6.4

Source: *Egypt: Issues in Sustaining Economic Growth*, Arab Republic of Egypt, Country Economic Memorandum (4 volumes), World Bank Report No. 16207-EGT, Volume II, 1997, p. 2.

Note

Assuming an average annual population growth rate of 2.1 per cent; labour force growth of 2.8 per cent per annum; and a participation rate of 47.2 per cent.

ment. To attain this level of growth, Egypt must raise the gross investment rate from the current 20 per cent of GDP to 26 per cent; raise the level of domestic savings from 17 per cent to 28 per cent; and continue the relative price reform in order to provide a rational incentive system. Even with these reforms, there will remain a savings-investment gap of about 10 per cent of GDP that must be provided by external resource flows of some US\$7 billion a year (Mohie El-Din 1996). This raises the issue of improved export performance and the need to attract more foreign direct investment.

The challenge of achieving high growth can be gauged by comparing the performance indicators for Egypt with those of the rapidly growing economies in Asia and Latin America (see Table 5.11). Galal and Hoekman (1996) have argued that for Egypt to achieve rapid growth, reform should take place on three fronts: increasing the openness of the economy; reducing the regulation of the factor and commodity markets; and increasing the role of the private sector relative to that of the state. The task is daunting, but not impossible.

Jeffrey Sachs argues that by starting from the favourable initial conditions now, and realizing levels of savings, investment and market efficiency similar to those of the fast-growing economies of South and Southeast Asia, Egypt can achieve 6.3 per cent growth, thus gaining a 2.0 to 3.7 per cent higher rate of GDP growth per year (Sachs 1996: 23).¹² According to Sachs, 'The biggest problem with the recent strategy has been an excessive focus on stabilization and little emphasis on long-term growth' (ibid.: 25). It is true that the international environment is not very favourable, due to the global downturn and the impact of 11 September but there are powerful arguments for an expansionary policy to regenerate growth. Joseph Stiglitz, the 2001 Nobel Prize laureate in Economics has strongly advocated such a policy. He argues that

In framing macroeconomic policies, we need to keep our eyes on the ultimate objectives, and not on intermediate variables—on employment, growth, living standards, not interest rates, inflation rates, or exchange rates, variables which are important only to the extent that they affect the variables of fundamental importance.

(2001: 9)

Table 5.11 Selected indicators of Egypt and the fast-growing economies (per cent of GDP)

Country	Gross domestic savings 1993	Government spending 1995	Average tariff rate 1993 ^a	Growth of manufactured exports 1985–92	Change in trade to GDP ratio 1980–83 to 1990–93	Average share of SOEs/GDP 1978–91 ^d
Chile	24.0	20.8	9.5	26.3	1.0	12.0
Hong Kong	31.0	16.6	0.0	21.4	19.1	N/A
Indonesia	31.0	17.1	5.0	33.2	–1.4	13.0
Malaysia	28.0	30.6	6.0	29.2	5.7	N/A
Singapore	47.0	20.4	0.4	20.2	11.1	N/A
Thailand	36.0	22.1	9.0	33.7	3.3	5.4
Egypt	18.0 ^b	36.5	15.0	1.0 ^c	–1.9	32.8

Source: Ahmed Galal and Bernard Hoekman, *Egypt and the Partnership Agreement with the EU: The Road to Maximum Benefits* (1996).

Notes

^a These are calculated as collected taxes on trade as a share of total merchandise imports.

^b Gross national savings for 1993, estimated by the World Bank.

^c Annual average growth over the period 1986–94.

^d SOEs are State Owned Enterprises.

Higher employment intensity of growth

A long-term growth strategy must emphasize employment intensity of growth as well as the rate of growth. This is particularly important for the equality of distribution, because the higher the level of employment, the higher the share of labour incomes in the output.¹³ The experiences of fast-growing economies in South and Southeast Asia have shown this (World Bank 1993). The so-called ‘Asian Miracle’ was achieved through a sustained and rapid increase in total output, as well as productivity, which generated a high aggregate demand for labour, with real labour income growing at a rate lower than that of productivity, thus maintaining a high level of domestic savings. We have earlier shown concern over the declining real wages in almost every sector of the economy and the related low average annual growth of labour productivity. These weaknesses – combined with the government increasing focus on monetary and fiscal policies – have contributed to a marked slowdown in economic growth from an annual average of 5.6 per cent in 1997–99 to about 4 per cent since then. It follows, therefore, that an employment strategy should have as a primary objective the upgrading of the skill of the labour force. It is proposed that, besides the reform of the educational system, a modern and demand-driven training system should be established. International experience suggests that the establishment of a National Training Fund to replace the present supply-side system is the most effective way to address the needs of future development. Such a fund¹⁴ must be conceived as a tool aimed at correcting imbalances in the labour market and inefficiencies in the training system.

Increasing the labour intensity of growth raises three issues: the optimum sectoral mix; the roles of private and public investments; and enabling trade

and labour market policies. The key to Egypt's future employment strategy is thus to achieve a high rate of employment creation in a fast-growing modern sector. Making the case for such a strategy, the *World Employment Report* argues,

This will allow a growing proportion of the labour force to obtain the higher productivity and 'good jobs' that they aspire to. Without this there will be a crowding of new entrants into low-productivity employment in the rural and urban informal sectors, a process that is likely to depress incomes even further and hence aggravate poverty. This must be complemented by a range of measures to alleviate poverty and raise productivity and incomes in the rural and informal sectors.

(ILO 1996: 139)

Evidence suggests that such a strategy is viable. Table 5.12 presents estimates of employment elasticity in the different sectors. Although these are not definitive, it is clear that the elasticity of employment in manufacturing industry and construction is higher than the national average. A similar situation prevails in the service sector. This is not to suggest neglecting sectors like agriculture, which has a lower elasticity, but rather a focus on manufacturing and services to facilitate employment creation. However, a caveat is necessary: the data are too aggregated for a detailed estimate of intensity within the sector. Evidence suggests that small and medium-size enterprises are responsible for the apparently high level of employment elasticity in the industry and service sectors. The implications for policy are clear: both large and small enterprises should be targeted for encouragement. These enterprises have tremendous potential for growth, particularly in activities catering to the

Table 5.12 Elasticity of employment by sector, 1983–1995

	<i>Elasticity of employment 1983–1995 in percentage</i>		
	<i>Employment growth</i>	<i>Output growth</i>	<i>Elasticity</i>
Total	1.84	2.99	0.61
Agriculture	0.84	1.65	0.51
Industry	2.68	3.63	0.74
Manufacturing and mining	2.13	3.45	0.62
Electricity, gas and water	4.40	12.71	0.35
Construction	3.85	2.54	1.51
Services	2.28	3.08	0.74
Finance and trade	4.01	2.28	1.76
Transport and communication	3.96	3.51	1.13
Community, social and personal services	1.30	3.10	0.42

Sources: CAPMAS, *Statistical Yearbook, 1990–1995*, July 1996, and World Bank, *Country Economic Memorandum*, Feb. 1990; Data for employment are provided by N. Fergany.

Note

Elasticity is defined as employment growth divided by output growth.

domestic market. Despite a consensus among policy makers on the importance of this sector, the obstacles to its growth are formidable, particularly with regard to providing credit, the constraining regulatory framework and to the lack of technical assistance in the fields of technology and marketing.

Ensuring high employment intensity of growth in the modern sector will require deepening industrialization especially for exports. Experience indicates that import-substitution industrialization has generally encouraged relatively capital-intensive industries and cheapened capital. Labour market policies with too many regulations may have pushed up labour cost relative to productivity and made adjustment in labour cost difficult. The combination of these policies had the effect of raising the relative price of labour *vis-à-vis* capital and lowered the employment intensity of growth in the modern sector. Surprisingly, recent data presented earlier show the very modest share of the 'New Economy' (financial and business services) as the survey on the expected demand for labour in 2001–5 shows (see Table 5.5). In contrast, East Asian countries pursuing export-oriented industrialization succeeded in generating modern sector employment at a rapid rate. If past experience is an indicator, it can be said that export-oriented industrialization and flexible labour markets that do not undermine labour welfare help to create the conditions necessary for employment-intensive growth.

For such a strategy to succeed, Egypt must have a competitive edge that enables its exports to compete on world markets. There are indications that the country's competitive position is promising. *The Global Competitiveness Report* included Egypt for the second year running (World Economic Forum 1996). Out of forty-nine countries, Egypt ranked 27th in 1995 and slipped to 29th in 1996. The report ranks countries according to their score in eight areas: openness, government, finance, infrastructure, technology, management, labour and civil institutions. The results for Egypt are presented in Appendix 5.1. It is striking to note that Egypt's lowest score is in labour (40 out of 49) and particularly in terms of the skill of the labour force (41 out of 49). This low ranking points to the urgent need for intensifying education reform and introducing a labour market policy for training and retraining the labour force.¹⁵

The skilling of the labour force

If Egypt is to take the high road to growth by boosting its GDP growth rates to 7.6 per cent between 2002 and 2017, then it must begin earnestly reforming its formal education and training systems. A nation's productive capacity is dependent on its human capital and education is the most important means for developing a skilled labour force.

Educational attainment is low and Egypt is struggling with an average illiteracy rate of nearly 50 per cent and much higher among female adults. The quality of skill is poor, particularly with regard to the needs of the modern market. It is therefore essential that efforts at basic education reform be intensified, and that a comprehensive and long-term approach be adopted. This involves raising educational attainment to at least six grades per person;

increasing current expenditure on education per capita in the education age group (6–21) to comparable international norms; improving the quality of education to encourage self-learning and creativity; and ensuring the provision of skills and knowledge that cater adequately to the needs of the labour market (Fergany 1994). The investments required to achieve these targets may indeed be staggering, but it is only through provisioning for a comprehensive educational reform that Egypt can rely on an adequate stock of human capital to buttress its economic growth and advancement in the twenty-first century. Reform is, therefore, necessary to strengthen the training system in Egypt and promote continuous education and upgrading of skills to enhance Egypt's competitiveness on world markets. The proposed policy has four features:

- 1 *Expanding the scope of training strategies and programmes*, to include sectors and subsectors with high employment potential such as commerce, services and tourism.
- 2 *Deepening the scope of training strategies and programmes*, to include training in skills demanded by the labour market, particularly in advanced technology and quantitative skills, and in response to the demands of privatization and globalization (the results of the labour market demand survey 2001–5 should guide in future training). The traditional apprenticeship system could exist alongside accelerated training.
- 3 *Financing training programmes* must be met by the main beneficiaries of the training, namely employers in the public and private sectors. It is proposed that a training fund be established and made up of 1 to 2 per cent of total wages of companies subscribing to the scheme. The fund should be administered according to performance and must focus on in-house training programmes, skill upgrading, retraining initiatives and overseas training. Such a fund and vocational training schemes should be controlled by the employers, the immediate beneficiaries, or a tripartite board (government, employers and workers unions). In Egypt, there is a strong case for the tripartite option, with greater employer representation and less government involvement. The fund must be managed efficiently and effectively to ensure that corruption and favouritism do not occur.
- 4 *Coordinating training strategies and programmes*. Given the call for an expanded scope and role of training and retraining in Egypt, it is essential that a single entity or board be entrusted with streamlining and coordinating different training strategies and programs. The proposed board should be presided over by a minister who is involved with the employers in the public and private sector. The board shall be entrusted with examining and evaluating technical proposals and research initiatives; streamlining and coordinating programmes among the different training agencies; ensuring the quality of training programmes and their responsiveness to the labour market demands and establishing unified codes and testing standards for training programs. This structure will reform the government's role as the initiator and implementer of economic policy and action (Kanawayt 1997).

The role of public policy

In addition to the primary responsibility of designing and implementing coherent macro-economic policies, the government must create an enabling environment in at least three areas: investing in human capital, deepening institutional reform, and creating complementarity between public and private investment.

- *Investing in human capital.* It has been established that Egypt's competitive edge is undermined by the relatively low skill level of its labour force, and that the educational attainment of the population is poor, despite an increased budget for the Ministry of Education in recent years. There is a need to create a pro-active culture through training and retraining in the coming century.
- *Deepening institutional reform.* Reforming the legal framework and the labour market institutions will require a tremendous effort. The labour code must respond to the new realities. Labour exchanges should be overhauled and staffed by young graduates trained in labour market issues. Finally, excessive bureaucracy surrounding licensing and travel for work should be eliminated. This will require thorough reform of public service – a daunting task. But a practical approach to the problem is to gradually phase out the inefficient parts of the bureaucracy and recruit university graduates at a higher salary. If the public sector is reduced by half it may be feasible to double the salaries of remaining employees. The reform of the civil service, thus, becomes an integral part of an institutional reform that is necessary to enable markets to function in an efficient and equitable way.
- *Creating complementarity between public and private investment.* The state can also play an important role through public investment. This means public investment especially in infrastructure (transport, power, water and sewerage facilities) and of public expenditure on several kinds of human capital investment (primary and secondary education, certain types of vocational training, basic health and nutrition, applied agricultural research). Expenditure in these areas can increase investment opportunities in the private sector and raise, not lower, private sector 'savings'. That is to say, public investment can increase the profitability of private investment which, will in turn, increase private savings and domestic resource mobilization more generally (Griffin 1996).
- *Large-scale development projects.* It is interesting to note that the centrepiece of the government's plan for the twenty-first century is a massive investment programme to increase arable land by launching land reclamation projects in Sinai and in Upper Egypt (Cabinet of Ministers 1997: Part III). It is beyond the scope of this chapter to discuss the pros and cons of such a plan, which has been the subject of a vivid public debate.¹⁶ The objective of adding nearly 4 million feddans to the cultivable land by the year 2017 and creating eighteen new cities to ease the population pres-

sure in the Old Valley may be too ambitious. But even with more scaled-down objectives, the move is in the right direction. The point to be emphasized, however, is that the employment impact of the large-scale projects in Sinai and the New Valley must be carefully studied. Whichever model is chosen, they should provide an opportunity for broad-based development by involving more people, especially youth, rather than concentrating the returns in few hands. In this respect, a new employment programme for graduates should be launched in these areas. Graduates should be given small plots of land for cultivation or loans to start their own business in the new areas. Thus, a higher employment intensity and better income distribution can be achieved through these huge governmental investments.

Conclusion

Egypt is at a crossroads, and sound choices must be made. The country must build upon the success of the stabilization programme and the resumption of economic growth. It must take the 'high road to growth' into the twenty-first century with the objective of achieving full employment. This chapter has argued for an employment-intensive growth strategy based on sustained and rapid growth with distribution. We have suggested the necessary conditions to implement such a strategy, and argued that there are compelling justifications to depart from traditional policies in favour of following two preconditions that are essential for takeoff.

First, a vigorous and determined attack on the obstacles that block initiatives and lower efficiency and productivity. These obstacles are well known, but a rational approach to dealing with them has yet to be developed. In a study based on interviews with forty-five establishments, Galal determined that lack of stable government policies, as well as lack of policy continuity, and the obstacles in the area of taxation, finance and labour legislation, discourage potential investors and are thus detrimental to growth (Galal 1996; World Bank 1994). Good intentions are not sufficient to deal with corruption and bureaucracy. What is needed is institutional arrangements and a sound incentive system that contribute to a pro-growth environment. The best way to achieve this is to ensure the engagement of the stakeholders in the process of policy choice; policy-makers, consumers and investors. A full employment strategy can only succeed if it is owned by a broad spectrum of the population.

Second, a culture of inclusion, not exclusion, is necessary to mobilize the population for the tasks ahead. The results of exclusion are only too obvious, and we must not forget that 'poverty anywhere is a threat to prosperity everywhere'. Having a job is one of the most effective means for inclusion.

These are the challenges that face Egypt on the verge of the twenty-first century. The country which, through centuries, perfected the craft of civilization-building through its long history, is capable of embarking on a new phase: a modern civilization based on growth with equity.

APPENDIX 5.1
Table A5.1 Egypt: competitiveness profile, 1996

(Overall ranking 29 out of 49 countries)

Openness:	21
44	Exchange rate
46	International trade
29	Receptivity to foreign investment
24	Openness of financial markets
Government:	30
42	Size of government
23	Fiscal policy and savings
30	Taxation
31	Economic intervention
28	Bureaucracy
Finance:	36
48	Financial depth
33	Efficiency of financial intervention
38	Risk and financial stability
31	Savings and investment
Infrastructure:	29
45	Transportation
45	Telecommunications
19	Power and other infrastructure
Technology:	24
32	Knowledge workers
33	Research and development
19	Computer use
24	Level of technology
Management:	23
22	Entrepreneurship
30	Strategy
29	Customer orientation
31	Quality control
14	Managerial resources
Labour:	40
28	Labour force
41	Availability of basic skills
37	Cost of labour
6	Labour market regulations
19	Industrial relations
Civil institutions:	24
22	Rule of law
31	Property rights

Source: World Economic Forum, *The Global Competitiveness Report*, 1996, p. 6, Geneva.

EGYPT, key facts

GDP:	US\$58 billion
Per capita GDP:	US\$979
World output share:	0.2%
World export market share:	0.2%
ECONOMIC PERFORMANCE	
Real GDP growth (1995):	3.2%
Real export growth (1995):	11.0%
Inward FDI, share of GDP (1994):	1.0%
Inflation (1995):	7.5%
Unemployment (1995):	10.7%

APPENDIX 5.2

Table A5.2 Comparative data on competitiveness

<i>Country</i>	<i>Manufacturing value added 1998 (1985) current \$m</i>	<i>MVA per capita, 1998 (1985) \$</i>	<i>Share of medium and high-tech products in MVA, 1998 (1985), %</i>	<i>Manufactured exports 1998 (1985) current \$m</i>	<i>Share of medium and high-tech products in mid. exports, 1998 (1985), %</i>	<i>Rank in UNIDO 'Competitive Industrial Performance' index, 1998 (1985)</i>	<i>Tertiary enrolments in technical subjects, thousands, 1995 (1985)</i>	<i>As % of population in 1998 (1985)</i>	<i>Rank in UNIDO skills index, 1998 (1985)</i>
Egypt	20,020 (6,166)	326.1 (132.6)	39.0% (31.0%)	2,242 (458)	8.8 (0.7)	57 (67)	69.6 (75.0)	0.12 (0.15)	53 (41)
Turkey	44,106 (12,274)	695.1 (244.1)	38.0 (32.0)	22,885 (5,790)	23.5 (18.2)	38 (36)	198.3 (114.1)	0.33 (0.22)	46 (47)
Israel	15,497 (4,112)	2,598.8 (971.5)	54.0 (52.0)	22,073 (5,542)	46.1 (33.9)	20 (20)	37.4 (19.8)	0.68 (0.45)	23 (16)
Morocco	6,091 (2,388)	219.3 (110.3)	25 (25)	3,108 (1,200)	12.4 (8.9)	53 (4)	66.7 (56.8)	0.25 (0.25)	54 (48)
Jordan	860 (519)	188.6 (196.5)	31 (14)	470 (187)	5.0 (1.8)	63 (60)	17.5 (10.0)	0.42 (0.35)	40 (34)
Korea	97,866 (27,2644)	2,107.8 (668.1)	60 (47)	120,700 (29,025)	62.3 (47.9)	18 (22)	742.5 (320.7)	1.65 (0.78)	1 (1)
Taiwan	73,183 (23,316)	3,351.2 (1,260.3)	57 (43)	105,554 (29,092)	61.3 (35.4)	15 (19)	226.8 (115.7)	1.06 (0.59)	8 (14)
Singapore	19,545 (4,174)	6,178.4 (1,681.1)	80 (67)	103,489 (19,094)	74.3 (39.9)	1 (6)	14.1 (18.1)	0.47 (0.71)	31 (30)
Mexico	81,192 (37,342)	854.6 (494.8)	36 (37)	103,681 (8,336)	65.5 (25.1)	23 (28)	400.1 (375.7)	0.44 (0.48)	43 (36)
Brazil	151,274 (68, 640)	912.0 (507.6)	58 (54)	38,882 (17,617)	34.3 (23.9)	33 (27)	289.3 (225.9)	0.18 (0.16)	58 (52)
China	355,540 (105,698)	287.0 (100.6)	51 (49)	167,681 (6,049)	36.6 (4.1)	37 (61)	1,221.0 (821.5)	0.10 (0.08)	62 (64)

Source: UNIDO (2002), *World Industrial Development Report*, forthcoming. Courtesy of Professor Sanjaya Lall.

Notes

^a There is tremendous potential for deepening the process of industrialization. At present Egypt's manufacturing value added per capita is only 12.5% of Israel's and 15.5% that of South Korea, but 14% higher than that of China.

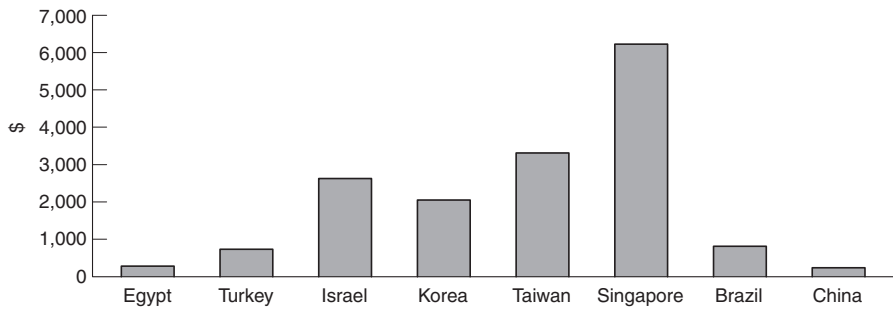


Figure A5.1 The way to the future: industrialization.

Source: Data in Table A5.2.

Notes

* A revised and updated version of a lecture given at the Egyptian Center for Economic Studies (ECES), Cairo, December 1997. The updating is based on a second lecture given in January 2002 at the invitation of ECES. The views do not necessarily reflect those of the International Labour Office, ILO. The author is grateful to Dr Ahmed Galal and Dr Nader Fergany for extensive comments on an earlier draft; to Mrs Rasha Kinawy, Ms Christine Gaignebet, and Ms Nagwa Riad for research assistance; and Mrs Geraldine Ople for secretarial assistance. It is published with the permission of ECES.

- 1 See also, 'Rising Sphinx', *Wall Street Journal*, 10 April 1997.
- 2 The present government has to be credited for making the distinction between demographic increase in labour supply and the actual increase by taking into account the total outputs from the educational system plus dropouts minus those who opt voluntarily out of the labour market.
- 3 Data on employment and unemployment are notoriously inadequate. At the request of the Egyptian government, the ILO has completed a UNDP-supported project to review the LFSS and suggest an alternative based on international standards. A team led by Dr Nader Fergany, with members from the Ministry of Labour, CAPMAS, and the Center for Support to Cabinet Decision Making, has prepared a newly designed bulletin using the 1995 LFSS data. See CAPMAS and ILO, *Review of The Labour Force Sample Survey in Egypt, Estimates of Employment and Unemployment and Proposals for Improvement*, Cairo, July 1996. Unemployment estimates in this paper are from this publication unless otherwise stated.
- 4 For analysis, see Hansen and Radwan 1982b.
- 5 In response to the government's five employment and training programmes, there was a rush of applicants which amounted to 4.4 million (or one-fourth of the labour force). Many of these were already employed, but the rush indicates that there is a large reserve of surplus labour. And that preference for government employment remains popular, in many cases as some sort of social insurance.
- 6 The 'Government Programme' submitted by the Prime Minister to Parliament on 18 December 1999, p. 45.
- 7 Hansen and Radwan, *op. cit.*: 144.
- 8 For a good summary of the debate on labour market regulation, see Freeman 1993: 117–44.
- 9 The same point is made in Handoussa 1996: 43–5.
- 10 *The Demand Side in the Egyptian Labour Market*, June 2001. This report is based on a survey carried out by CAPMAS, and financed by the Social Fund, covering 43,000

- establishments employing five and more persons outside government, but includes a 20 per cent sample of the informal sector employing five to nine persons.
- 11 See Meade (1996) and Tobin (1996), *Full Employment and Growth*, Edward Elgar, UK.
 - 12 The countries studied by Sachs are South Korea, Taiwan, Thailand, Philippines, Indonesia, Malaysia and Hong Kong.
 - 13 For an authoritative view on this point, see James Meade 1996.
 - 14 ILO/UNDP, *Investing in the Future: The National Training Fund of Egypt*, Geneva, February 2001.
 - 15 For an excellent study of the quality of education in Egypt, see Nader Fergany, 'The Challenge for the 21st Century for Egypt: Education and Labour', *Almishkat*, Cairo, September 1996 (Arabic). Fergany (p. 10) offers two significant indicators of education status: average number of completed years (3 in Egypt compared to 4.2 for developing countries; 9.3 Korea, 10.2 Israel and 11.6 Switzerland), and expenditure per head in education age (US\$117 for Egypt compared to US\$215 for developing countries; US\$816 for Korea and US\$2,471 for Israel; US\$10,837 for Switzerland).
 - 16 For a critical view, see Rushdi Said, *Al-Mussawar*, 24 January, 31 January and 7 February 1997; and Andrew Dowell, 'The "New" New Valley', *Business Monthly*, American Chamber of Commerce in Egypt, March 1997, pp. 27–31.

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6 Agriculture

An assessment of past performance and the task ahead

Saad Nassar and Mahmoud Mansour

Introduction

At the dawn of the twenty-first century, agriculture remains a key sector of the national economy, despite profound structural changes over the past fifty years. In the 1950s the shares of the agricultural sector were 40 per cent of GDP and 49 per cent of the total labour force. By 2000, it still provides 17 per cent and 33 per cent, respectively. Throughout this period, output growth has been sustained, averaging 2.5 per cent yearly in the 1950s, rising to 3 per cent in the 1960s, slowing down to 2.6 per cent in the 1980s before accelerating at 3.4 per cent in the 1990s. The annual growth target for 2017 is set at 4.1 per cent.

A combination of technological progress and institutional reforms has contributed to this sustained growth. The former comprises the expansion of both the cultivable land area and its production intensity, through a substantial public investment in irrigation, particularly the construction of the Aswan High Dam in 1961. Public investment also included drainage, research, biological improvements of crop varieties, and intensified use of chemical fertilizers. Institutional reforms, on the other hand, include the redistributive land reforms of 1952, 1961 and 1969, expansion in the distribution of property rights in newly reclaimed state-owned lands, combined with the organization of a network of agricultural cooperatives to meet the production and marketing needs of the farm people.¹ These major agricultural development policies have reduced inequalities in the distribution of wealth, created jobs for the increasing agricultural workforce, and have provided farmers with production incentives. How can these development benefits be sustained and reinforced by the post-1991 agricultural policy changes as a component of the macro-economic reform under the Economic Reform and Structural Adjustments Programme (ERSAP)?

This chapter intends to examine these changes, particularly during the period 1980–2000, and the prospects for agricultural development in the first two decades of the twenty-first century. It begins with the policy changes in agriculture that have been introduced as an integral part of ERSAP. The second section examines the institutional changes brought about by ERSAP

with regard to producer prices, credit supply to farmers, privatization of both state farms and public agricultural corporations, as well as liberalization of land prices and farm tenancy arrangements. Institutional changes include also the allocation to graduates of landownership in state-owned newly reclaimed areas. In the light of the assessment made, the third section examines the prospects for agricultural development by the year 2017. The sources of data are primarily the three agricultural development strategies for the 1980s, the 1990s and the period 1997–2017. We have been directly involved in the formulation and implementation of the three strategies as part of our responsibilities in the Ministry of Agriculture and Land Reclamation (MOLAR hereafter).

Agricultural policy reforms

Over the past fifty years, direct government intervention in the agricultural sector began in September 1952 with a series of redistributive land reforms. These reforms were followed by extensive agricultural subsidies and the reclamation of nearly 700,000 feddans by 1970 in addition to the conversion of 850,000 feddans from basin to perennial irrigation,² using the water of the Aswan High Dam (one feddan equals nearly one acre or 0.42 hectare). Thus by 1980, the agricultural sector was subjected to pervasive government controls: land tenure regulation, area restriction for crop production coupled with forced deliveries of crops and their administered pricing as well as regulated agricultural imports and exports. In this regulated rural economy, the sector was heavily taxed in favour of other sectors of the economy. Indirect taxation of agriculture was estimated at LE2 billion in 1974/75 to LE375 million in 1980, at constant 1975 prices.³

Major policy reforms

The drastic adjustment of the interventionist policies pursued during the period 1952–80 has been the major task of the MOLAR in the 1980s and the 1990s. The key policy changes are summarized as follows:

- 1 Gradual removal of governmental controls of crop prices (this does not preclude government-guaranteed prices for some strategic crops for a specified period). This liberalization action means
 - (a) increasing farm-gate prices in order to gradually reduce the gap between their levels and international prices;
 - (b) removal of farm input subsidies; and
 - (c) the removal of governmental constraints on exporting agricultural products and the importation and distribution of farm inputs. The latter enables the private sector's traders to compete with the government's Principal Bank for Development and Agricultural Credit (PBDAC).
- 2 Divesting PBDAC of its non-banking functions with the purpose of continuing its activities to financing agricultural development projects.

- 3 Liberalizing the land tenure system with regard to land purchase and leasing prices, tenancy arrangements, ownership of land by foreigners and the sale of government-owned land to private investors.

Perhaps the major policy shift has been away from protection, inward-looking, and self-sufficiency in the narrow sense, and towards efficiency in land, labour and water use based on the economic principles of comparative and competitive advantages. In terms of commodity production costs compared with its importation costs, Egypt has a comparative advantage in the production of wheat, rice, maize and cotton (Ali 2002: 4). The new policy is intended to increase the production and export of those commodities about which Egypt has competitive advantages in the world market, and import those commodities for which Egyptian agriculture's competitive position is weak. Accordingly, Egypt exports cotton, rice, vegetables, fruits and aromatic and medicinal plants, and imports part of the consumer requirements of wheat, red meat, sugar and edible oil. In the meantime, the role of the MOLAR has been reduced to such functions as research, farmers' training (extension), essential regulatory actions and policy formation. This is a challenging task both for tapping the potential increase in production in old and new lands and for using efficiently available scarce water for irrigation.

Effects on production

In broad terms, farmers have positively responded – as enterprisers – to market-oriented policy changes. They have been free to produce the crops they find profitable to grow, and to sell products at market prices in the manner they prefer. The data given in Tables 6.2, 6.3 and 6.4 show the effects of the dismantled regulatory policy instruments with regard to the influence of production incentives on total and per feddan production of the major crops during the period 1985–2000. With the exception of cotton, there has been a notable increase, especially in the major staples: wheat, maize, rice and beans (*foul baladi*). Likewise, there has been an expansion in farmland classified into cultivated areas and cropped areas. The former is the area of cultivable land (old and newly reclaimed) and the latter reflects land use intensity, whereby one feddan of cultivable land growing two crops in a single agricultural year becomes two feddans. This cropping intensity reflects technological changes or modernization of agriculture, and is determined by irrigation, drainage, improved seed varieties and chemical fertilizers. The new market-oriented strategy initiated in the late 1980s and early 1990s, for which the data for the year 1985 or their average during the period 1985–89 are used as reference years or a base period in Tables 6.2–6.6.

Table 6.3 shows a notable increase in cropped area during the period 1985–2000, especially wheat, maize, vegetables, fruits, and clover (*barseem*) for animal feed. This steady increase has raised the FAO-established Food Production Index (1989–91=100) from 91 in 1988 to 153 in 1999 (FAO 1999: Table 4). Wheat has been a major beneficiary of the policy reform: receiving

higher market-determined prices and growing high-yielding varieties as a result of sustained government investment in research work. As Tables 6.3 and 6.4 indicate, its area nearly doubled between the 1985–89 average and 2000 and its output per unit of land (feddan) increased by 44 per cent during the same period. Similar progress has been made in the production of rice. In addition, the removal of protective measures and application of the principles of competitive and comparative advantages have remarkably yielded substantial increase in the production of vegetables, fruits and the animal feed, clover, as shown in Table 6.1.

The best explanation of this notable increase is price-based production incentives and farmers' decisions to maximize returns, while maintaining irrigation water free of charge. Linking farm-level decisions influenced by domestic market forces with international market prices has been very conducive to increasing crop area and land productivity, especially in the case of wheat, vegetables and fruits as noted above. Before the adoption of ERSAP, producers of wheat received, through government procurement price, only 30–50 per cent of the international price. They were also required, by law, to allocate one-third of the total area of their holdings to wheat production. These price-driven changes have contributed to the increased value added of agricultural output given in Table 6.2, and are manifested in the producers' wheat price level given in Table 6.5. The latter has increased (at current prices) from LE26 per Ardab (see note to Table 6.5) in 1985 to LE71 in 1990 and increased further to LE104 in 2000, an increase that exceeds both annual inflation rate and the rural consumer index number established by CAPMAS.⁴

These favourable policy changes have been reflected in both total cropped area and agricultural value-added in real terms (net output value) given in Table 6.2. The former fell between 1985 and 1987 but increased steadily in 1994–2000, while the value added has been fluctuating in 1985–97 and rising slowly during 1998–2000 in real terms (from LE2.1 billion in 1985 to LE2.4 billion in 2000). The collapse of cotton in terms of area cultivated, yield per feddan, total output and price per kintar has contributed to the fluctuation in total output in real terms. In 2000, its area was 50.5 per cent of its 1985–89

Table 6.1 Changes in the production of vegetables and fruit and areas of clover, 1982–2000

	<i>Average 1982–86 (1)</i>	<i>1988 (2)</i>	<i>1999 (3)</i>	<i>2000 (4)</i>	<i>Change % (5)</i>
Vegetables (million tons)	8.0	15.2	18.1	16.1	+ 207
Fruit (million tons)	2.6	6.5	7.6	7.2	+ 277
Barseem/clover (thousand feddans)	1926	2547	2500	2553	+ 133

Source: Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Note

Data in column (5) equals those in column (4) divided by column (1) multiplied by 100.

Table 6.2 Total cropped area and value of agricultural products at constant prices, 1986–2000

<i>Year</i>	<i>Cropped area (thousand feddans)</i>	<i>Index</i>	<i>Gross production value (LE million)</i>	<i>Value added (LE million)</i>	<i>Index</i>
1985	11,175	100.0	3,017	2,136	100.0
1986	11,137	99.7	2,862	2,049	95.9
1987	11,127	99.6	3,063	2,263	105.9
1988	11,326	101.4	2,763	2,109	98.7
1989	11,526	101.3	2,723	2,121	99.3
1990	12,181	109.0	2,821	2,170	101.6
1995	13,815	123.6	2,393	2,562	119.9
1996	13,710	122.7	3,403	2,543	119.1
1997	13,829	123.7	3,548	2,727	127.7
1998	13,859	124.0	3,590	2,152	100.8
1999	13,939	124.7	3,873	2,290	107.2
2000	13,922	124.5	4,140 ^a	2,362 ^a	110.6 ^a

Sources: Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Notes

^a Preliminary estimates in January 2002.

1. See text for definitions of cropped area, gross production value and value added being the net value of output.
2. The deflator used is the cost of living Index 1975/1976=100 established by CAPMAS (Egypt's Central Statistics Office).

average level, and its productivity per feddan (yield) increased by 13.3 per cent only, while that increase was 43.5 per cent for wheat and 65.4 per cent for rice (see Table 6.4). Both cotton yield per feddan and price per *kintar* fell between average 1985–89 and 1997–99, while the costs of production increased sharply after the abolition of subsidies to fertilizers and pesticides. While there are several reasons for the deterioration in the position of cotton in Egyptian agriculture, we should note that this was a transitory period from full government protection to full liberalization. Starting with the agricultural season 1998/99, the government has ended its guaranteed minimum prices and ensured the competitive freedom of marketing unginned cotton and the ginning manufacturing. For this purpose, the Cotton Stock Market and the Union of Cotton Exporters were established. They operate freely in the domestic market whose mechanism is linked to the world market prices within an increasing globalization system.

Other possible explanations for the collapse of cotton in the rural economy are the increasing aggregate supply of cotton abroad and the diminishing international demand, especially after the huge supply of Chinese and Indian cotton, and the termination of bilateral agreements between Egypt and the former Soviet Union.⁵ A combination of these factors has contributed to a substantial decline in the area growing cotton from 1.2 million feddans in 1980 to 1.0 million feddans in 1985, and this fell further to 645,417 feddans

Table 6.3 Cultivated area of the main crops in thousands of feddans, 1985–2000

<i>Year</i>	<i>Wheat</i>		<i>Maize</i>		<i>Rice</i>		<i>Cotton</i>		<i>Sugar cane</i>	
	<i>Area</i>	<i>Index</i>	<i>Area</i>	<i>Index</i>	<i>Area</i>	<i>Index</i>	<i>Area</i>	<i>Index</i>	<i>Area</i>	<i>Index</i>
1985–89 average	1,344	100	1,377.2	100	9,46.6	100	1,027.2	100	265.8	100
1990	1,955	145	1,547	111	1,036	109	933	86	263	105
1995	2,512	187	1,751	126	1,460	154	710	69	307	123
1996	2,421	180	1,769	127	1,405	148	921	89	300	120
1997	2,486	185	1,636	117	1,550	163	859	83	291	116
1998	2,421	180	1,698	122	1,232	130	789	76	291	116
1990–98 average	2,275.9	169.3	1,680.7	122.0	1,133.6	120.0	794.8	77.3	285.4	107.0
1999	2,379.4	177	1,647.8	119.6	1,559.1	164.7	645.4	62.8	307.2	115.6
2000	2,463.2	183	1,623.2	117.9	1,568.9	165.7	518.3	50.5	318.9	120

Source: Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Table 6.4 Average yields of the main crops per feddan, 1986–2000

	<i>Cotton (kintar)</i>	<i>Wheat (tons)</i>	<i>Rice (tons)</i>	<i>Maize (tons)</i>	<i>Sugar-Cane (tons)</i>
1986–88	5.98	1.86	2.31	2.21	40.88
1997–99	6.16	2.70	3.73	3.30	49.65
% change	+3	+45	+61	+49	+21.5
2000	6.78	2.67	3.82	3.36	49.25
% Change ^a	+13.3	+43.5	+65.4	+52	+20.5

Source: Agricultural Economics Bulletin 1999/2000, Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Note

See definition of kintar in Table 6.5.

^a percentage change 2000 over average 1986–88.

Table 6.5 Average farm-gate prices of the main crops at current prices, 1985–2000

<i>Year</i>	<i>Wheat^a (LE)</i>	<i>Maize^a (LE)</i>	<i>Rice^b (LE)</i>	<i>Beans^a (LE)</i>	<i>Cotton^c (LE)</i>
1985	26	27	212	49	97
1990	71	60	367	107	263
1995	84	72	656	158	544
1996	96	75	703	169	511
1997	100	77	718	188	473
1998	102	81	725	193	349
1999	103	85	729	195	349
2000	104	85	583	195	350

Source: Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Notes

The units are: ^aArdab=150 Kilogrammes (Kg) for wheat, 140 Kg for maize and 155 Kg for beans; ^bTons; and ^cKintar=157.5 Kg raw with seeds (*zahr*) and 50 Kg lint.

in 1999. Likewise, cotton prices in Egypt have fallen sharply, at current and constant prices, especially during the period 1995–2000.

Food self-sufficiency under market forces

Sustained increase in the production of the main food crops has been, for a long time, a principal goal of agricultural development policy in order to secure the supply of food and nutritional requirements. This goal has been considered by the government a prerequisite for meeting the rising aggregate demand for food resulting from the fast-growing population, particularly in urban areas. Since the second half of the 1980s, the means to achieve this goal have shifted away from forceful government intervention, towards market-based resource use efficiency. At present the policy aims at: raising the productivity of land and irrigation water; providing farmers with production incentives, and increasing public investment both in research for high yielding varieties and in the expansion of cultivable area. The findings of relevant studies have shown the irrelevance of the former interventionist policy to achieving food security in Egypt.⁶

The substantial increase in the FAO Index for food production between 1988 and 1999, noted earlier, means a significant improvement in Egypt's self-sufficiency of maize, rice, beans, vegetables, fruit including citrus, milk, fish and poultry (meat and eggs). By self-sufficiency is meant the ratio of total domestic production to total domestic consumption, multiplied by 100. In this ratio, domestic consumption equals total production plus imports minus exports. With regard to wheat, self-sufficiency has risen from 24 per cent in 1980 to 54 per cent in 1998, and it is planned to reach 75 per cent in the year 2002. Domestic sugar sufficiency ratio was 57 per cent in 1998 and it is planned to reach 90 per cent by the end of 2002, by way of expanding the production of sugar-beets that consumes only one-quarter of the sugar-cane water requirement.

Export performance

Improvement realized in self-sufficiency of domestic food production tend to reduce food imports and promote agricultural export prospects, which in turn contributes to reducing the trade deficit in the national economy. At present agricultural exports are mainly cotton, rice and potatoes, and their export performance over the period 1989–98 is shown in Table 6.6. In addition, export of oranges is gaining importance in agricultural commodity exports after the collapse of its market in the former Soviet Union which was a major importer. Between 1995 and 1999, its export value increased fourfold (CAPMAS June 2000: Table 11–9).

As we noted earlier, cotton exports have fluctuated significantly, while the volume of exports of rice and potatoes has slowly risen, except in 1997, with rice export growth increasing much higher than that of potatoes. In fact, the volume of rice export in 2000 has increased to 12 times its 1989 level, from

only 30,000 tons to 363,000 tons, respectively. It is expected that the progress made towards concluding partnership agreements with the European Union (EU member countries) and such other groups of importing countries as the African COMESA would improve Egypt's access to the world market which is still modest. EU is the largest market outlet for Egypt's exportable agricultural commodities, accounting for 38 per cent of their exports during the period 1992–98.

At present (December 2001), every effort is being made to conclude successfully the partnership agreement negotiated with the EU which is based on trade liberalization over a transitional period of 12–15 years. In the meantime, Egypt is to receive aid and technical assistance in order to be qualified as a full partner. Unlike exported manufactured goods, the terms of exporting agricultural commodities to the member countries of the EU are stiff and subject to a complicated tariff system, protecting the European farmers, except for a few crops that are limited in both quantity and seasonality. Egypt is trying hard to improve these terms of access to the EU market without conflicting with its other agreements such as the Egypt-Arab countries' Free Trade Agreement. However, the prospect is good if the progress made to enhance the global competitiveness of Egyptian agricultural commodities is sustained.

Institutional reorganization

The ERSAP-based sectoral policy changes were not limited to the deregulation of centrally administered crop production, pricing and trading systems. They have been extended to liberalization of interest rates combined with the

Table 6.6 Quantity and value of exports of main crops at current prices, 1989–2000

<i>Year</i>	<i>Cotton</i>		<i>Rice</i>		<i>Potatoes</i>	
	<i>Quantity (tons, 000)</i>	<i>Value (LE million)</i>	<i>Quantity (tons, 000)</i>	<i>Value (LE million)</i>	<i>Quantity (tons, 000)</i>	<i>Value (LE million)</i>
1989	44	447	30	16	156	58
1990	28	401	66	49	136	68
1991	13	190	137	110	218	152
1992	16	175	181	187	209	142
1993	18	147	135	130	175	108
1994	113	791	227	248	132	90
1995	67	517	157	193	419	347
1996	23	312	326	395	411	271
1997	42	375	201	242	233	140
1998	66	537	422	457	228	147
1999	64	446	307	299	260	165
2000	93	673	363	362	158	95

Source: CAPMAS, *Statistical Yearbook*, several issues, Cairo.

reform of the supply of agricultural credit to producers, the privatization of agricultural public corporations, the decontrol of agricultural cooperatives and the reversal of farm tenancy arrangements. They include also the distribution of newly reclaimed state-owned land among graduates for the purpose of alleviating their unemployment. These institutional changes have their impact on agricultural output growth and rural income distribution.

Agricultural credit reform

As part of the dismantled socialist policy of the 1960s, loans were given to farmers free of interest payment and against the security of crops, the marketing of which was almost government-controlled by way of compulsory delivery to local cooperatives at pre-fixed prices. Later, in 1992, the state-owned Principal Bank for Development and Agricultural Credit (PBDAC) raised interest rates considerably; they reached 14–16 per cent, but were reduced in July 1999 to 7.5 per cent for short-term loans which represented 76 per cent of total loans. In addition, the functions of PBDAC have been changed: supplying only 10 per cent of total fertilizers, leaving the provision of the rest to the private sector; rescheduling farmers' defaulted debts in small instalments without additional charges; purchasing a few crops voluntarily at guaranteed prices, particularly wheat and maize; and continuing to bear the costs of cotton pest-control and rice-weeding as a production incentive to farmers. PBDAC has also been involved in financing agricultural projects for rural development purposes whose number and volume of medium-term loans have tripled since 1986, reaching a total capital of LE2.2 billion in 2000. These projects comprise such activities as protected production of vegetables, fisheries, poultry and animal production. Short-term loans were almost double that amount, reaching LE5.3 billion and long-term loans, mostly for land reclamation, were LE7.4 million, both being for 2000.

With these major changes in the functions of PBDAC, its vast number and area of storehouses have been either leased out or sold to the private sector, and its staff reduced. Its branches at governorate and village levels have served as rural savings banks which, in turn, have strengthened the lending capacity of the PBDAC. In the meantime, the MOLAR Agricultural Research Centre has continued its seed quality improvement programme for their distribution and sale by the private sector.

Adjustment of agricultural cooperatives' functions

The liberalization of credit supply and the sale of both production inputs and the main crops have substantially reduced PBDAC support to agricultural cooperatives. Since then and with the exception of the 758 agrarian reform cooperatives, multipurpose village cooperatives, numbering 4,222 societies, have been left unaided to face the liberalized market forces, and compete directly with the private sector both in the supply of farm inputs and in the marketing of crops.

To identify these changes and their effects at the village, district and national levels, the Institute of Agricultural Economics of MOLAR has conducted – in 1997–98 – a sample survey of 102 multi-purpose agricultural cooperatives in the governorates (*muhafazat*) of Bohera and Menia (Al-Shazly *et al.* 1999). The results of the study suggest that most of the problems originate in the weakness of cooperatives' ability to adjust themselves to the new conditions of the post-1987 reform policies which have removed most of the agricultural input and output subsidies, import restrictions and the compulsory delivery quotas by producers. The findings show also several institutional constraints. The constraints include the conflicts between the responsibilities of village cooperatives' elected board of directors and those of the executives employed, as well as between the authorities exercised by the village cooperative, on the one hand and those of the district, central and the National Union, on the other. Importantly, agricultural cooperative institutions have not effectively carried out the mandate given to them by Law No. 122 of 1980 and its amendments in 1981 law, with regard either to the establishment of storage facilities for marketing purposes or to the mandates for manufacturing agricultural products for export.

MOLAR, in consultation with the leaders of cooperative institutions, is exploring adequate measures to resolve present problems that have inhibited cooperatives from serving their members' interests in the post-economic reform era. Possible public actions include the issue of new legislation and the establishment of a cooperative bank. These regulatory actions represent a challenge to government and leaders of cooperatives, in order to make their nationwide network viable in a market economy, as was the case in the 1910s and 1920s when they began and flourished.

Deregulation of farm tenancy

The land reforms of 1952, 1961 and 1969 transferred landownership above the established ceiling of 100 feddans from large landowners to about one-third of total tenants; the rest were heavily protected – paying reduced rent at seven times the land tax and, until 1992, they have become virtually irremovable. The post-1952 reduction in annual rental values below their market level was substantial in real terms and income-transfer gains to tenants were extensive, considering the large number of tenants (about one million or 62 per cent of the total landholders according to the 1961 Agricultural Census). Yet and despite significant equity benefits, the payment of fixed rent at seven times the almost unchanged land-tax rates represents, in economic terms, a distorted relationship between rent and profitability of land, i.e. between value of output and rent per feddan. This classical economic principle was reversed in the post-1952 Egyptian agriculture up till the end of the 1980s.⁷ During this period and for the purpose of maximizing the tenants' social benefits, the value productivity of land, the scarce factor in production, lost its importance as a determinant of rent, and landowners lost part of their freedom in land use rights. By then,

the opposition of landowners to government control of the land-lease market has mounted and their political pressure in parliament has increased. The order of magnitude of land-lease arrangements and their post-1992 effects on income distribution and farm production may be appreciated from the results of the 1990 Agricultural Census, whereby one-third of the total area of agricultural land holdings, was rented out under different arrangements.

Following the adoption of ERSAP in 1991, the parliament issued Law No. 96 of 1992, granting a grace period of five years for landowners and their tenants to mutually adjust their lease arrangements with the help of local committees, and to solve emerging disputes without disrupting production. During this five-year grace period, rent was raised from 7 times the land tax to 22 times. Starting October 1997 (the beginning of the agricultural year 1997/98) farm tenancy arrangements and rental values have been left to be determined by the agricultural land-market mechanism. Consequently, rental values at current prices have rocketed to nearly 15–17 times their 1985 levels before their slight fall during 1998–1999/2000, except rice and cotton (see Table 6.7 for changes at current prices and in real terms). Changes in rents vary by crop, location and area leased.

With regard to variations by crops grown, the data given in Table 6.7 show that during the period 1990–2000 rent per feddan of cotton has increased at current prices from LE123 to LE772, and from LE13.9 to LE34.2 in real terms. With regard to other crops the rise in real terms during the same period was: wheat from LE12.1 to LE28.1; and rice increased fourfold. During this period, the cost of living index in rural areas (1986=100) has increased three times only after its adjustment by the results of the 1997 Household Expenditure Survey. In most cases, the increase in rent is higher than the relevant indices of crop prices, wholesale prices and cost of living, suggesting hardships borne by many tenants. Preliminary results of field observations indicate that average annual rent per feddan in 1999/2000 ranged between LE1,000 and LE2,000 (US\$286–572), and that tenants worked harder than before with the aim of raising productivity and remaining on the land. This production motivation is governed by limited tenure security because lease is contracted only for one year, instead of the pre-1992 guaranteed and renewable three-year minimum period with the prohibition of tenant eviction, except in the case of lease violation.

Because of the importance of this tenancy deregulation policy, MOLAR conducted a few studies before and after implementation.⁸ The preliminary results show that with a few exceptions, the five-year transitional period (1992–97) provided landowners and tenants with the time to settle disputes and therefore, reconciliation has – in many cases – succeeded in the transition towards the new legal provisions. Some tenants have shifted crop cultivation from conventional crops (e.g. cotton and beans) to such commercial and highly profitable crops as vegetables, medicinal and ornamental plants. Research is needed in this area of comparative profitability of crops including their water consumption and on land tax-rent relationships.

Table 6.7 Average rental values by crop in LE per feddan, 1985–2000

Year	Wheat		Maize		Beans		Rice		Cotton	
	C	R	C	R	C	R	C	R	C	R
1985	44	12.1	30	8.2	41	11.3	35	9.6	50	13.8
1990	82	9.3	67	7.6	86	9.7	72	8.2	123	13.9
1995	300	20.4	232	15.8	285	19.4	274	18.6	425	28.9
1996	305	18.5	228	13.8	283	17.1	280	16.9	425	25.6
1997	309	17.5	245	13.9	291	16.5	369	20.9	402	23.4
1998	704	38.1	552	29.9	646	34.9	623	33.7	569	30.8
1999	638	30.7	491	23.9	609	29.3	679	32.7	752	36.2
2000	636	28.1	498	22.1	578	23.4	661	39.2	772	34.2

Sources: Calculated from data provided by the Central Office of Agricultural Economics, Ministry of Agriculture and Land Reclamation, Cairo.

Notes

LE refers to the Egyptian pound. One US\$ equalled LE0.7 until 1987 when the LE was devalued by 100 per cent to US\$=LE1.76 and further to LE2.60 in 1989/90 and its exchange value was one US\$=LE3.4–3.6 in 1999.

C=at current prices.

R=real value of rent at 1975/76 constant prices.

Privatization of state-owned agricultural corporations

Under the terms of ERSAP, the Government of Egypt is committed to privatize thirty-three state-owned agricultural enterprises (SOAEs), grouped in 1993 under a major holding company for the development of crops and livestock production (*al-Sharika al-Qabeda*). The activities of SOAEs range from land reclamation and poultry production to the construction of villages and infrastructure works in newly reclaimed state-owned lands. The total size of workforce and value of assets in the thirty-three SOAEs were estimated, in 1993, at 104,784 employees and LE1.3 billion, respectively.⁹

As in other sectors of the economy, privatization of SOAEs has followed such paths as sales to anchor (strategic) investors, sales through the stock market and sales to SOAEs' employees' association. Under the first two methods, workers were provided with generous incentive payments for voluntary early retirement. By early 1999, about two-thirds of the thirty-three SOAEs were sold: twelve government-owned agricultural enterprises were sold to their own employees' associations, two to anchor investors, one through the stock market and ten by way of asset sale. Out of the total number of employees of the privatized SOAEs, about 15,000 (14 per cent of total) have opted to exchange their pension for ownership of a piece of the privatized company's land. This transaction amounts to 10 per cent of the total land-sale value and the rest is payable over 20–27 years by annual instalments, bearing low interest rates at nearly half the market rate. Until 1999, the total farmland sold to this category of ex-employees was 68,000 feddans in farm units of 4.1 feddans each, on average. Sales proceeds from the privatized companies have been directed mostly to the financing of the voluntary early retirement of employees and for the repayment of accumulated debts owed by SOAEs to banks and other domestic financial institutions.

Land settlement schemes for young graduates

Within the framework of the 'Mubarak National Project for the Youth' which began in 1987, nearly half the total area of reclaimed state-owned land is annually allocated for settling unemployed graduates in farm units of 5–6 feddans each. The land is sold at concessionary price of LE1,000–2,000 per feddan according to locality, cropping pattern and productivity. The total price is payable over fifteen years by annual instalments with a grace period of four years. The graduate-settler receives also a house, a loan amounting to LE500 and a monthly allowance of LE50 payable during the first year. By 1999, nearly 300,000 feddans had been distributed at an average area of 5.6 feddan per graduate/settler.

Since the project's inception in 1987 there have been several water use and marketing difficulties, and it was reported that some 30 per cent of the beneficiaries could not meet both their farming obligations and repayment of land value and loans. Also, a few have leased out their land units and became absentee owners in violation of the scheme's rules. Consequently they were expelled from the scheme and replaced by others. Nevertheless, several lessons have been learnt that would help in future expansion of the scheme. Importantly, it has fulfilled its principal goals of employment expansion, and the creation of new rural communities, with educated farmers and technology-based agriculture. The scheme has great potential to realize in the twenty-first century based on experience gained over the last decade.

Development challenges up to the year 2017

The big challenge facing Egyptian agriculture is the alleviation of population pressure on the use of scarce agricultural land combined with the rationalization of the scarce irrigation water. The efficient use of land and water resources (i.e. high value productivity per unit of land and water) results in expanded productive land and employment and a sustained growth of total and *per capita* real output. The challenge of sustainable agricultural development includes setting viable institutions both for the conservation of present land resources and for preventing water losses in order to promote the welfare of future generations of farm people.

It is estimated that the agricultural labour force will increase annually by an approximate average of 20,000 reaching – in 2017 – nearly 9 million or about one-third of a projected total labour force of 27 million in the same year. The task of productively employing these millions of adults – in order that agriculture GDP growth meets its target of 4.1 per cent per annum – is compounded by the current existence of under-employment and seasonal unemployment. Both were estimated in 1998 by the Ministry of Planning at nearly 12 per cent of total agricultural workforce.¹⁰ The productive employment of the projected millions requires an amount of nearly LE8 billion for investment in increasing production from the present cultivated area. Another estimate of nearly LE36 billion is required to develop new cultivable areas of 3.4 million feddans of desert land by 2017.

As noted earlier, the agricultural development strategy 1997–2017 aims to achieve an average annual growth of agricultural GDP of 4.1 per cent and to triple, at least, its present export earnings. These 2017 goals of employment, investment and output growth are based on the assumption of continued market-oriented rural economy. Importantly, the attainment of these goals requires:

- 1 The preservation of existing areas of cultivable land against soil degradation and loss to non-agricultural purposes;¹¹
- 2 The rational use of the scarce irrigation water supply in the virtually rainless farming environment of Egypt; and
- 3 The realization of livestock, fisheries and fruit production potentials. These key development issues facing agriculture are outlined below under five headings: cultivable land expansion; productivity increase in old lands; efficient water use management; the promotion of environmentally friendly techniques; and the provision of basic information for investors, producers and exporters.

Cultivable land expansion

It is planned that, by 2017, a new area of 3.4 million feddans of desert land will be reclaimed at an average annual area of 150,000 feddans starting in 1997, through the national mega projects already initiated in Toshka near Aswan, East Owainat and Darb El-Arba'een, west of the Nile Valley, and al-Salam Canal area and other cultivable areas in Sinai (see the map at the front of the book). The private sector plays a major role in land reclamation and cultivation for which generous tax exemptions and guarantees against expropriation and nationalization are given. These are giant schemes: Toshka alone consists of the development of 540,000 feddans and a new rural infrastructure system comprising the construction of a 310-km long canal (Sheikh Zayed Canal and its branches), major water pumps and electricity-generating stations required for developing 540,000 feddans, construction of roads and housing facilities, costing approximately LE6 billion.¹² In addition the al-Salam canal development area consists of 420,000 feddans in Sinai and 200,000 feddans west of the Suez Canal in addition to areas in Sinai using ground water. There are also 200,000 feddans planned for reclamation along the North Coastal area of the Mediterranean.

Productivity increase in old lands

The development plan for 1997–2017 includes vertical expansion of plant production in existing cultivated area of old lands by planting high-yielding, better quality and short duration varieties. The Agricultural Research Center has recently developed new high-yielding varieties of several crops that would raise production. Examples of increases achieved in yields per feddan/acre are: wheat (from 3 to 4.5 tons), maize (from 4.2 to 5.6 tons), rice (from 4.5

tons to 5 tons) and sugar-cane (from 40 to 61 tons). The continuation of this technological advance would be an outcome of supporting agricultural research and strengthening the institutions of farmers' training and transmission of research results (extension), credit, and marketing. This progress would need actions to support voluntary efforts made by rural women and non-governmental organizations in the betterment of rural life.

In plant production development, efforts would be made to improve and expand crops for animal fodder, particularly *barseem*. This is essential for the development of animal production, particularly the undeveloped potentials of fisheries and such small animals as rabbits, sheep and poultry. The aim is to improve human nutrition by increasing the average per capita consumption of animal protein by one-third from 18 grammes per day in 1998 to 24 grammes per day in the year 2017.

Efficient water use management

The planned expansion in cultivable land area requires additional irrigation water estimated at 2.1 billion cubic metres (m³) by the Ministry of Water Resources and Irrigation. This additional quantity is over and above the present amount of the total supply of 66.2 billion m³ consisting of 55.5 billion, the amount of Egypt's quota from the total Nile water at the Aswan High Dam, plus an estimated amount of nearly 10.7 billion m³ from other sources (6 billion m³ by the reuse of agricultural land drainage and the rest from ground water and rainfall) (Ali 2002 and Barakat 2002). Hence the need to find an additional amount of about 2.1 billion m³ through a policy of strict enforcement of rules for the rationalization of the scarce irrigation water use by way of the following actions:

- 1 Adjusting the cropping pattern through measures to reduce cultivated areas of *rice* and *sugar-cane*, as these are the highest water-consuming crops in Egypt, and to take into consideration the value of output per unit of water when working out the indicative cropping patterns;
- 2 The prohibition of applying 'flood' or surface irrigation in the newly reclaimed lands combined with the lining of irrigation canals to reduce water loss in these lands' sandy soil;
- 3 Improving surface irrigation in the old lands of the Nile Valley, including the reduction of water use for growing sugar-cane and rice, while increasing the area of sugar-beet for which average water consumption per feddan is 3,025m³ compared with 11,600m³ for sugar-cane;
- 4 The gradual transformation of the system of water use for growing fruit crops in the Delta from surface irrigation to drip and sprinkler irrigation;
- 5 Strengthening water use education programmes and encouraging farmers to establish Water Users' Associations in order to enlist their effective participation in the water rationalization programme,
- 6 Introducing more of the short-duration varieties and fewer water-consuming crops, especially rice (e.g. the new rice varieties developed at the

Agricultural Research Centre, requiring 6,000 m³ of water per feddan/acre, compared with the old varieties which consume, on average, 9,000 m³ of water per feddan); and

- 7 The expansion of the reuse of treated drainage water in irrigation (i.e. water recycling).

Promotion of environmentally friendly techniques

The strategy for agriculture in the period up to 2017 aims at the adoption of environment-friendly technological advance by means of reducing the usage of chemical pesticides and fertilizers. This is to be achieved through the expansion of integrated pest management and biological control programmes as well as the expansion of organic agriculture, particularly in the newly reclaimed lands whose areas have clean air and unpolluted soil and water. The purpose is to reduce production costs, improve the quality of products and increase the competitiveness of Egypt's agricultural exports to the countries of the EU and other international markets. The strategy aims also to improve environmental conditions and quality of life in the newly developed rural communities.

Thus, environmentally friendly production techniques serve to promote the export of agricultural commodities in accordance with partnership arrangements made by Egypt with the EU and the US government and also with free trade areas within Arab and African countries (e.g. COMESA).

Provision of basic information to investors, producers and exporters

Clearly, the fulfilment of the agriculture between now and 2017 strategy objectives depends to a great extent on:

- 1 Attracting greater domestic and direct foreign investment, particularly for expansion of the newly reclaimed areas as indicated earlier. The findings of the feasibility studies already conducted are encouraging. They show that the internal rate of return on investment in agricultural production in the Toshka Project area ranges from 13 per cent to 18 per cent, depending upon the cropping pattern, the return being higher in the case of fruit production than traditional crops. Several Egyptian, Arab and foreign investors have already applied for participation in land development for farming purposes in both Toshka and East Owainat projects. In fact some of them have already been engaged in field operations since 1999. Also, the public capital allocation to agricultural and irrigation development has already been raised from an average of 8.7 per cent of total public investment in 1993–97 to 13.6 per cent in 1999/2000; and
- 2 The provision of a reliable marketing database. Useful information must be supplied to investors, producers and exporters. They relate to actual and potential production and export markets, through the existing network of several branches of the Ministry of Agriculture. The setting-up

of this database, with a view to serving the needs of farm people and investors, would most likely create, by 2017, an integrated marketing information system for Egyptian agriculture.

Conclusion

Agriculture continues to play a significant part in the national economy in terms of its shares in total employment, output growth and in the provision of food security. Following the market liberalization and structural adjustment of the national economy initiated in 1986 and expanded in the early 1990s, the sector has been subjected to major economic, technological and institutional changes that have strengthened its long-established and fundamental character of hard working *fellaheen* and the private property rights in land and livestock. Irrigation water from the River Nile has continued to be free of charge. However, the task ahead is enormous both in implementing the twenty-year development strategy (1997–2017) and in expanding agricultural exports through competitiveness and partnership agreements with the EU and the USA, as well as trade agreements with Arab and African states.

The experience gained in the implementation of ERSAP and the first phase of the long-term strategy into the twenty-first century suggests the importance of meeting the challenge of the rational use of the highly scarce water for irrigation in both the old land in the Nile Valley and the expanded new lands. It also indicates how necessary is the increase in the private sector's investment to fulfil the goals set out, particularly with regard to bringing desert land into cultivation. Rational water use and greater investment in land expansion are necessary but not sufficient conditions to substantially expand production and employment in old and new lands with the aim of reducing population pressure and alleviate poverty in rural Egypt. Sustainable agricultural development in a market economy requires the removal of existing institutional constraints in land tenure arrangements, the agricultural credit market, and those that hinder the effective functioning of cooperatives. These institutional reforms are considered necessary foundations for present and future agricultural growth and rural development.

Notes

- 1 For an analysis of post-1952 major changes in land tenure, agricultural credit prices and marketing of crops, see El-Ghonemy (1968).
- 2 Under the very old basin system of irrigation (*Heyad*), the land was divided into large basin areas fed from the Nile at the beginning of the flood season in August and left for about forty days before sowing seeds in the silt left. Thus land was used only for the production of a single crop per year.
- 3 See LE exchange value in the notes to Table 6.7. For indirect taxation estimates, see von Braun and de Haen (1983), especially chapter 7 'The Burden on Agriculture', Tables 27 and 28. See also S. Nassar and M. Mansour (1987).
- 4 See cost of living index and rural consumer index in CAPMAS, *Statistical Yearbook* 1995 and 1999.
- 5 Report of the Central Bank of Egypt, 1998/1999, No. 1 pp. 51–6 and No. 4, pp. 6–12.

- 6 See Alain de Janvry, G. Siam and O. Gad (1981), *Agricultural Development Systems Project*, Ministry of Agriculture, Cairo.
- 7 See the analysis of these changes in El-Ghonemy (1992) in *Journal of Agricultural Economics* Vol. 43 No. 2.
- 8 See Mansour *et al.* (1990), and the Agricultural Policy Reform Program (APRP) of the Ministry of Agriculture (1997 and 1999).
- 9 See Mansour (1999), a country report to the Arab Organization for Agricultural Development.
- 10 See Abdel Sattar Shenishan and Ismat Shalaby (1998), the 23rd International Conference on Statistics and the Applied Computing Science, Cairo, 10 May 1998 (in Arabic).
- 11 There are no accurate estimates of the area of lost cultivated land that has been transformed into non-agricultural use as a result of rapid urbanization since the second half of the 1950s. However, estimates range widely from 30,000 feddans to 70,000 feddans annually most of the agricultural land lost was during the construction boom, especially between 1955 and the early 1980s.
- 12 See the study prepared by the Ministry of Public Works and Water Resources (1997: 42–4) in Arabic.

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7 Industrial development

Progress and challenges in the future

Sabry Aglan

Introduction: industrialization since the 1920s

At the time of its independence in 1923, Egypt was primarily an agricultural economy, in terms of its shares in national income (GDP), total labour force and exports. In the 1920s, nearly three-quarters of total exports value was raw cotton and the industrial output was mainly cotton spinning and weaving, followed by preserved food, cigarettes, soap, handicrafts and artisanal products. During that decade, out of an average total population of 13 million, the number of people engaged in industry was nearly half a million.¹

After independence, the private sector led by Bank Misr helped to establish a number of industries, especially textiles, which laid the foundation for the development of the country's modern manufacturing sector. During the 1930s, notable progress was made by the private sector in the production of such intermediary goods as cement, fertilizers, paper and chemical products. But textiles, clothing and food processing were the dominant manufacturing activities. The Second World War increased the demand for additional labour and manufactured products, and it induced the production of tin, lead, asbestos, dry batteries, jute and cooking stoves. The greatest expansion was in manufacturing agricultural products (textiles, sugar, cotton seed-pressing for cooking oil, and pasteurized milk).² Moreover, Egypt's strategic position in the Middle East during the Second World War stimulated the growth of several engineering and construction-material industries to meet the Allied Forces' demands and domestic needs. The war also benefited industry by way of the provision of a skilled and disciplined workforce, especially those who were employed in military establishments. In brief, agriculture-based manufacturing dominated the early industrialization phase, and made up 65 per cent of value added in the manufacturing sector in 1952.

The July 1952 revolution led to a major shift in industrial policy which was formalized in the first five-year development plan of 1959/60 to 1964/65 which assigned industry the leading role in the economy. Accordingly, it received the largest sectoral share of 26.9 per cent of the total investment. The planners' broad objective was the achievement of self-sufficiency, import-substitution, the dominance of public enterprises and rapid employment expansion in conformity with government policy of job guarantees for high

school and higher education graduates. Through planned investment allocations, nationalization and protection of domestic industry, the policy resulted in the creation of a large number of state-owned heavy industries (e.g. iron and steel) and a substantial increase in the production of fertilizers, cement and oil. During the first five-year plan period, the manufacturing value added (MVA) increased annually by 9 per cent and the share of industry in national income (GDP) increased from 19.9 per cent in 1959 to 21.8 per cent in 1966.

However, despite several laws issued to attract foreign capital investment, this fast pace of industrial development could not be sustained in the second five-year development plan (1965–70), owing to a number of domestic and external factors discussed earlier in Chapter 4. During this period, GDP growth slowed down to an annual rate of 3 per cent and the share of industry in GDP declined from 21.8 per cent in 1966 to 18.5 per cent at the end of the plan period. Following the October 1973 war with Israel and the initiation of the ‘open-door policy’, foreign investors were encouraged to invest in the industrial sector by offering them generous incentives in addition to those provided earlier in 1953, 1954 and 1971. Accordingly, and following the post-1974 oil-price boom, production in the three major components of industry (mining, manufacturing and electricity) expanded at a record high of an average annual rate of 19 per cent in 1973–81.

By 1979, and for the first time, the share of industry (including petroleum) in GDP had surpassed that of agriculture, reaching 30.5 per cent while the latter remained less than 21 per cent. Most of this output increase was concentrated in the hydrocarbon industry (mainly oil production) and the share of oil increased sharply from 13.3 per cent of the total industrial output in 1975 to 57.4 per cent in 1982, while that of manufacturing declined suddenly by nearly half, from 79 to 40 per cent during the same period. By 1991, the share of manufacturing in GDP fell from 19 per cent in 1973 to 16 per cent and its investment share of total gross fixed investment declined sharply from 28 per cent to 22 per cent according to the Ministry of Planning. There are several aspects to this proportionate deterioration. In the 1980s, they included: the relatively high earnings from oil exports combined with the discovery of new oil wells; the shift in government capital expenditure towards tourism and infrastructure projects; increasing indebtedness resulting from a combination of a rapid liberalization of interest rates for lending and repeated devaluation of the Egyptian pound; the suffering of state-owned enterprises from stagnant technology and the lack of investment in the improvement of the quality of products, especially textiles that has weakened its international competitiveness. In 1991, the Economic Reform and Structural Adjustments Programme (ERSAP) was concluded with the World Bank and the International Monetary Fund (IMF), and the effects of this are examined later.

In short, and despite variations in definitions, available data since the early industrialization in the 1920s and 1930s indicate a remarkable expansion and diversification in industrial products.³ Within an import-substitution strategy, industrial expansion – more of manufacturing of consumer goods than capital

intermediary goods – has been made possible over this long period by increasing government protection from competing foreign manufacturers. In the post-1991 ERSAP period, protection has substantially diminished with emphasis on the removal of import barriers, increasing exports and the rapid strengthening of the role of the private sector in industrial development.

The structure of manufacturing industry

Having briefly presented the gradual development of industry since the 1920s, this section describes the components of the manufacturing sub-sector at three points in time: 1975, when the open-door policy was initiated; 1990, just before the adoption of ERSAP; and in 2000 when the reforms were put into high gear at the turn of the century. This is followed by an assessment of textiles (yarns and fabrics) because historically it is a major manufacturing industry and enjoys socio-economic importance. The textile industry is based on domestic raw material (high-quality, long- and medium-staple cotton), as well as intensive labour utilization in both cotton and textile industry. It is also based on the availability of high popular demand as a result of a socialist pricing policy to satisfy the needs of the majority of the population living in poverty and having limited incomes. This welfare-oriented policy applies to the manufacturing and sale of cotton oil-seeds, yarns and woven fabrics.

Structural changes in manufacturing

Manufacturing is the major component of industry; it employs nearly 97 per cent of the total workforce in industry, and its gross output made up 82.1 per cent of industrial gross output in 2000 (ESCWA, Fifth Issue 2001: Table II-16–4). The data given in Table 7.1 show the changing relative importance of manufacturing constituents in terms of the percentage shares in total value added of manufacturing in 1975, 1990, 1998 and 2000.

Apart from the slow-down in textiles industry in the post-1975 era, chemicals, petroleum products, cement, pharmaceuticals, furniture, electric durable goods and automotive industries have rapidly expanded. Most of these manufactured products were initiated and promoted by the government to meet the fast-growing population's consumption demands within an import-substitution industrial strategy. In the post-Second World War period and particularly since the 1960s, the fertilizer industry has rapidly expanded as a result of both public investment and the plentiful production of natural gas. This substantial expansion has met all domestic needs in addition to exporting 20–25 per cent of total fertilizer production. The production of super phosphate rocketed from 106,000 tons in 1952 to 1.1 million tons in 1991 and the production of calcium nitrate has increased fourfold. It should be noted that manufacturing industry has greatly benefited from the production of natural gas. Being an important source of energy, it has increased swiftly from 4.0 million metric tons in 1985 to 11.8 million metric tons in 1999 (CAPMAS 1992 and 2000).

Table 7.1 The structure of manufacturing as a percentage of its total value added 1975, 1990, 1998 and 2000

<i>Manufactured items</i>	<i>1975</i> %	<i>1990</i> %	<i>1998</i> %	<i>2000</i> %
Food products, beverages & tobacco	12.21	18.81	21.1	17.7
Textiles and clothing	32.22	15.20	9.4	12.3
Chemicals	12.70 ^a	34.60	25.4	31.7
Fabricated metal products	2.74	2.40	4.1	4.6
Non-metallic mineral products	4.20	7.20	15.8	10.6
Electrical machinery	4.38	2.70	4.3	3.8
Non-electrical machinery	3.21	2.60	9.8	5.6
Transport equipment	3.82	3.93	3.7	3.7
Others	24.52	13.10	6.4	10.0
Total	100.00	100.00	100.00	100.00

Sources: 1975 data are taken from CAPMAS, *Statistical Yearbook*. The 1990, 1998 and 2000 data are taken from the Bulletin for Industrial Statistics for the Arab Countries, ESCWA, Beirut. December 2001, Table II, 16–5. After 1975, CAPMAS subdivision of items are incomplete, as indicated by the term ‘some’ in the *Statistical Yearbook*, June 2001.

Notes

^a data refers to 1967. ‘Others’ includes wood products, furniture, paper and printing, ship-building and repair, professional and scientific equipment and leather products.

Manufacturing includes all establishments with ten or more employees. Chemicals include fertilizers, soap, manufactured medicine, petro-chemicals, rubber and plastic products. Non-metallic mineral products include cement, glass products, china and pottery. Electrical machinery includes refrigerators, air conditioners, water heaters, washing machines and TV sets. Military manufacturing factories and their products are excluded.

The private sector has also invested in manufacturing chemicals, particularly plastic and paper products. For example in 1993, it was reported that nearly 18,000 persons were employed in the manufacturing of these two products by the private sector. Moreover, with the expanded investment of the private sector, the contribution of paper production to the total manufacturing value added has increased three times in a single decade 1990–2000.⁴ In food and textiles, the two major manufacturing activities in which the public sector has been dominant, the private sector’s shares in total value added have, since 1975, increased rapidly. The construction materials sub-sector is probably one of the fastest-growing manufacturing areas in response to the residential housing boom since the 1960s. This segment includes the production of cement, reinforcing iron bars, ceramics, glass, gypsum and bricks, the output of which has more than tripled in one decade, 1990–2000. A remarkable expansion has taken place in the quarrying and polishing of marble, the production of which increased tenfold in just five years, 1995–2000 (CAPMAS 2001: Table 3.3).

The textiles industry: an assessment

As stressed earlier, owing to its agricultural linkage and socio-economic importance, the textiles industry has received special government support, particularly with regard to pricing and export (e.g. GATT and the World

Textile Agreement), as well as through the nationalization of cotton trade. These forms of government support have been taken in order to control raw cotton export and its manufactured products, and to determine the cost of its supply as inputs in manufacturing (ginning, spinning, weaving and dyeing). This policy was effectively pursued starting with the first five-year industrial plan (1957–61) and until the implementation of ERSAP in the 1990s. The clothing industry (*Malabis gaheza*) has also expanded, employing nearly 43,000 workers by 1998, when the total employees in the textile subsector amounted to 350,000 or one-quarter of the total workforce in manufacturing.

Available statistics (CAPMAS 2001 and UN 1999) indicate a downward trend in both the manufacturing and export of textiles. It slumped from 39.3 per cent of the total value added in manufacturing in 1966 – when nationalization was completed and the first industrial development plan implemented – to 32.22 per cent in 1975, and it plunged further to 15.2 per cent in 1990 just before the conclusion of ERSAP. By 2000, this share plunged further to 12.3 per cent of manufacturing value added and with increasing competition abroad, its exports particularly fabrics fell both in quantity and in value (CAPMAS 1992 and 2000: Table 11.7). However, and since the 1991 ERSAP, the export value of manufactured clothing has increased by 60 per cent between average 1992–93 and average 1998–99. In contrast, the value of exported cotton fabrics fell by 51 per cent during the same period. During this period, the international cotton market has witnessed a number of changes owing partly to the expansion in growing long- and medium-staple cotton in the USA and partly to the substantial expansion in the production of synthetic fibres worldwide. Both changes have globally reduced the demand for Egyptian cotton. On the supply side, ginning and textile factories were public enterprises lacking investment in technological improvement. At that time, these enterprises were suffering from the abrupt rise in interest rates for loans that made them suffer from a heavy indebtedness burden (see below for further explanation).

Collectively, these factors have diminished the relative importance of textiles (yarn and fabrics) in Egypt's total merchandise exports has diminished from 21.4 per cent in 1990 to 17.9 per cent in 1996 while the share of manufactured clothing slowly increased from 5.6 to 6.7 per cent, respectively.⁵ In fact, its rising production level has almost doubled between 1992 and 1997 but as the data in Table 7.2 show, the share of cotton yarn and cotton fabrics in the corresponding world total has also fallen between 1982 and 1997. Hence, the need to expand the manufacturing and export of clothing.

When economic reforms were introduced in 1991, the majority of the textile manufacturing enterprises were state-owned and suffered from a very low competitive advantage in the world market, resulting in their accumulated losses. In contrast, knitting and garment subsectors were privately owned and efficiently managed. It is worth pointing out that the expansion of the public sector textile industry has, since the mid-1960s, been made possible by state protection by means of subsidization and several preferential arrangements,

Table 7.2 The share of Egypt's production of textiles in world total production, 1984–1997

	1984	1986	1988	1990	1992	1997
<i>Cotton yarn, million tons</i>						
World total	13.50	15.30	16.60	16.60	15.7	15.94
Egypt production	0.23	0.25	0.25	0.26	0.27	0.17
%	1.7	1.6	1.5	1.5	1.6	1.07
<i>Cotton fabrics, million metric tons</i>						
World total	7.67	8.65	9.40	9.53	9.56	9.05
Egypt production	0.09	0.07	0.07	0.07	0.07	0.08
%	1.2	0.8	0.7	0.7	0.7	0.8

Source: For 1984–92, International Cotton Advisory Committee (ICAC), *Cotton World Statistics*, several issues, and for 1997, *Industrial Commodity Statistics Yearbook, 1997*, United Nations, New York.

including easy access to domestic and foreign credit. In addition, relative prices throughout the sector were highly distorted in order to meet the socialist policy objectives laid down in the 1962 *Mithaq* (the National Charter). Following the ERSAP reforms towards a market economy, the share of public enterprises textiles in total value added of manufacturing activities fell sharply from 34 per cent in 1975 to only 4.9 per cent in 1996, while their share in labour employment has remained high, 43 per cent and 31 per cent, respectively (Abdel-Khalek 2001: Table 4.4).

The main constraints which were, and still are, facing the textile industry are summarized as follows:

- 1 The productivity levels of public sector firms are uniformly low owing to several factors, including overmanning, poor maintenance, absence of investment both in modern equipment and in research and development. Moreover, inadequate quality control has resulted in a high percentage of defective products at the different production stages. This is a strong indication of high inefficiency in resource allocation within manufacturing in the public sector. According to sources cited in Abdel-Khalek (2001: Table 4.5) average labour productivity in the private sector was nearly ten times that of the public enterprises in textile industry between 1970 and 1987.
- 2 The old-established comparative advantage of processing Egyptian cotton with its extra long staple has diminished in favour of the cheaper medium- and short-staple varieties processed by foreign competitors, using advanced technology for improving quality and reducing costs. Likewise, low labour cost, though remaining attractive, is gradually losing its global competitive advantage due to low productivity per worker cum inadequate technology, training and ineffective supervision. Importantly, the lack of creative and specialized staff in marketing has limited the textiles' sales.

- 3 The high cost of the production of raw cotton and manufacturing of textiles compared with the cost of foreign cottons has led to increased importation of textiles. It has also induced several private sector firms in Egypt to manufacture fabrics from imported cheap yarn. In 2000, imports of short staple cotton exceeded the total needs of Egypt's spinning mills by about one-fifth.

All these constraints have surfaced during and after the conduct of studies in preparation for the restructuring and privatization of the public sector textile enterprises.⁶ The results of the studies indicate that 90 per cent of the yarn-producing enterprises were state-owned and -managed. The restructuring process has aimed at debt reduction with a preference for resource re-allocation from the inefficient and less profitable manufacturing of yarn and fabric to the profitable and more exportable garments. In addition, the process aimed to gradually reduce the utilization of capital-intensive machinery in favour of labour-intensive equipment in order to maximize the benefits from available cheap labour. In this restructuring process, the principal intention has been to maximize the benefits from the financially viable textile and clothing enterprises in the private sector. This reform strategy was guided by the results of the evaluation study conducted in 1992/93, covering the twenty-five public textile enterprises. The results revealed that only one-fifth of existing state-owned textile enterprises were eligible for privatization. In addition, two-fifths (ten factories) were found to be potentially capable but only after restructuring. The rest (two-fifths) were found to be technically and financially a failure, being structurally unsound, and the government's preference was not for their privatization but liquidation. By February 2001, eight public textile enterprises or 32 per cent of the total were sold.⁷

The necessity of privatizing the public sector manufacturing companies

Since the 1960s, the long experience of and lessons learnt from the massive state-ownership and management of industrial enterprises may be summarized in a few words: inefficiency and internationally uncompetitive with low-quality products, low productivity of labour in real terms, and high costs of production. These are serious weaknesses leading to decreasing exports, especially textiles, leather products and chemicals, that need further explanation.

Declining productivity

The results of a study on the share of profits in manufacturing value carried out by UNIDO in 1975, 1985 and 1990 show declining labour productivity except for rubber products, oil refining and tobacco. CAPMAS statistics show that during the short period of 1993–99 the physical output of two good performers, rubber products (tyres) and tobacco has increased by 18 and 31 per cent, respectively. The expansion in the production of tyres is complementary to

the rapid increase in automotive manufacturing (passenger cars, buses, and tractors). The major cause of falling labour productivity in most manufacturing public enterprises was the lack of investment in technology or modern equipment (research and development), and the neglect of technical training of the staff. According to the Ministry of Planning, the share of manufacturing in total investment fell steadily from an average of 27 per cent in the period 1973–81 to 22.4 per cent in 1991 and fell further to 19.7 per cent in 1997.

Looking closely at the data of CAPMAS *Census of Industrial Production* on capital and labour use between 1987 and 1996, we find that food processing, textiles, garments, leather products and furniture have a much higher share of labour and a lower share in capital. On the other hand, mechanized industries with a higher capital/labour ratio where newly introduced units of automation in production exist, such as petroleum refining, tobacco, machinery, chemicals and rubber have the opposite shares.⁸ Abdel-Khalek and Soliman (1998: 163) also indicated the existence of surplus, not only in labour but surprisingly also in capital in a study of public sector enterprises during 1990–92, suggesting poor management and inefficiency in resource allocation.

Low quality of products and falling exports

Available studies on past experience of public manufacturing factories also suggest also the lack of marketing and advertising skills and know-how among sales personnel. Moreover, they indicate higher production costs due to heavy taxation, overmanning, frequent employees' absenteeism, overvalued inputs whose prices were distorted and the lack of investment in research and development. A combination of these factors has resulted in the production of old-style goods with a diminishing market demand. In addition, there has been an absence of a purposeful programme for investment in the maintenance of vehicles for goods and staff transport, buildings and equipment in public enterprises, combined with poor quality control. These forms of disinvestment have resulted in social loss of accumulated wastages, i.e. a higher proportion of rejected stocks.

Since 1961, government control of the manufacturing enterprises has contributed both to their inefficient resource use for production and to falling exports. The monopoly power has been exercised in different forms, including the tight central planning of fixed prices for inputs and outputs, heavy protection through subsidization and tariffs, and fixing physical output targets to be met by each public enterprise, irrespective of quality, costs of production and market demand. These forms of government intervention have widened the gap between domestic and international prices of manufactured goods that have become uncompetitive in most cases. We have seen earlier the case of textiles and their falling share in total merchandise exports, while the imports of cheaper and better-quality textiles have increased since the 1991 economic reforms. However, the gradual reduction of subsidies – as part of the price stabilization policy – has improved the profitability of manufacturing some products, as for example, fertilizers.

The privatization process

In addition to the financial and technical restructuring of many public manufacturing enterprises, the 1991 economic reform requires their privatization. Restructuring has proved to be essential for making enterprises attractive to potential buyers. Since the widespread nationalization of the 1960s, the activities of the manufacturing enterprises have been centrally determined and price-administered. Restructuring must, therefore, tackle the accumulated problems of overmanning (i.e. disguised massive under-employment). So far, workers' daily wages and employees' salaries have been politically determined according to a grades system and payment of cost-of-living allowances, similar to that of government employees. Consequently, a two-track approach is being followed in the privatization process. One is the vocational training of young workers to improve their skills, a scheme that is financed by Egypt's Social Fund for Development. The other is the voluntary severance scheme. To enable the Ministry of Public Enterprises to implement these two schemes, all public industrial enterprises in 1993 were grouped into holdings responsible for the performance of each affiliated enterprise and for undertaking detailed arrangements for its privatization. These sequential arrangements were legally strengthened by the issue of Law No. 203 of 1991 which was followed by the establishment of the Ministry of Public Enterprises in 1993 in order to supervise public enterprises and to take the necessary steps for privatization.

From my own experience, the most difficult stage in these arrangements have been the restructuring of the labour force, including the exercise of workers' right to purchase – through their own associations – about 10 per cent of the companies' assets at favourable terms that are justified on social and political grounds, considering that Egyptian labour legislation precludes layoffs. Other methods of sale include direct sale to a strategic investor, indirect sale through the stock exchange market, a partial sale and long-term lease of the enterprise production units. Table 7.3 shows that by February 2001, a total of 147 enterprises were sold: 45 per cent to strategic investors and through the stock exchange market, while 20.4 per cent were sold to the workers' associations of the privatized factories. The table also shows that in terms of value of sales, the strategic investors have the largest share (42 per cent) followed by the stock exchange market (35 per cent).

Five guiding principles have been followed throughout the process of privatization:

- 1 It should not be an end in itself but a means towards a dynamic and efficient manufacturing sector;
- 2 The new owners must be very carefully chosen;
- 3 The interests of the existing workforce are to be safeguarded;
- 4 There must be pollution control to decrease environmental degradation; and
- 5 A clear understanding must be provided to the potential investors with regard to existing laws on: taxation, workers' rights, custom tariffs and pro-

perty rights registration as well as an understanding of related regulations on exemptions and deductions from tax bases.

At the end of February 2001, available data on the proceeds from the privatization show that they amounted to LE15.8 billion. Owing to the privatized firms' heavy indebtedness, the sales proceeds are mostly used to settle the privatized enterprises' accumulated debts to the banking system whose servicing burden has increased after the rapid post-liberalization rise in domestic interest rates. The rest is used for meeting the workers' early retirement payments and for the compensation scheme. A study conducted by the Ministry of Public Enterprises covering a sample of twenty-eight privatized enterprises in the manufacturing sector (textiles, cement, food and chemicals) shows an improvement in their total volume of sales and profits as well as an increase in average salary per worker. It also shows a considerable decline in short- and long-term debts in twenty-three of the companies that were sold.⁹

Table 7.3 Outcome of privatization between 1994 and February 2001

<i>Methods of privatization</i>	1994	1995	1996	1997	1998	1999	2000	2001	Total	<i>The sale proceeds value in LE million</i>
1 Complete sales in the stock market	0	1	14	14	8	0	1	0	38	5,651
2 Sales to strategic investor	3	0	3	3	2	9	5	1	26	6,701
3 Sales to labour unions	7	3	0	3	12	5	0	0	30	870
4 40% sales – stock market	1	2	6	1	0	0	0	0	10	655
5 Less than 50% sales stock market	0	4	0	1	1	0	0	0	6	1,100
6 Partial sales of assets	0	0	1	1	3	4	6	2	17	839
7 Long-term lease of production units	0	0	0	2	0	6	10	2	20	–
Total	11	10	24	25	26	24	22	5	147	15,816

Source: Ministry of Public Enterprises, *Periodical Report on Privatization*, 28 February 2001, Cairo.

Challenges facing industry

Since the 1991 ERSAP a consensus has been gradually formed in favour of such broad objectives as competitive, efficient industrial production and trade liberalization, within a relatively short period. After taking the necessary measures to stabilize the exchange rate, and to gradually remove restrictions on trade in an increasingly globalized market, the 1990s efforts in restructuring and privatizing several publicly owned and managed manufacturing enterprises have substantially reduced their accumulated heavy burden of debts, and improved efficiency in the use of resources. After three decades' strategy for both import-substitution and inward-oriented production by the public sector, ERSAP has also given clear signals for the private sector to lead manufacturing into the twenty-first century,¹⁰ as indicated by the content of the national development strategy for the two decades 1997–2017.

Government support to the private sector

In order to exercise its leading role in industrial activities, the private sector would need government support in achieving institutional re-organization, including the legal and regulatory framework of rules governing investment, employment and exports of industrial products, as well as the banking and taxation systems. They also include the encouragement of investors, especially foreigners, to participate actively in the new industrial zones and the newly created towns with regard to job creation, technological advance and export promotion. The reform of these regulatory arrangements and their effective enforcement constitute the big challenge facing the future industrial development in a market-based economy. The significance of this challenge has been underlined by the results of a study on the constraints facing the industrial *private* sector (World Bank 1994). Of the 208 private enterprises studied, including seventy-seven in manufacturing and four in mining subsectors, there was almost a consensus among investors that high transaction costs of tax administration and bureaucratic procedures were the major constraints (60–80 per cent). Property rights and labour regulations were ranked lower (20 per cent). Constraints created by bureaucracy were chiefly practised by officials in charge of tax assessment, issuing permits, licences and levying fees. They were also practised by those responsible for registration of property in municipalities (governorates), social insurance and labour affairs offices (*makateb al-'amal*).

Progress made until 2001 in the economic reform of the industrial sector suggests that facing this challenge is conditional on the political will and determination to modernize industry. The latter requires several sets of actions. The first is the removal of existing preferential treatment, advantages and privileges that have – since the 1960s – been enjoyed by the public sector and not by the private sector. The second is that bureaucratic attitudes and relevant rules must be fundamentally changed, because they constitute a serious impediment to future investment in industrial expansion and increasing manufactured exports. The third set of actions is the investment in

technological advance and workforce skilling with a clear aim of improve the quality of products preferably in joint ventures with foreign firms, to improving management efficiency and export promotion. As underlined earlier, marketing is the single most important specialization that has been neglected in the manufacturing industry and must receive special attention in order to explore potential markets.

The fourth set of measures is pollution control following the extensive environmental degradation that was primarily caused by the public industrial enterprises, especially those producing cement, petro-chemicals and fertilizers (see Chapter 3 on the environmental impact on well-being). Pollution control by the private sector enterprises, which are profit-driven firms, would require arrangements to reduce anti-pollution costs. Hence, the priority accorded to an environmental aspects of future industrial expansion that should be considered a key incentive criterion in taxation exemption.¹¹

The fifth set of actions required is the promotion of small industries whose substantial contribution to the economy was recognized in the early phase of industrial experience and the role could become even greater if present size-specific constraints were removed, leaving public investment to strategic industries in which the private sector is not willing to invest. Consequently, the Ministry of Industry has to provide considerable support to the private sector, particularly in organizing consultation and public-private sectors debate. Foremost also is the Ministry's promotion of research and development and the provision of adequate information to the private sector on present and potential expansion in small industries.

Enhancement of small industries

Because of their increasing importance for labour absorption, and in order to realize their potentials, small industries require special emphasis on their future role in both industrial and rural development programmes. These industries started a long time ago in the nineteenth century as family businesses in most cases, when there was a need to manufacture agricultural tools and construction materials, to repair existing tools, and to process some of the agricultural products. These are still well represented in rural areas by the several workshops for furniture, metalworks and grain mills in villages and edible oil production in small towns. Medium-size industries are also represented by hundreds of textile mills processing Egyptian cotton and wool to provide local needs from low-cost fabrics. Gradually, many other medium-size industries were established for the manufacture of soap, edible oils, dairy products, simple pharmaceutical materials, construction materials and furniture, etc. In spite of definition problems, small and medium-size industries are characterized by being labour-intensive, requiring small-scale capital, and they produce at a low cost.

In fact, small-scale industry still plays a leading role in the Egyptian economy. This importance is evident from the results of the Industrial Censuses and the Census of Establishments. In these periodic surveys, the criterion for

the classification of industrial establishments is not capital-based. Instead, the criterion used has been the number of employees divided into several categories: very small industries employing 1–4 workers and those employing 5–9 workers. Both categories employing fewer than ten workers constitute a large majority of the total number of private sector establishments: 83 per cent in 1945, and 97 per cent in 1974 after the completion of the wave of nationalization and the initiation of the open-door policy. Since then, their numbers have almost tripled from 113,066 to 345,000 establishments. Almost 60 per cent of the total workforce in the industrial establishments are employed in small industries, so defined.¹² According to CAPMAS statistics, 96 per cent are mostly self-financed small enterprises, while only 0.7 per cent rely on loans, and the rest or 3.3 per cent combine self – and borrowing – financed. In fact, the World Bank in its survey of the private sector found out that small industries ‘receive virtually no formal credit and their lack of long term credit is the most acute financial constraint’ (1994: 16).

With global technological development and rising consumer demand for products of high-quality standards, small factories began to experience difficulties in marketing their products. It became essential for them to modernize their production facilities, and to seek integration with larger enterprises, e.g. to supply their needs from spare parts and accessories, according to their quality standards. Related to technological improvement is the need for adequate educational levels for both employees and managers of these small firms.

When the Egyptian government recognized the magnitude of the unemployment problem in the 1990s, particularly among graduates, it began to encourage the modernization and expansion of this small-industries sector, through the provision of a number of incentives and appropriate regulations, including the following:

- 1 Establishing training workshops in new industrial cities provided with the required equipment at nominal cost;
- 2 Setting up several industrial schools for the preparation of different skills and founding new training centres for the development of entrepreneurial abilities;
- 3 Offering soft loans without charging interest rates or at reduced rates and longer grace periods for borrowing from the state banks;
- 4 Establishing a number of technical service centres ready to give advice, and to solve problems faced by these small-scale establishments at a nominal cost.

To promote these favourable institutional arrangements, substantial incentives should be provided to small industries, especially profit and tax exemptions for defined periods, depending on the activity and on the number of employees of each firm. At present, only large companies employing fifty workers or more enjoy five-year tax exemption. In addition, small industries

should enjoy customs tariff reduction is for importing capital equipment and exporting the goods they produce. In this regard, several lessons should be learnt from the rich experience of China and South Asian countries in expanding the unique contribution of small industries to export earnings and to sizeable labour absorption and, in turn to poverty alleviation.

Fulfilment of free industrial zones' potentials

Over the last two decades, the government strategy of attracting direct foreign investment in industrial expansion has been confined largely to the creation of several laws and regulations with emphasis on job creation in localities identified by the Council of Ministers. These provisions are made in Chapter Three of the Investment Law No. 230 for 1989 which repealed the 1974 Law on the investment of Arab and Foreign Funds. The new provisions comprise several fields of investment in the geographically identified free zones for manufacturing and storage for re-exports. These new industrial zones are treated by customs laws as foreign land, and all investors are equally treated without discrimination between Egyptians and foreigners. However, the exact fields of investment have to be approved by the General Authority for Investment (GAFI) and consequently taxation exemptions and other privileges are applied.¹³ The three privileges that apply to all investors are: ownership of real estate; the treatment of all economic activities as a private sector; and the prohibition of both expropriation and sequestration of property rights and accumulated funds (see Appendix 7.1).

The free industrial zones have been granted very generous concessions with regard to tax exemptions, repatriation of original foreign capital, as well as profit and salaries, thereby providing foreign employees with the right to transfer nearly half their salaries to their home country. While the experience of these zones is still limited, I make some observations as a close observer of their performance. First and foremost is the unrealized potential of export expansion, especially by the Egyptian-owned enterprises whose products' competitive advantage is still weak, despite abundant cheap labour and tax exemptions. Hence, the sale of most of their products in the domestic market. Second, where joint foreign/Egyptian capital exists, the links with international markets are better and the quality of products higher, because foreign investors provide technology, management skills and marketing knowledge. Third, tax exemptions and other privileges granted to investors, should be linked to export achievements, higher productivity and the expansion of training of employees. Meeting these prerequisites would benefit primarily the production and export of the labour-intensive clothing industry, whose workers are mostly poor women and girls with a low educational level. Fourth, permits and concessions granted to investors in industrial activities and listed in Appendix 7.1 need to be conditional on success in export expansion. On the other hand, investors should be required to allocate a share of their capital to research and development in technology improve the quality of their products.

In addition, there are institutional constraints that have to be removed. One example is in the provision of government social services, infrastructure and transport at low cost essential to the workers' residence at the project site. Effective participation of the investors in the management of these towns would more likely help in the solution of local problems, and achieve their objective of providing a better quality of life. Another institutional constraint is manifested in the multiplicity of lengthy bureaucratic procedures for granting permits that may discourage foreign investors. The General Authority for Industrialization (*al-Hay'ah al-Aama lil-Tasnei*) lists the numerous government offices responsible for securing necessary permits and approvals for the several stages of operations. Moreover, these layers of red-tape procedures are costly and time-consuming. Obviously so, given that the responsibility for the provision of public services in the industrial free zones is divided amongst five government agencies: the General Authority for Investment (GAFI), the Ministry of Housing and New Communities, the General Authority for Industrialization of the Ministry of Industry, the Ministry of Local Administration and the Ministry of Labour. Locally, public services are provided by the provincial and district offices of these government agencies, with little effective coordination among them.

Lastly, trade liberalization and low tax rates on products assembled from imported parts (Decree No. 351 of 1986) have discouraged the manufacturing of goods that have a high proportion of domestic components. This was learned from a study conducted by Fawzi (1993: 88) on assembled cars, refrigerators and electric fans conducted in the Tenth of Ramadan Town, an industrial free zone situated between Cairo and Ismailia.

Prospects for industrial development by 2017

The review of experience over the last two decades suggests a lack of a distinctive priority accorded to investment in industrial development, compared with that designated to tourism, hotel business and the construction of new urban communities. The hopes and expectations rest, therefore, on the lobbying strength of the private enterprises and the ability of the Ministry of Planning's long-term development strategy 1997–2017 to transform the industrial sector from being led by the public sector to its dominance by the private sector. This transition to a dynamic private-property market economy requires effective and enabling regulatory reforms and specification of manufacturing activities to be developed for export as well as investing in research and technology to improve Egypt's competitive advantage in international trade.¹⁴ Some of these industrial development concerns were addressed in the fourth five-year development plan 1997/98–2001/02, being the first stage in the longer plan up to 2017. The former aims at an average annual industrial GDP growth of 10 per cent and industrial export increase by 300 per cent in 2002 relative to its 1997 level. Judging from the record of both industrial GDP growth and exports until 2001, it is not likely that this ambitious target would be met by 2002.

The twenty-year strategy towards 2017 (Ministry of Planning 1996: vol. 1, 220) aims to increase the average annual growth of industrial GDP to 11.4 per cent (including 1.1 per cent for oil subsector) in order to raise the share of industry in total GDP from 18 per cent in 1997 to 37 per cent and to stimulate industrial exports to grow annually at 16 per cent in 1997–2017. For the realization of this projected growth, the strategy projects an annual investment of LE30 billion to be provided by the private sector. Nevertheless, neither the means to fulfil those goals, nor which of the existing or new activities would receive investment priority over the twenty-year period, is clear. Almost equal attention is given, in broad terms, to many existing industries. For example, no distinctive preference seems to be given to labour-intensive textiles in which Egypt has had rich experience and comparative advantage of cotton cultivation and length of staple and skilled cheap labour. Instead, the twenty-year strategy (*ibid.*: 222) expresses the broad objective of resuming the textiles industry's international position by way of improving fibre quality through the extensive use of synthetic fibres and developing the clothing subsector to meet consumer taste. The strategy also indicates arrangements for synthetic fibre development within the petro-chemical sector in which the production of natural gas is projected in 2017 to increase to three times its 1997 level.

Similar broad and qualitative expression is given in the strategy to other industrial subsectors such as the engineering and chemical industries. The importance attached to them is due to their role as inputs (e.g. electronics, fertilizers, cement and plastics) feeding other activities in the economy. Likewise, in the strategy (*ibid.*: 230–1) small industries receive general support without clear quantitative specifications for feeding other local domestic industries, meeting consumer demands and intended targets for export expansion. For small industries like the rest of industries, the twenty-year strategy does not quantitatively project labour absorption and contribution to total value added. In fact, no clear priority is given to intensive-labour manufacturing over others.

However, there are four positive elements of the strategy that deserve special emphasis. The first is the environmental concern, i.e. pollution control and utilization of environmentally friendly technology. Examples of the latter are the manufacture of equipment needed for the development of renewable sources of energy by expansion in manufacturing wind-power pumps for irrigation and solar energy for heating, cooking and generating electricity with assistance from Denmark and Germany. The second element is the repeated stress on the importance given to the development of technology for industrial expansion. The third is the emphasis on the institutional arrangements with regard to production of natural gas and electricity for export to neighbouring countries and to the promotion of manufactured exports to the European Union according to the Partnership Agreement. The fourth positive element in the strategy is the geographical distribution of new industrial establishments according to each region's development potentials. During the next two decades, the emphasis is rightly placed on Sinai, the New Valley and Upper Egypt.

Summary and conclusions

This chapter's account of the historical evolution and assessment of industrial development since the 1920s suggests significant phases. Until 1950, Egypt was an agricultural country with many small and a few medium-sized industries. During that phase, the two contributory factors which were considered instrumental in the expansion of Egyptian industry were the private sector, particularly Bank Misr financing in the 1930s and the 1952 revolution that gave priority to industry. The successive discoveries of oil and natural gas in Egypt during the past half century have introduced three structural changes:

- 1 A leading role industry in the economy;
- 2 Satisfying domestic needs by way of import-substitution strategy till 1991; and
- 3 Expanding merchandise exports earnings.

Starting with the 1956 industrial development plan and following the extensive nationalization of the early 1960s, the government and its wage- and price-administered public sector had assumed a leading role in industrialization until the initiation of the open-door policy that reduced import restrictions, and attracted domestic and foreign capital investment. With mounting debts and increasing global competitive trade, Egypt had to reform its manufacturing public enterprises as part of a national programme (ERSAP), including the privatization of several state-owned manufacturing factories. Being a complex process, privatization has required careful considerations with regard to its social, economic and political implications. Until February 2001, the lessons learnt from the privatization of 147 enterprises are valuable for further privatization and future industrial development, with regard to:

- 1 The restructuring of public enterprises for industrial modernization purposes;
- 2 The choice of potential buyers; and
- 3 Workers' severance and their fair compensation.

An important guiding principle has been that privatization is not an aim in itself, but a means for the realization of the productive potentials of existing workforce and other resources. Another principle is ensuring the buyers' clear understanding of relevant policies and laws with regard to taxation, property rights, exchange rates, labour rights, customs tariffs and exportation of capital and goods.

Since the 1990s and despite generous taxation exemptions and trade incentives, there has been a slow-down in industrial expansion in general and manufacturing in particular, owing to the preference of investors for tourism and service activities. The slow-down may also be attributed to the continuing complexity both in bureaucracy and in legislative framework. Neglect of marketing techniques has been detrimental to the sale of manufactured products. Past experience and surveys of investors' opinion have shown that there

is a need to intensify reform of the regulatory rules and systems of the banking and finance, in order to attract direct foreign investments, and to enable all investors to contribute to industrial expansion. Also important is the reform of government administration in the newly established industrial towns and free zones. Without these regulatory actions, domestic and foreign investors are not likely to be attracted only by tax exemptions. Likewise, after the rapid expansion in the newly created industrial towns and free zones, there is a need to concentrate efforts in a few successful and promising ones, in order to realize their potential.

Our review of the long-term strategy for 1997–2017 indicates the lack of distinctive priority accorded to specific industrial activities that have a high extent of labour absorption and export potential to meet the requirements for competitive advantage in an increasingly globalized trade. Importantly, small industries should always be considered as the driving force for economic growth, owing to their higher value added, multiple linkages with other economic activities and to the creation of new jobs for a fast-growing labour force. Lastly, future industrial development policy should stimulate joint ventures between foreign and Egyptian investors both for technology transfers and for raising the output per worker, quality of products and volume of exports.

APPENDIX 7.1

Guarantees and privileges to investors in industry provided by Investment Law No. 230 of 1989^a

1 Property rights

- (a) Unrestricted ownership of investment capital.
- (b) Investment projects considered as private sector projects; i.e. no product price and housing rent controls or profit-ceiling.
- (c) Right of ownership of land and real estate.
- (d) Right to transfer abroad part of or all net profits.
- (e) Guarantees for all project assets and funds, including no expropriation of real estate or property, except in cases of judicial judgement by courts.

2 Tax incentives

- (a) A minimum five-year tax exemption with up to ten or fifteen years for projects, approved by the General Authority for Investment and operating in new industrial towns and free zones for storage and manufacturing.
- (b) An additional two-year exemption when the domestic content of manufactured products exceeds 60 per cent of total components, excluding capital invested in land and real estate acquisition.
- (c) An exemption from *all* taxes on income and distributed profits for a period of five years from the year following commencement of production.
- (d) The deduction of business expenses up to 25 per cent of the total costs of new production equipment, in addition to the usual depreciation allowance.

- (e) An exemption of foreign employees from the payment of the general purpose taxes associated with this law.
- (f) Imports and exports of industrial free zones are exempted from all customs duties.

Source: The General Authority for Investment (GAFI), Cairo.

Note

^a Other advantages and services to investors are provided by Law No. 159 of 1981 on the establishment of new companies. In addition a substantial reduction in customs duties for imports and exports is provided by Presidential Decrees No. 351 of 1986 and No. 304 of 1989.

Notes

- 1 This information is based on the results of the 1917 Population Census, summarized in Anis (1950: 765–7). In addition, there were also industrial activities in the production of building materials, granite, phosphates, tanning and leather work.
- 2 Based on the results of the 1944 Census of Industrial Output and the 1945 Census of Industrial Establishments.
- 3 Statistics vary in the composition as well as the size of the establishment, with a tendency to exclude the smallest which are numerous and important in terms of employment. For a detailed discussion on this problem, see Hansen and Marzouk (1965: 116–18).
- 4 Information on the private sector's investment is taken from the Periodic Report of the General Authority for Investment (June 1993), and Abdel-Khalek (2001). The contribution to manufacturing value added is taken from ESCWA (1999 and 2001).
- 5 Export values are calculated from CAPMAS, *Statistical Yearbook 2000*: Table 11–8 and the share in total merchandise exports are from the World Trade Organization (WTO) Tables IV 52–59, *Annual Report 1996*.
- 6 See, for example, Chemonics report of July 1993 submitted to the Textile Industry Holding Company.
- 7 Based on information given in the *Annual Report* of the Ministry of Public Enterprises, February 2001.
- 8 See a detailed discussion of manufacturing labour and capital productivity in Abdel-Khalek (2001: Table 4.6).
- 9 The results of this study are summarized in the World Bank's *Country Report* (1999), Box 2: 23.
- 10 In writing this section, I have benefited from the two studies of the World Bank (1993) and (1994) as well as the study of the Economist Intelligence Unit (1994) on Egypt.
- 11 The government's Environment Affairs Agency prepared guidelines for the evaluation of pollution effects: see its publication (1996).
- 12 The data for 1945 are taken from (Anis; 1950: 786–7) and for 1974 from Hansen and Radwan (1982: Table 16).
- 13 For a detailed assessment of tax exemptions, guarantees and privileges provided by investment laws, see Abdel-Khalek and Soliman (1998) especially pp. 171–86.
- 14 Ibid.: 437–50 and the World Bank 1994: 38–43.

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Part III

People participation and the political system

8 An evaluation of the political system at the end of the millennium

Robert Springborg

Introduction

At the turn of the century, Egypt faces the twin challenges of economic and political structural adjustments. Criteria to evaluate the success of the former are reasonably standard and easily measured. On the other hand, criteria to evaluate political structural adjustment are more ambiguous and there is less consensus about them. In recent years, however, various multilateral and bilateral donor agencies – anxious to include progress towards democracy as one of their criteria in evaluating-aid worthiness of potential recipients, including Egypt – have been developing such measures. In this chapter, the five criteria developed by the United States Agency for International Development USAID (1998) are used.¹ These criteria are: consensus, rule of law, competition, inclusion in political participation and good governance. In this chapter Egypt's position at the beginning of the new millennium along these five dimensions will be assessed, followed by some conclusions about political challenges that confront the country at the outset of the twenty-first century.

Consensus

The most fundamental level at which consensus is required is on the existence of and boundaries for society and the state. Egypt, one of the world's oldest civilizations and states, commands the virtual unanimous agreement of its population on its borders, on the identity question of 'who is an Egyptian', and on the existence of a state that has a legitimate right to exercise power over society. Although since the mid-1970s some extreme Islamist groups have contended that the very concept of state is 'illegal' because it is not Islamic, that view has been restricted, even among radical Islamists themselves, the most extreme of whom who have in the past few years declined into political insignificance. Very few Egyptians doubt the legitimacy of the fundamental structure of their government, which in more or less its present form dates to the second half of the nineteenth century, although many more question the appropriateness of the processes by which those structures operate and the incumbency of those who occupy roles within them. The fact that Egyptians are often noted for their tolerance bespeaks the widespread acceptance of the basic forms of state and society and the geographic space they occupy.

Consensus on rules

As one moves from this general level, however, to more specific rules that regulate the relationship between the state, on the one hand, and individuals and civil society on the other, consensus diminishes. Although this is an oversimplification, views toward these matters tend to cluster into three categories.

First, what might be called the state-centred group, which generally includes those who favour the political status quo, at least in its broad terms if not in the specifics of individuals, accepts that the primary function of the state is to control an otherwise fractious society and the persons who compose it. In their view, the ever-present threat of social discord requires a vigilant state to protect peace and order. An ancillary view is that society is comprised not of individuals, but of families and other organic solidarities, so free choice by individuals does not really exist, hence the state has no obligation to protect it, as a Lockean view would imply.² Rather, the state needs to mediate between these aggregates of individuals, or sometimes exert strong and direct control over them, for individuals are, *ipso facto*, loyal to their family or other primordial grouping and do not make individual choices. The late President Anwar al-Sadat, who referred to himself as the 'Father of the Egyptian Family', personified this conceptualization. The state-centred view is thus not overly concerned with such matters as due process, civil liberties, autonomy of civil society organizations, and the like. It views collective behaviour as being conditioned largely by impermeable and unchanging social groupings. The key to successful, stable government is thus satisfying the needs of those groupings, which means balancing their interests rather than granting their individual members free choices. The ideal state is a consensual one based on common views, balance of group interests and fulfilment of basic human needs.

A second view, and one probably less widely held, is a classical, western liberal one that is propounded most commonly by urbanized, educated members of the middle and upper classes. To them the present rules of political contestation are unfair and inappropriate, because they privilege the state against its citizens, depriving them of adequate rights. A standard argument of those who hold this view is that the legal/constitutional structure and political practice upon which the present state rests were constructed during the rule of the late President Gamal Abd al-Nasser (July 1952 to September 1970) and are, therefore, beholden to an altogether inappropriate Marxist-Leninist tradition that is further removed from Egyptian values, history and experience than the liberal constitutional model they prefer and for which they cite precedents from the pre-Nasser era. Thus the most ardent of these liberals tend to reject much of the legal/constitutional apparatus, saying that political and even economic reform cannot progress until that apparatus is fundamentally changed and made consistent with liberal democracy. But most politically committed liberals appear to believe that incremental, item-by-item reform of the legal/constitutional structure is possible and have chosen to seek to influence a host of specific rules, such as those governing elections, formation and operation of political parties, freedom of the media, the duties and roles of various branches and levels of government, etc.

The third view, which is Islamist, tends to stretch consensus yet further and threaten it more profoundly. Although heterogeneous, as mentioned above, the Islamist tendency in general seeks to suffuse the society, economy, and polity with religious thought and practice, and erect and strengthen within those spheres Islamic extremist organizations. It is the means rather than the ends that tend to discriminate between radical and moderate Islamists. The former are willing to resort to violence in order to achieve objectives, while the latter reject violence in favour of gradualist methods, including democratic means. But whether implemented through violent or peaceful means, the Islamist 'project' has given rise to a strong antithesis among secularists and Christians, putting the state in a position to balance off these contending forces.

The differences between the Islamist view, on the one hand, and the state-centred and/or liberal view, on the other, are frequently overstated. Just as the role of religion in society is determined in the USA by countless public policy decisions at many levels of government, so does that line shift backward and forward in Egypt as a result of decisions about education, health and other policies. The principal difference is that in the USA, where 'fundamentalists' are also to be found, there is more or less complete agreement on the rules according to which contestation between pro-religious and pro-secular forces occurs. In Egypt, on the other hand, the rules are not seen by either side as being absolutely legitimate and both would entertain altering the rules for their own benefit. Thus the competition between these views also involves a competition over the rules of the game, thereby complicating the task of formulating and maintaining a general consensus.³

Prospects for consensus building

Lack of consensus is not an inevitable result of substantive differences between the three primary views of what the proper state and society should be. While those differences may be more profound than differences between views in most functioning democracies, they are not unbridgeable. A more robust practice of democracy would, in fact, reveal much common ground between them, or at least permit a ceaseless shifting in emphasis between secular and Islamist, liberal and statist-inclined public policies as battles over policies continually resulted in different outcomes. The fact that these three views probably attract roughly equal shares of public support suggests that in a fair competition none would be able to triumph alone. The problem is not that Islamist, secularist, or state-centred views preclude compromise, it is that as long as the competition between them is perceived to be held under less than fair conditions, the building of consensus through that competition does not occur.

It should further be added that the lack of consensus over economic policy change which prevailed throughout the 1970s and 1980s has gradually given way to consensus that state domination of the economy through a giant public sector needs to be tempered by a larger role for free markets and private economic activities. No significant political actors now argue that unadulterated

'Arab Socialism' as prescribed in the National Charter of May 1962 is the appropriate economic model for Egypt. With the Islamic economy, as with the relation between socialist policy and capitalism, it is not an either/or question. Rather, in reality components of an Islamic economy, the most visible and important of which are the several Islamic banks, have been integrated into the secular order, just as private enterprise has established strong bridgeheads in the formerly state-dominated economy. The eclecticism of the economy itself reflects the prevailing consensus of what ought to be – namely, that the Egyptian economy should contain elements of social welfare, private capitalism and Islamic principles. While there is much disagreement over the exact mix, a general consensus has emerged that a mixed economy is appropriate for the country.

In sum, consensus exists on such basic matters as Egyptian identity, national boundaries and the general need for an activist state, but is lacking with regard to the specific rules that govern political contestation and even some of the institutions within which that contestation is supposed to occur, such as the upper house of the legislature (*Majlis al-Shoura*) and much of the local government/administrative structure, including local councils (*al Magalis al-Sha'biya*). Egypt rests easy in its sense of nation. Thus, the challenge of consensus building is the comparatively easy one of forging binding agreements that structure political participation and its input into the making and implementation of public policy.

Rule of law

Egypt has rule *by* law but not rule *of* law. Far from being lawless, the state is careful to cloak its actions in both constitutional and legal legitimacy. Since the mid-nineteenth century Egypt has led the Arab world in establishing a modern legal judicial system, including the development of secular courts and professional legal training, as well as the drafting of secular legal codes. Nominally subjected to the rulings of the judiciary, executive authorities have little to fear from that quarter, for by controlling the legislature they determine the content of law. They also exert considerable authority over the judiciary itself and, when that judiciary refuses to be compliant, as frequently is the case, executive authority can and does circumvent the judicial branch altogether. Rule *by* law enables the state to expand its authority over society, and to subordinate the lower reaches of the administration to disciplinary control, hence is both tolerated and encouraged. Rule of law would constrain executive authority.

Constitutional guarantees

The constitution, although containing some throwbacks to the Nasserist era and assigning to the President disproportionate powers over the legislative branch, does grant considerable autonomy to the judicial branch by forbidding interference by other authorities in the exercise of judicial functions, and by

providing for the independence and immunity of judges. It also appears to guarantee a wide range of personal freedoms, such as that of belief (article 46), opinion and expression (article 47), inviolability of private life (articles 41 and 45), and the freedom to conduct scientific research, literary, artistic and academic activity (article 49). The constitution further guarantees freedom of the press and publication, association, movement and emigration, private property, and the sanctity of the home. These guarantees are less than absolute, however. Some are explicitly made conditional on the limitations and restrictions of enabling legislation, as signified by the terms 'as defined by' or 'in accordance with' legislation. As George Sfeir has noted:

The constitution may very well guarantee, for example, the equality of citizens and their freedom of belief, of expression, of association . . . But when it comes to the enabling laws, such as those regulating the press and political parties, one finds an inordinate number of restrictions on their freedom of expression, formation and activity.⁴

The scope of some other constitutional guarantees, such as that of equality of the sexes, has been restricted by Islamic personal status laws that have been incorporated into the corpus of law which is enforced by secular courts. The most notable recent example of the use of those personal status laws to muzzle free speech was the case of Professor Nasr Hamid Abu Zayd, who was accused of heresy and ordered by the Cairo Appeals Court to separate from his wife on the grounds that Islam prohibits a Muslim woman from being married to an apostate from Islam. Although the government in 1996 introduced legislation to limit initiation of such legal actions by one citizen against another, that legislation nevertheless preserved the right of the state to accuse individuals of relatively vaguely defined religious heresy.

Another manner in which constitutional guarantees have been circumvented is the application of the Emergency Law, which has been in effect since 1981. According to it, the constitutional requirement – for example, that police obtain a warrant from a judge or prosecutor upon demonstrating that an individual has likely committed a specific crime – has been supplanted by the need only to show that an individual 'poses a danger to security and public order', in which case the warrant can be issued by the Ministry of Interior. Individuals can be detained without charge under the Emergency Law's provisions for 30 days without recourse to a court, and indefinitely without trial if a judge upholds the legality of the detention order. According to human rights organizations' reports, hundreds and possibly thousands of people detained under provisions of the Emergency Law have been in prison for years without charge. The Emergency Law has been used since 1992 by the state in order to refer crimes to military and state security emergency courts, thereby depriving hundreds of defendants of their constitutional right to be tried before a normal civilian judge. Judges in state security emergency courts are appointed by the President upon the recommendation of the Minister of Justice, whereas judges in regular courts are appointed by the

President on the recommendation of the Higher Judicial Council, a body composed only of judges. The Minister of Defence nominates judges for military courts, and the final choice is approved by the President.

Constitutional guarantees are also restricted by the Penal Code, which enables the state to detain a suspect for six months 'pending investigation' and which contains several provisions with very broad definitions of terrorism, including 'spreading panic' and 'obstructing the work of authorities'.⁵

Delay of court proceedings has reached a stage where the average length of time for a case to grind through a commercial court, according to a survey of businessmen involved in such cases, is almost five years.⁶ Multinational corporations typically require clauses in contracts in Egypt that refer any and all potential disputes to arbitration proceedings rather than to Egyptian courts. The administration of justice has, in short, virtually broken down under the weight of litigation. While the judiciary enjoys considerable independence, it does not receive the administrative or other support required to enable it adequately to discharge its vital function in securing the rule of law.

In sum, Egypt has had rule by law for longer time than any other Arab state. It enjoys a fairly liberal constitution, elaborate legal codes and records of legal precedent, a comparatively highly developed, law-bound system of administration, and has a citizenry that takes ample advantage of its access to the legal-judicial system. The rule of law, however, is abridged by executive authorities who will not permit their actions to be subjected to legally prescribed methods of accountability, nor allow them to be circumscribed by constitutional guarantees of individual rights. Egypt, in other words, confronts both political and administrative challenges in developing the rule of law to the point where it is supportive of participatory, accountable governance.

Competition in political participation

At the core of the concept of competition in the political system is the requirement of free and fair multi-party elections based on universal franchise, free speech and association, and conducted according to formal rules that routinize the electoral process, and do not unfairly advantage one contestant over another. Egypt has had multi-party elections for parliament since 1976, but neither they nor local councils' elections meet these criteria. Both formal/legal and informal/illegal interventions into the electoral process by executive authorities render parliamentary elections unfree and unfair. Political parties cannot operate without a licence, which is granted by a Parties Committee, a majority of whose members are drawn from the ruling National Democratic Party (NDP). Restrictions on campaign rallies include a requirement that citizens must obtain approval from the Ministry of Interior before holding public meetings. Access to the government-owned Radio and TV Corporation is granted preferentially. Over the past fifteen years the electoral law has been substantially modified three times, with the Higher Constitutional Court invalidating the election law on two occasions. These and other procedures taken by the executive branch have disadvantaged opposition political parties.

Constraints

That informal/illegal interventions by executive authorities into parliamentary elections are commonplace is suggested by the fact that administrative courts upheld complaints of ballot-rigging and other irregularities by most of the more than 100 losing candidates in the 1995 elections who petitioned those courts. Parliament, in which over 90 per cent of the 454 seats are held by the NDP, refuses to be bound by such judicial decisions.

Presidential elections, which in reality are constitutionally prescribed referenda on a single candidate nominated by the Parliament, are held every six years. All Presidents of Egypt have run unopposed and typically have received between 95 and 99 per cent of votes. Prior to 1993 the post of *'umda*, village mayor, was an elected one, but in that year the post was converted into one appointed by the Minister of Interior. Local popular councils, of which there are some 1,000 in larger villages and cities, are comprised of elected members, but those elections are overwhelmingly dominated by the NDP, which won more than 95 per cent of the some 40,000 seats on those councils in the April 1997 elections. In the majority of districts candidates ran unopposed. A substantial majority of council members are employees of the central government who work in those localities. There is no stipulation that civil servants resign their government employment upon election to local councils or even to the Parliament, a provision that did exist regarding the latter, prior to the Abd al-Nasser era.

The competition of ideas is hindered both through the absence of adequate fora within which they can be expressed and by some government-imposed constraints on such expression. One such potential forum for contestation, the Parliament, disadvantages those comparatively few representatives of opposition political parties and true independents – presently less than twenty MPs in total – through procedures that skirt legality, violate the norms of democratic legislative practice, and which render difficult to the point of being almost impossible the performance of the opposition's tasks of putting alternative policies before the public and criticizing those advanced by the government.⁸

The media, both electronic (radio and TV) and print, do provide fora for the articulation of contending views. All radio and television broadcasting, which are the primary channels through which the vast majority of Egyptians are exposed to political news and commentary, are directly owned and controlled by the government. Although programming has become steadily more diverse in recent years, admitting a wider range of participants and views, for example, into current events programmes, access to those media remains at the discretion of government. The print media are very much more open to contending ideas than are radio or television and do expose readers to a host of different political interpretations of events and even broad political philosophies. Passive constraints on fair competition of ideas include government ownership of the three largest daily newspapers, the illiteracy of almost one-half of the population and the limited distribution of the opposition's or the independents' newspapers.

All print media operate under the Press Law, Publications Law and the Penal Code, which impose various restrictions, including fines or imprisonment for criticism of the President, members of the government, or foreign heads of state. All publications require licences issued by the government. Libel and slander laws, which were revised in 1995 and 1996, impose harsh penalties on both journalists and editors and may have been used to deter investigative reporting. The publication of news can be temporarily banned by the public prosecutor on the grounds that it poses a threat to national security.

As is the case with other fora, NGOs and other constituents of civil society provide a setting for the dissemination and exchange of ideas. Egypt has a rich array of voluntary, self-help associations, the majority of which are involved in service delivery in one form or another. A small minority of NGOs have the self-avowed purpose of advocacy, although many others necessarily become involved, at least tangentially, in advocacy as a result of their commitment to service delivery. However, these and other issues of NGO's involvement in service delivery are examined by Aziza Hussein in the next chapter.

Power imbalance

Yet another indicator of competition is the degree to which governmental power is balanced between different branches and levels of the government. Mention has already been made of the relative independence of the judicial branch, which results from constitutional guarantees, legislation that empowers judges to play a leading role in the selection of their colleagues, the desire of the executive branch to have a legal/judicial system through which its powers can be exercised and by which it can hold at least lower-level administrative personnel accountable, and a long-established tradition that awards high status to the judiciary and which values its autonomy.

The legislative branch, on the other hand, has since the end of quasi-parliamentary government in 1952, been clearly subordinate to the executive. Despite being the longest-established legislature in the Arab world and having its most significant administrative/technical capacities, as well as constituting a major element in the overall legitimisation of government, the Egyptian Parliament suffers from serious constitutional and political constraints on its exercise of the legislative, representative, mobilizational and, importantly, executive oversight functions. Among the constitutional constraints are disproportionately strong presidential powers which assign to that office the right to convene and dissolve Parliament at any time, to appoint the Prime Minister and Cabinet, to rule by decree in cases of emergency (article 147) and to unilaterally declare laws when Parliament is not in session (article 108). According to articles 74 and 152 the President can hold referenda by which the Assembly can be bypassed. Although the Assembly can vote no confidence in the Council of Ministers, the President can then refer the matter to a referendum, which if won by the President causes the Assembly to

be dissolved. Under the State of Emergency Law – in effect since 1981 – the Ministry of Interior has detained scores of actual and potential candidates for Parliament, particularly in the 1995 elections.

Egypt has a system of local administration, but not a true system of local government. Indeed, the alteration of the name from Ministry of Local Government to Ministry of Local Administration, which was effected at the end of the Sadat era after a change in the opposite direction at its outset, suggests changing views by the executive of this level of government. The elected Popular Councils (*al-Magalis al-Sha'biya*) created by the 1971 local government law, lack the authority and representativeness to counterbalance administrative authority at the local level, virtually all of which is subordinate to central governmental power.

Economic bases for competition

Political competition is also measured by the amount of economic competitiveness and the extent of the public sector's size in the national economy. By this measure competitiveness is increasing in Egypt, for direct governmental control over the economy has been gradually declining since the adoption of economic reforms of 1991. Governmental investment as a percentage of total investments has declined from about one-half to less than one-quarter over the past decade. Through rapid privatization of public enterprises, the pace of that decline is accelerating. There is some evidence of a propensity, especially on the part of successful entrepreneurs, to provide resources in support of means of expressing political views to which they are sympathetic. Voluntary contributions by businesspeople to various organizations appear to be on the rise. Nevertheless, the government continues to allocate the overwhelming majority of politically relevant material resources, including those that go directly to opposition political parties in the form of subsidies, to say nothing of vast amounts of administrative patronage placed at the disposal of the NDP.

In conclusion, political competition is constrained by the relative weakness of public fora, and because the private sector of the economy has yet to generate politically relevant resources in anything like the amount provided by government. It is further restricted by the active intervention of executive authorities. Nevertheless, acute public awareness of and expression of dislike for such interventions is suggestive of a growing desire for and actual increasing existence of pluralism, at least at the level of political ideas. Egyptians are more exposed now to countervailing ideas and sources of information than at any previous time over the last half century. The range of political opinion is far greater than it was even a decade ago. The flow of political information and debate is increasing in size and intensity. What is conspicuously absent is not disparate political thinking, but the structural mechanisms that can convert this pluralism of political ideas into fair contestation over the making and implementation of public policy.

Inclusion through political participation

Inclusion refers to participation by all citizens in both governmental and non-governmental arenas. Although incomplete and uneven in Egypt, inclusion is a lesser problem than those previously discussed, in part because it is a derivative of them. Political apathy, alienation and cynicism are common among many sectors of the population. Voter turnout is very low, probably not exceeding one-quarter of registered voters in parliamentary elections and less than that in all others, except in non-governmental organizations. Cumbersome voter registration requirements, which limit the time of year in which voters can register, serve to restrict the franchise.

Deterrents

The principal deterrent to voter registration and turnout, joining a political party, attending a partisan meeting, or otherwise participating legally in politics is not, however, procedural. Instead, it is the rational calculation by potential participants that such actions would probably not affect political outcomes and could, in fact, be prejudicial to their personal interests. Executive authorities have clearly signalled their disdain for opposition parties and those parties are, in any case, themselves deficient in democratic practices as witnessed by their gerontocratic elites. The desire to vote is reduced by the perception that elections are not free or fair and, in the case of parliamentary and local popular council elections, that the outcomes are largely meaningless because of the lack of authority of those bodies. Evidence that it is the lack of incentives for participation rather than specific procedures is provided by the comparatively hotly contested elections that used to occur in professional syndicates and university faculties, before those elections were delayed, in the case of the former, and altogether suspended in the case of the latter.

Although inclusion is uneven in Egypt, no sector of the population is absolutely and systematically excluded from political participation. The problem is that some groups are clearly less represented than others when it comes to their inclusion into the political system. Women and Coptic Christians are dramatically under-represented in elected office, with only five of the former and none of the latter having been elected to Parliament in 1995. The vast majority of local popular councils have no women members at all. In 1999, of thirty-two cabinet ministers, two were women and two were Copts. But representation is different in the case of NGOs where women and Copts are active, many of which are organizations that perform at least some political advocacy functions.

Good governance

Good governance refers to transparency of government operations, accountability and the rule of law. The latter has been discussed earlier. Egypt is virtually synonymous with long-standing, centralized, bureaucratic government.

It was the first Arab state to construct a modern public administration along western lines, a task which it commenced in the nineteenth century. Despite the inadequacies of the political system during what has been called the 'liberal nationalist era' from 1923 to 1952, the civil service actually performed reasonably well during that period. Two developments have served to undermine its capacity to deliver good governance after that time. The first was the decline of its internal capacities, resulting primarily from vast overstaffing caused by a political decision during the 1960s to provide all graduates with employment. Although the rate of growth of public employment has slowed over the last decade, it remains high, constituting 'about one-third of all male workers and one half of female workers'. It employs '66 percent of total employees with university education', although the proportion of male workers employed by the public sector is directly proportional to age, reflecting the slowing rate of public employment. The efficiency of the civil service, used as a sponge to soak up surplus labour, necessarily declined as its sheer size and cost have prevented its modernization.

The second factor that has eroded good governance is the historical context within which it occurs. The revolutionary government of Abd al-Nasser (1952–70) was uninterested in transparency, accountability and rule of law, which it saw as obstacles to the social, economic and political transformations it desired. Having operated pretty much beyond the law for many years in the 1950s and 1960s, the executive authority has been reluctant to re-establish pre-existing procedural safeguards, to say nothing of adding new ones that would provide for transparency and accountability. But the 'revolutionary' justification for sweeping aside constraints on the exercise of power has long since vanished, both in reality and in the mind of the public.

The popular criteria for good governance in Egypt are expansive, and meeting them has long been vital to perceptions of governmental legitimacy. Since Pharaonic times government in Egypt, situated in a comparatively easily administered riverine society, has performed functions beyond those normally thought of as 'governmental', and been evaluated according to how well it has done so. For several thousand years now, for example, the government has had the principal responsibility for ensuring the steady and adequate supply of the most basic foodstuff, wheat. Thus, the evaluation of government has typically emphasised performance, or 'output' rather than 'input' in decision-making. In recent years the government has faced a rising chorus of public criticism of what is deemed to be inadequate provision of public services because of resource shortages and the general absence of transparency and accountability in public administration.

Increasing demand for transparency and accountability

The demand for transparent, accountable governance has grown steadily and come to constitute the very core of the indictment of government by much of the formal, legal opposition. Most of the skirmishing between government and opposition is over matters pertaining to transparency and accountability.

Opposition parties have clearly recognized that the people want good governance, so they have taken this issue up as their primary cause. This is a positive development, at least in the sense that the government recognizes it is on the defensive with regard to the issue of the efficiency, transparency and accountability of the administration of public services, and is, therefore, beginning to seek means to correct these deficiencies.

In sum, the climate is now propitious for improving the context within which governance is delivered, although the appropriate institutional processes and mechanisms remain weak, debilitated as they have been by nearly half a century of neglect. Egypt is also without key components of the panoply of institutional devices, such as ombudspersons, parliamentary committees against corruption, citizen oversight boards for monitoring, protective mechanisms for whistleblowers, etc. These institutions are necessary if accountability is to be raised to standards that obtain in western democracies. Egypt does have some capacity for enforcing administrative accountability, however, such as reasonably effective administrative courts and the Central Organization for Audit, hence a base upon which to build.

Summary evaluation

Assessment of Egypt's political system along the selected five criteria reveals both considerable potential for, as well as significant obstacles to, the further development of participatory, accountable governance. *Consensus* is well established on the core issues that define the nation state, although there are, as in any polity, contending views that emphasize different features of national identity and the role and character of the state. Consensus is much less well established, however, on the constitutional and legal frameworks within which politics are conducted. This is largely because these 'rules of the political game' have not emerged through bargaining and compromise between competitive political activists.

Rule by law is long and well established in Egypt. With the exception of the early years of the '1952 Revolution', governments have sought to cloak their actions in legal legitimacy, rarely acting in direct violation of the constitution or canon law, although frequently bending their provisions and ignoring their spirit. *Rule of law*, on the other hand, has never been firmly and unambiguously established in independent Egypt, for its executive authorities have been unwilling to allow their actions to be subjected to legally prescribed modes of accountability. *Competition*, if measured by the circulation of information and ideas relevant to politics, especially those with a primarily economic content, has increased in exponential fashion as Egypt has sought with increasing vigour and diligence over the last decade to integrate its market economy more fully into the global economy. If measured by the institutionalization of direct political contestation, however, such as through free and fair elections or by the political autonomy and effectiveness of political parties and organizations of civil society, political competition lags behind growing competitiveness in the post-1991 economic system. With

regard to *Inclusion*, no significant ethnic, religious, linguistic, or geographically based group is systematically excluded from participating in politics, nor is the government dominated by a single such group. On the other hand, political participation in general is low.

Lastly, Egypt has too much government, in terms of the size and scope of the public administration, and too little *accountable, transparent, efficient governance*. The former is a direct cause of the latter, hence reduction in the size and scope of government and a redefinition of its primary role is a precondition for good governance.

The pattern that emerges from the assessment of Egypt's political system's performance over the past fifty years is characteristic of a comparatively highly articulated political system in transition away from centralized state control in the 1960s, which had been driven by radical nationalism and the desire for import-substitution industrialization, and was inspired by the former Soviet Union models. New, more appropriate rules of the political game have yet to supplant those that sustained the previous system. Recent events suggest that demand for such new rules is steadily intensifying, as is the demand for adherence to the rule of law. The process of transition has yet to become sufficiently rapid and pervasive to stimulate a wider political participation, hence inclusion. And the governmental structure has so far not been slimmed down and made more responsive and accountable to citizens, although here too demands for such changes are increasing.

Political challenges for the twenty-first century

Egypt confronts simultaneously the challenges of economic and political structural adjustment. Some progress has already been made in the process of political adjustment, including some that implicitly recognize the value of participation by stakeholders in the making of public policy. It is fair to say, however, that political structural adjustment is really just beginning, in part because of the magnitude and rapid pace of economic structural adjustment. Having introduced the socialist model in the 1960s, Egypt faces a challenging task of dismantling the vestiges of the previous system while constructing the economic – to say nothing of the social and political – scaffolding necessary to support a system that is more open, competitive and rewarding. Nevertheless, economic structural adjustment is successfully underway and likely to continue to gain momentum and hence to exert ever stronger 'pull' on the polity.

Two aspects of the polity require 'adjustment' if participatory, accountable governance is to emerge. The first is that a considerable amount of new political infrastructure must be built, for the present infrastructure is primarily the legacy of the 1960s Arab socialist era. This outdated infrastructure includes components of:

- 1 Constitutional/legal framework within which politics is conducted (e.g. the emergency law, and constitutional imbalance between the executive and legislative branches);

- 2 Political and governmental organizations and institutions (e.g. a 'ruling' political party, a ministry more or less devoted mostly to controlling NGOs and other voluntary associations, a vast bureaucracy); and
- 3 Information dissemination and opinion formation systems that surround the political process (e.g. state-owned media and a ministry devoted to 'information').

This infrastructure contains the decayed remnants of that which was built in the 1950s and 1960s, to which in the 1970s were appended some vestiges of the preceding 'liberal' era, such as semi-revitalized opposition political parties. But this infrastructure is clearly inadequate for even the immediate task of supporting rapidly expanding private sector within an extensive economic structural adjustment programme, to say nothing of supporting a broad-based transition to democracy.

The consequences of its decay and of not being replaced by new, more appropriate infrastructure, are in some cases very serious. The Egyptian variant of 'Arab Socialism', for example, did open up channels for participation by those of the lower social classes. Those channels included agrarian reform cooperatives, a centrally designed political party, a parliament with mandated representation of workers and peasants, etc. Over the past three decades the decay of this infrastructure has resulted in the increasing political marginalization of the low-income classes. A measure of their lack of political access is growing poverty and inequality of the distribution of wealth and opportunities, which results from public policies that have transferred wealth up the social order. This problem could be at least addressed by the emergence of new political infrastructure, through which broadly based participation could occur.

The second aspect of the polity that is inconsistent with the government of Egypt's stated objective of creating a dynamic, outward-oriented economy is closely related to, although more amorphous than, the first. It is the rather ponderous and highly centralized nature of the state itself, a phenomenon which permeates not only the broader polity, but the society and economy as well. With the 1990s strengthening of the private sector's participation and the accelerating privatization of the public enterprises, the Egyptian state has yet to be made 'lean and mean', although the belief that it is too large and flabby is widespread. The issue now is not that there are fundamentally conflicting visions of the appropriate state institutions (for almost everyone agrees it needs to be downsized), as to how to reduce and render more efficient the present one without imposing too much hardship or taking too many political risks.

The raw material out of which new political infrastructure and shared understandings of the appropriate role of the state can be built is, of course, human beings. It is human behaviour that makes political processes and institutions work and which translates ideas into action. In Egypt's case this raw material is in abundant supply in the sense that the country has a very young population that, for the most part, is yet to be shaped by the existing

political infrastructure, for it has generally not been drawn into it. Even among older Egyptians, rates of political participation are exceedingly low. The challenge is less that of 'de-learning' inappropriate political behaviour (because the vast majority of young and old do not presently engage in politics), than it is learning for the first time how to participate effectively.

Yet the Egyptian population, of whatever age, is increasingly well informed, globally aware of major political events, and for the most part, more economically competent. The task of constructing political infrastructure is essentially that of drawing more of this population into the making and implementation of public policies that affect their lives, of opening up new channels of political participation such that the participation has a clearly demonstrable impact in the sense that they realize their lives are affected by public policy, and take steps to influence how it is made and implemented. Whether this fundamental challenge can be met is the key political issue confronting Egypt as it begins the new millennium.

Notes

- 1 See George N. Sfeir (1998: 403).
- 2 *Egypt Report on Human Rights Practices for 1997*, Washington, DC: US Department of State.
- 3 Survey reported in Samiha Fawzy (1998: 19).
- 4 USAID (1998: 13).
- 5 See, for example, al-Ahram Publishing (1998), *The Arab Strategic Report*, Cairo: 295–304 (Arabic).
- 6 An example of private financing is the emergence of a newspaper (*al-Dustur*), which was independent of both the government and opposition political parties but was entirely dependent upon income from advertising and sales before its closure by the government in 1998.
- 7 See Rageui Assaad (1998).
- 8 On an assessment of the political system and governance during the period of Abd al-Nasser, see, for example, Maxime Robinson (1966).

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9 NGOs and the development challenges of the twenty-first century*

Aziza Hussein

Introduction

Internationally, non-governmental organizations (NGOs) are increasingly viewed as the third sector¹ without which governments cannot alone address development challenges to meet the needs of the fast-growing population. In Egypt, an assessment of the present socio-economic situation concludes,

the State can no longer afford to maintain its heavy involvement in production. Nor can it afford to pursue the role of major provider of jobs in the economy, and meet the challenges of providing free access to all stages of health care and education.²

That is why the civil society – the non-governmental, voluntary and non-profit sector – is expected in the twenty-first century to assume greater responsibilities, and to play a more dynamic role in different aspects of national development. Furthermore, following the government's adoption, in 1991, of economic policy reforms for a predominant market economy and recent privatization of most of public enterprises, NGOs should be enabled to play the role of partnership with government agencies. This partnership role requires a complete transformation of existing relations between government and NGOs in order to achieve the noble aim of alleviating poverty and unemployment, and to tackle other social ills.

This chapter consists of five major sections. The first presents a brief history of the Egyptian NGOs, the context of their formation, legalization and diversity of activities. The second section assesses the nature of the relationships between NGOs and the government at supervision and partnership levels, including an assessment of the June 2002 Law. This is followed by an examination of the NGOs' relationships with the United Nations system. The fourth section presents the results of two case studies on the experience of two NGOs in development. Based on the findings of the assessment made, the last section suggests, in broad terms, the challenges facing the Egyptian NGOs with a particular focus both on partnership with government in the development process and on volunteerism, which I consider the most important challenges into the twenty-first century.

Egyptian NGOs: origin and legality

There are many overlapping criteria for classifying NGOs in Egypt, owing to their varying roles and aims. Law No. 32 of 1964 amended by Law No. 84 of 2002 regulates the role of NGOs, and characterizes the sphere of work, the description of their status as non-profit organizations and their independence from government. Despite a diversity of NGOs' definitions, there has been a consensus among the Egyptian intelligentsia to consider NGOs as those organizations that have the following characteristics:

- 1 Being independent from any central and local forms of governmental control;
- 2 Being completely non-profit in nature and independent from the business sector; and
- 3 They should provide services to all who deserve them and not only to their own members.

Historically, Egyptian NGOs have expressed themselves through voluntary social work motivated by religious or secular altruistic considerations. One of the earliest organized popular types of NGOs was that of the informal Sufi orders which were developed in the seventh and the eighth centuries, whose work was based on the principles of Islam with regard to social solidarity, support for the poor and religious ceremonies. Recently, Sufi orders were estimated to have three million followers. NGOs have also pioneered social services in Egypt that started in the sixteenth century with a remarkable record in health care, education services, poverty alleviation, and women's development. In 1517, the state legalized both the Wakf Endowment which applied the Islamic principle of *al-Zakat* and the Coptic principle of *al-Oshoor* to promote a caring civil society. The former established mosques, schools and hospitals. Wakf was, regretfully, abolished by the government in 1957 and 1962. The first Egyptian NGO in the modern sense, 'El Maaref' was established in 1869 to promote publications and book translations for the purpose of spreading knowledge and cultural affairs. This pioneering voluntary work was followed by the Egyptian Geographical Society which was formed in 1875 for the conduct of geographic research and studies.

The sixteenth century's voluntary work in helping the poor and providing public services were strengthened in the nineteenth century. The first Islamic Benevolent Society (*al-Gam'eya al-Khaireya al-Islameya*) was established in 1875 by Abd-Allah al-Nadim which aimed at modernizing education and caring for the poor and the needy. Also, in 1891, both the Coptic Benevolent Society and the Coptic al-Tawfic Society were established for the purpose of promoting education services and helping the poor. The second Islamic Benevolent Society was established in 1892 by prominent national figures like Sheikh Mohammed Abdou, Hussien Roushdi, Saad Zaghloul, Qassim Amin and others. In a historical context of political environment, the period 1923–52 stands out as a period of liberal thinking and democratic milieu,

which encouraged the proliferation of NGOs, reflecting the different public needs in the society. During this period of dominant liberal cultural climate, effective collaboration flourished between government agencies and NGOs, and the Egyptian elite sought to stress their national identity in the process of development. In fact, Cairo University was established at that time by an Egyptian NGO under the name of Fouad the First University. Towards tackling social development problems in the early twentieth century, NGOs have initiated high-quality health care institutions throughout the country. Examples are hospitals of al-Mowasah, al-Gam'eya al-Khairiya al-Islamiya, the Red Crescent, al-Mabarrah Association and the Coptic Tawfik Society. Most of these hospitals were nationalized in the 1960s as part of the government's socialist policy.

There was a noticeable rise in the number of NGOs throughout the twentieth century. In the 1930s important NGOs were established including: the Young Men's Christian Association (YMCA), the Christian Summer Camps, the Egyptian Society for Social Studies, etc. By 1960, according to the statistics of the Ministry of Social Affairs, the number reached 3,195, of which 649 were religious societies. However, there has been a consensus among the intelligentsia with regard to the Egyptian NGOs' contribution to development in the twentieth century that they have:

- 1 Increased national awareness of social development problems; and
- 2 Brought about the consolidation of the women's liberation movement and the establishment of the Egyptian Women's National Union in 1923.

With regard to the legality of NGOs, the 1923 Egyptian constitution stipulated in article 21 that Egyptians had the right to establish NGOs by law.³ They had to register with the Ministry of Interior until 1939 when the Ministry of Social Affairs (MOSA hereafter) was established. Surprisingly enough, MOSA was set up at the initiative of an NGO (the Egyptian Society for Social Studies), whose members were high-ranking figures in social development (for example, one member, Ali Maher later became Prime Minister). This NGO was the first to develop professionalism in social work, and to set up non-governmental institutes for training in the multi-disciplines of social development. A combination of the pioneering voluntary role of this NGO in social development has produced a notable model of particular significance in Egypt's rural development experience, i.e. the rural social centres (*Marakis Igtima'iya*), which introduced a new approach to rural community development based on the voluntary participation of rural people at the local community level and the government's multi-dimensional services to rural people (health, education, agriculture and small industries). These models and principles of voluntary participation that emerged in the 1930s have been fostered by MOSA and recognized as the core essence of civil society. This was a model in which government and NGOs acted together in the design and implementation of rural development programmes in deprived areas.

Unfortunately, the government began to constrain the activities of NGOs. In 1938 Law No. 17 was issued to permit the closure of any NGO having a political or semi-military objective. Subsequently, a decree was issued to prevent NGOs from collecting public funds, except with the MOSA's permission. (This was justified by the incorrect practices of a few NGOs during the Second World War.) Accordingly, the Ministry expanded its mandate and assumed the right of financial inspection, and subsequently Law No. 32 of 1964 was tailored to confirm MOSA's tight administrative control of NGOs.

Nevertheless, the number of NGOs has kept growing, and in the 1960s the Family Planning Association was set up, headed by the Minister of Social Affairs with twenty-four autonomous branches in the governorates. Many other NGOs were also established to deal with women's income-generating activities, maternal and child development, caring for the disabled, nursery schools, etc. By 2000, there were 9,056 associations working in specialized fields of work and another 5,601 working in multiple fields of social development, making a total of 14,657 NGOs.⁴ Lastly, Law No. 153 of 1999 was issued in response to NGOs' persistent campaigns for the liberalization of the legal framework governing their activities. In 2002, it was abrogated and replaced by Law No. 84 of 2002, the full implementation of which is still in its early stage and to which I shall return later in this chapter.

Assessment of the current state of NGO/ government relationship

MOSA has been supervising and sponsoring some 15,000 NGOs nation-wide which are engaged in different aspects of social development. Moreover, MOSA supports NGOs in various ways, such as lending them specialized staff and contributing funds. The Ministry also allocates projects to NGOs and signs contracts with donors on their behalf. In some cases, it exerts excessive influence and infringes on their autonomy. In other cases the Ministry's support is positive and significant as with regard to the Family Planning Association. Consultations are carried out between officials of the different ministries, NGOs and donors for the purpose of establishing workable links. In addition, NGOs concerned with environmental issues have evolved recently, and they work with the State Ministry of Environmental Affairs to implement Agenda 21 (the Rio Declaration on Environment and Development of the Rio Earth Summit, 1992).

Recently, a new form of NGO/government relationship has emerged. NGOs working in the field of population and development became very visible during the International Conference for Population and Development (ICPD) held in Cairo in 1994 and their influence was conspicuously reflected in the formulation of the strategy developed by the Ministry of Health and Population (MOHP hereafter). This strategy considers NGOs as full partners in the implementation of Egypt's reproductive health and population programme. The MOHP also considers itself 'the administrative organization responsible for NGOs working in the field of population and family planning', and it

commits itself to support these NGOs in fulfilling their roles. The strategy gives them a free hand to implement projects in accordance with established rules and regulations that govern the work of NGOs. Moreover, MOHP promises to strengthen NGOs' capabilities in project management, and assists them in obtaining grants and funds from donors in order to be able to effectively participate in the implementation of the national programme concerned with population and development. It was a form of partnership in which each party recognizes the active participation of the other and both work together as partners in population and development projects.

With regard to government supervision of NGOs exercised by MOSA, the Egyptian Parliament passed Law No. 153 of 1999, replacing the old and bureaucratically oriented Law of 1964 that used to govern all voluntary organizations in Egypt. The 1999 Law was declared unconstitutional and replaced by Law No. 84 of 2002 which strangulates NGOs and adds more stringent conditions than ever before. It permits the dissolution of NGOs not by the judicial power of a court ruling, but by an administrative order of MOSA. There are criminal indictment on six offences, including activities considered to be disruptive to public order, obtaining funds from abroad or being affiliated to a foreign NGO without prior permission in writing from MOSA. The law also authorizes the appointment, by a ministerial decree, of a large number of the members of the Board of NGOs Federation, instead of their democratic election.

In her justification of the 2002 Law, the Minister of MOSA, Amina al-Gindi says:

This law facilitates procedural requirements for the establishment of NGOs, and it removes obstacles in the way of their functioning. A new factor was given special prominence in its enactment, that is the protection of national security after the September 11th 2001 events in the USA. The purpose was to avoid any possible exploitation by destructive or terrorist elements in the work of NGO.

(al-Ahram, 14 June 2002)

Emerging NGOs/government partnership

In the past fifty years, international conferences have highlighted the concept of partnership between NGOs and governments. Historically, this partnership was not an easy proposition because it represented a challenge to traditional monolithic power as it may entail giving up control of and/or sharing power in a mutually interdependent way. It may also be characterized by mistrust and even hostility, and misinterpreted by some government agencies as a threat to national security under certain circumstances, as experienced by NGOs in the 1960s and 1970s when socialist policies in Egypt were against partnership. The official stance was that the state had solely the total responsibility of looking after its citizens. This position is in contrast with the older concepts of civil society and the internationally stressed view that the

work of NGOs is based on the premise that a mutual sense of responsibility is fundamental to a healthy and stable society in a modern nation-state like Egypt.⁵

We have seen elements of partnership at work in the fields of rural development and population and development in the 1930s and early 1990s, respectively. In fact, the Egyptian government came closest to the concept of partnership on the occasion of ICPD 1994 when the Egyptian NGOs under the leadership of the National Committee for Population and Development (NCPD) helped organize the NGO Forum of the ICPD. Other examples of positive partnership occurred on the occasion of launching the South-to-South Population Initiative when Egypt's Ministry of Health empowered the NCPD to organize the NGO Forum which took place in November 1998 in Cairo in parallel with the governmental South-to-South Conference.

Other examples of fruitful cooperation and even partnership between NGOs and government include:

- 1 The board of directors of the Family Planning Association in the governorates which have, since 1967, worked closely with ex-officio members of the board representing their respective ministries, of health, education, religious affairs, etc.
- 2 Increased bilateral cooperation between NGOs and certain ministries e.g. agriculture, housing, development of newly established urban communities, environmental affairs and youth affairs among others.
- 3 The establishment of special NGO departments within some ministries' headquarters, as for example the Ministry of Education whose special department cooperates with some 1,000 NGOs.
- 4 Collaborative planning at the community level in selected governorates, as for example Beni Suef under the joint leadership of the NCP Chairperson and the Governor of Beni Suef.

Because of its pioneering nature, the latter form of partnership deserves elaboration. The Governor invited all sectors of the local community concerned with health care, both governmental and non-governmental organizations. After careful deliberation of local health problems, they all decided to address the problem of hereditary diseases and disabilities that had become increasingly prevalent in Beni Suef. The assumption was that the problem is due basically to ignorance of safe reproductive practices. Accordingly, a programme of education in reproductive health was launched with particular emphasis on participatory training techniques. A network of 180 grassroot NGOs in Beni Suef collected and exchanged information on hereditary diseases and disabilities. It has proved to be a significant learning process, leading towards the realization of these NGOs' potentials by their active collaboration with each other and with the provincial government. Both parties complemented each other, having a common interest in the outcome, e.g. in resolving problems that had plagued their local communities for a long time. It is also a long-term process of change as in any educational

development activity. The model is being picked up by other communities like Menoufiya governorate where the concern is over women's participation and the protection of the environment. This experience in partnership suggests that collaboration in planning and implementation of programmes at community level is a good prospect for NGOs' development work in the twenty-first century, especially that it requires a minimum of funds and technical assistance and that NGOs have an advantage both in understanding local conditions and in gaining the confidence of poor community members.

NGOs' collaboration with the United Nations

The UN has, for a long time, recognized some kind of partnership with NGOs by vesting them with a consultative status within the purview of the terms of reference of its Economic and Social Council.⁶

In the past, there has been a fruitful interactive relationship between the work of the Egyptian NGOs and that of the United Nations, particularly in the fields of population and women's development. In these areas, NGOs worldwide are known to have influenced government and UN decisions. On the other hand, the outcome of UN decisions has had important effects on the direction taken by NGOs. Being concerned with people's specific needs, as opposed to government's macro-concerns, NGOs initiate creative development projects, and despite their small size, these projects have succeeded in influencing the decisions taken by both governments and the UN. The history of the series of the UN population conferences reveals that the pioneering role played by NGOs has culminated in the official mobilization of governments and the UN – first, in holding the Population Conference in Budapest 1974, then in Mexico 1984, and lastly in Cairo 1994 in which the leading role of Egyptian NGOs has been underlined earlier. With the exception of the Mexico City Conference, the role of NGOs in these meetings was conspicuous and their input into the adopted recommendations was significant.⁷

NGOs' forums have become a standard practice, taking place alongside the work of the UN governmental conferences. Recommendations and resolutions adopted by the UN as a result of conference deliberations and on-going consultations carry a moral weight and authority with governments and NGOs. In fact, international conferences are now designed to formulate and launch a global agenda for development which has an impact on both developing and developed nations, as well as on donors and recipients. The numerous World Plans of Action, Agendas for Action, and Strategies, etc. that have been issued in such areas of development as women, population, environment, etc. are a testimony to the results of this interactive relationship. The Habitat Agenda is a recent example of this. Habitat II Conference was held in Istanbul, 3–14 June 1996; at this conference governments committed themselves to promote a positive vision for human settlements and issued a Partnership Programme that identified the future role of partners including local authorities, the private sector, parliamentarians and NGOs. It was reported that there was an unprecedented participation of NGOs in the

construction of a Habitat Agenda with prominence given to the concept of partnership and local action programme to solve human settlement problems.

The influence of UN conferences on the design and implementation of Egyptian national policy and programmes has been particularly obvious in the case of the International Conference on Population and Development (ICPD) held in Cairo in 1994, which mandated Egyptian NGOs to implement the Conference's Programme of Action by which the Egyptian Steering Committee of the ICPD was authorized to lead worldwide NGOs in this remarkable task. This mandate has created a new reality in Egypt: the unfolding of NGO's potential share in national and local development, of which no one had been aware before 1994. So, ICPD has only revived something which had been obscured by the power of government and its mistrust of NGOs.

Participatory development: two case studies

The two case studies NCPD (1998), CEOSS (1998) are selected on the grounds of the exceptional challenges they have faced. The NCPD is a unique product of international collaboration and mandated by both the Ministry of Health and Population and the United Nations. The second, the Coptic Evangelical Organization for Social Services (CEOSS), is a Christian denomination with a western image as opposed to the traditional Orthodox sect.

National Committee for Population and Development (NCPD)

Composed of twelve members under my chairmanship, NCPD was formally established by two successive ministerial decrees in 1995 and 1996 with a mandate to support NGOs in the implementation of the Programme of Action of the 1994 UN International Conference on Population and Development, ICPD. Perhaps the most noted accomplishment since ICPD is the launching, in March 1996, of a five-year project initially funded by the UN Fund for Population Activities (UNFPA) in order to support Egyptian NGOs in implementing the ICPD Programme of Action. In addition to UNFPA, three other donors have financed this project: the European Union, the government of the Netherlands and the Ford Foundation.

In its activities, the NCPD relies on its networking experience with the international NGO Forum, and the establishment of an NGO umbrella for population and development during the 1994 ICPD comprising at least 400 NGOs under the leadership of the Egyptian NCPD for a period of two years before the conference. The outcome of this interactive collaboration was an Egyptian NGO Platform Document, which together with the ICPD Programme of Action have, since 1994, served as guidelines for implementing a multi-sectoral approach to population and development projects.

The NCPD began its work by setting up six task forces working on six different but interconnected development issues, namely: family planning, sex education and female genital mutilation (FGM) in the context of reproductive

health, economic development, environment and migration. For example, the FGM task force has already made a name for itself in Egypt and abroad because of its successful campaigning against the brutality of FGM and helping the Ministry of Health win a case against the practice of FGM in the Egyptian courts. But the need to focus on an integrated development programme has necessitated the reorganization of the NCPD specialized task forces within a set of priority targets. Dealing with new issues of current and future importance has been added to existing task forces. Their subjects are: volunteering, aging or senior citizens' care and unemployment.

By 2000, NCPD has developed a system for networking in the form of: action groups, specialized forums and collaborative planning models in local government areas. It has also established regional and international relationships with: Arab NGOs Network, South-to-South Partners in Population and Development, Habitat II (1996), the UN Social Summit held in Copenhagen (1995), etc. Several new initiatives have been set in motion by the NCPD. An example of these initiatives is the project for health policy reform which entails the introduction of a reproductive health component and environmental hygiene into the services of a large number of health NGOs. Besides, the NCPD has successfully negotiated a partnership protocol between the Egyptian Ministry of Health and NGOs – the first of its kind in Egyptian history. Another example of new initiatives is a project for population redistribution in the context of the new 'National Mega or Gigantic Projects in newly developed lands'.⁸ It is expected that a significant population movement would take place and which requires the social input of NGOs. The Population Migration Task Force of NCPD took the lead in this new work. The third initiative is a project seeking to revive the true meaning of people's participation in rural community development, as it was originally applied in the late 1930s and mid-1940s by the Fellah Department of the Ministry of Social Affairs. Each of these initiatives is expected to have its own executive body, while NCPD functions only as an enabler by virtue of its mandate.

In this process, the NCPD has learned successes and failures from past experiences. For example, at present, NCPD is retrieving and documenting the experience gained from the original models of rural community development of the 1930s and 1940s that had addressed the questions of comprehensive rural community development on the basis of a clear vision of rural people participation and a well-conceived multi-sectoral development of rural Egypt. Recent studies on the government's newly formulated and implemented programmes for rural community development reveal that they are at best fragmented and may have distorted essential elements in terms of the basic philosophy of people's participation in integrated rural development. The NCPD's objective of this evaluative project is to try to develop more appropriate models for training new types of cadres in rural community development in cooperation with another NGO, the Egyptian Association for Sustainable Rural Development, that is composed of senior rural sociologists.

As an attempt to achieve self-evaluation, NCPD started a 'Strategic Planning' exercise in early 1998 with the participation of representatives from donor

organizations, i.e. UNICEF, Ford Foundation, UNFPA, the Dutch Government and the European Union Commission, by holding four consultations. The objective was to elicit the views of partners and donors on the role and validity of NCPD's activities as part of an on-going self-evaluation exercise. The results of this learning process are valuable, and have been circulated to all participants. Consequently, NCPD has developed the following guiding principles:

- 1 'It is an enabling-support non-governmental organization working in partnership with a network of volunteers and NGOs with a focus on population and development, and collaborative work with government, the private sector, and other civil society organizations with the aim to promote development in general, and poverty alleviation in particular'.
- 2 'The NCPD provides leadership by promoting ethical norms and by serving as a catalyst for change, through raising questions and focusing discussion on important population and related development issues, disseminating innovative approaches, providing institutional support to NGOs and encouraging the exchange of information, ideas and experiences.'
- 3 'The NCPD would function as a relatively small organization to champion important good causes, and operate as an enabling organization providing leadership rather than control; and operate as a broker serving NGOs' interests'.

Thus, capacity building on the part of non-governmental institutions is high on the NCPD agenda. The NCPD has learned from experience that democratic dialogue and the free flow of information are essential to empower NGOs. It has also realized that small NGO initiatives could go a long way on the development path, provided they are grounded in genuine commitment, moral obligation, technical support and active constituency. We have also learned that *ad hoc* projects which do not have potential sustainability should be avoided by both donors and NGOs.

Volunteerism has been the core component of the work of the NCPD, whereby volunteers are the NGO constituency. As no amount of professionalism can substitute for committed volunteerism, the NCPD is giving volunteers an adequate space to play a more appropriate and effective role in the initiation, implementation and monitoring of programmes. Thus, in the administration of NCPD, the volunteers' input into projects and programmes is calculated in monetary terms and considered as an in-kind contribution, being a counterpart to the funds by contributed donors'. On the other hand, NGOs under the guidance of NCPD are expected to seek and promote qualities of commitment, transparency and accountability, which should be allowed to grow and prosper within the democratic values of civil society.

Coptic Evangelical Organization for Social Services

As explained earlier, CEOSS is rooted in a Christian denomination. As an NGO, its success is based both on personal and professional merits and on

cultural forces prevailing in the acceptance by Muslim community of the leadership of a minority group in a development project. It is therefore an interesting case study of a different type of NGO being a community-based non-governmental organization dedicated to community development, individual well-being and the attainment of social justice. It works with rural and urban populations, Christian and Muslim communities, and has been registered with the Ministry of Social Affairs since 1967. Formed in 1952, the work of CEOSS has developed from initial work on adult literacy classes to a wide range of community development programmes, including reproductive health, agriculture, income generation, nutrition, education, environment, rehabilitation and preventive/curative health services. It stimulates the promotion of community initiative, self-reliance, and encourages local communities to work towards attaining sustainable development. CEOSS development goals include: increasing awareness of and ability to solve individual and community problems; and enhancing the ability to work with, and through, groups for the achievement of community aims. The goals also include linking community residents with appropriate resource providers in government and non-governmental systems and assisting in the improvement of local leadership skills. The experience gained over the past fifty years in field work towards the attainment of these aims are briefly presented as follows.

Introduction of partnership concept for community development

Given the Egyptian government's emphasis on the importance of civil society organizations' participation in poverty alleviation, CEOSS believes in having an essential role to play as an intermediary between government agencies and local organizations. To further this objective, CEOSS capitalizes on its accumulated experience and widespread relationships throughout Egyptian society. Through these partnership relationships with the official development sector, several sustainable development initiatives are undertaken at community local level.

CEOSS 'partnership with local communities strategy' involves working through local teams living and working with the target groups, as well as supporting community institutions in taking over responsibilities in developing their own communities after the teams move to other communities. In this way, CEOSS works with and through registered civic associations, such as Community Development Associations (CDA). Through capacity building, these local associations are enabled to manage and sustain the variety of services initiated under partnership arrangements. Providing technical assistance involves contracting partners (whether civil society organizations, governmental agencies or individuals) to provide tailored training and technical assistance in local community development. This assistance includes: staff training, preparation of training materials, feasibility studies, project evaluation, leadership development, as well as conducting training courses on various management and marketing skills. In addition, CEOSS incorporates the expertise of consultants from specialized institutions.

Programmes are currently being implemented in ninety-two urban and rural communities in the governorates of Alexandria, Cairo, Giza, Minya and Beni Suef. Annually, CEOSS works with approximately two million clients in these communities. It began providing family planning services (FPS) in 1973, and now serves over 57,000 clients of FPS in fifty-five communities. Annually, 6,700 new individuals accepting the services are registered in reproductive health services (RHS) in urban and rural communities. Based on its experience, CEOSS has expanded its RHS unit to include four components: family planning, prevention of harmful practices, sexually transmitted diseases and safe motherhood. Perhaps the most interesting and challenging of these components is the prevention of harmful practices by the eradication of female genital mutilation (FGM), among the Muslim and Christian populations, especially in the villages of Upper Egypt. An example of this involves Deir El-Barsha, an isolated community of a few thousand inhabitants where a movement against FGM was led by a monastery (*'deir'* as it is known in Egypt). Success was achieved as a result of seven years' effort starting in 1983. There are seven other villages, mostly in Minya governorate where CEOSS is working on the eradication of FGM. In these villages, Muslim sheikhs and Christian priests speak at public gatherings, challenging the notion that FGM is prescribed by Islam and Christianity. These public talks are followed by social workers' home visits and organized panel discussions.⁹ Later in 1992, CEOSS helped in the organization of the first Egyptian NGO concerned exclusively with the elimination of these harmful practices, the Egyptian Society for the Prevention of Harmful Traditional Health Practices.

CEOSS has other types of contribution, two of which are worth mentioning. The first is an urban slum development in Cairo (Dar El-Salam, Hikr Hisham Agha, Hikr Sakakini, Telal Zeinhom) where the agency has succeeded in rebuilding and upgrading housing within the context of voluntary participation. The second type is youth training for men and women improving, aimed at abilities for career development, and where training based on market demands takes place on the job, through private sector workshops. It is reported that 4,000 young men and women have been trained since the inception of the programme, 70 per cent of whom have been employed either by private business agencies or in self-employment. It is worth noting that one-third of the trainees are girls and that training activities consist of learning such skills as mechanics, photography, hairdressing, driving heavy-duty lorries, etc.

Lessons learned from the CEOSS case study

My brief presentation shows that CEOSS is a unique organization. It is religiously based, as can easily be observed from its title (Coptic Evangelical), and its staff composition is almost completely Christian. Yet all its development programmes are secular and they serve the population at large, both Muslim and Christian. In fact Muslim leaders are among the leading partners in local community development; where the NGOs they work with are almost

all Muslim, and there are 6,000 Muslim practitioners who work part-time for CEOSS and of its total 3,000 volunteers, 70 per cent are Muslims. Nevertheless in order for CEOSS to achieve the political and national recognition which in my opinion it deserves, it may have to introduce some changes in its recruitment procedures in order to include skilled Muslims. In fact CEOSS's credibility has recently been reinforced by embarking on joint projects with such secular organizations as NCPD, with whom partnership arrangements are planned to take a place between CEOSS and some Muslim NGOs.

Challenges for the twenty-first century

Volunteerism and voluntary action

Having presented two case studies as a method by which to evaluate the role of Egyptian NGOs in development, the discussion turns to a fundamental element of their task ahead. Nationally and internationally, voluntary development through NGOs is gaining momentum and recognition, as witnessed in major global NGO conferences. Recently, two international events have boosted volunteerism. One is the International Association of Voluntary Efforts (IAVE) whose Biennial World Volunteer Conference was held at Edmonton, Canada in 1998. The other was the designation by the United Nations of the year 2001 as the International Year of Volunteers, which was inaugurated in Amsterdam in January 2001. It has emerged from these global events that the slogan 'think globally and act locally' becomes and should remain an apt theme reflected in the programmes of NGOs like those of NCPD, CEOSS and the Arab Network of NGOs. Their programmes included plans for holding national and regional conferences on voluntary efforts during the International Year of Volunteers, 2001.

Indeed, many lessons have been learnt from past experience in Egypt. They include inspiration, renewed commitment and strength of moral force to prepare NGOs for facing the development challenges of the twenty-first century. Among the lessons that NGOs have learned is that there is a difference between *volunteerism* and *voluntary action*. The former represents a standing humanitarian tradition that constitutes the foundation of citizen participation. The essence of volunteerism is moral and, as such, it must balance, if not override, the increasing tendency towards material motives. Volunteerism is motivated by altruism, compassion and willingness to help those in need. For long, this was the only channel available to Egyptian women, particularly members of the elite, to assume leadership in public affairs before specialized professional education for female started later in the twentieth century. However, volunteerism in social development has shifted its thrust from philanthropy towards new modern concepts such as advocacy, empowerment and participation in decision-making and the design of programmes. Volunteerism has recently attracted more professionals, men and women, who have perceived the value of initiating organized activities outside the purview of government. This process is gaining momentum.

Voluntary action on the other hand, represents a collective movement of participants towards a general commitment to meet present and future development challenges facing them. The participants are drawn from a community larger than the NGO sector by way of the mobilization of citizens to exert pressure on government. This mobilization may represent a threat to vested interests in political institutions and even to government, particularly those who may not be ready for being accountable to NGOs and sharing power with them outside conventional channels. This is one of the greatest challenges facing Egyptian NGOs. In my view, the state has not been comfortable with emerging powerful civil-society movements, and has, therefore, systematically sought to curtail their potential power, through legislation.

Although *volunteerism* seems to be gaining ground on the conceptual level, in practice it is receding for various social and economic reasons, including for example, the increasing bureaucratic obstacles placed in the way of volunteers in Egypt. However, in the face of the increasing materialistic values of globalization in Egypt as elsewhere, NGOs have to maintain the altruistic values of volunteerism in development, i.e. the spirit of giving without expectation of return, as opposed to the monetary reward in the current market economy where everything, even personal views and ideas, has to be paid for. National welfare based on volunteerism is and will remain a major challenge facing NGOs in the foreseeable future.

Conclusion

My discussion on the role of Egyptian NGOs, in principle and in practice, suggests that despite making good progress over the past century, they still have a long way to go in order to realize their full potential. The government of Egypt seems to have an ambivalent attitude towards NGOs. On the one hand, it needs them badly to participate as partners in the struggle against the pressing national development problems of poverty, illiteracy, unemployment, high population growth, environmental pollution and so forth. On the other hand, the government fears their power for such ambiguous reasons as security and sovereignty considerations. Fear and suspicion exist particularly if NGOs have free access to and are favoured by United Nations agencies, foreign assistance and donors' funding. Hence, one may say that Egyptian NGOs – in their developmental efforts – are still hampered by:

- 1 Residual restrictions inherited from the past, particularly the 1964 Law, which have filtered into the rules of the Law No. 153 of 1999 replaced by Law No. 84 of 2002; and
- 2 A conservative and influential bureaucracy with regard to the implementation of existing legal and regulatory frameworks governing the rules of NGOs activities as non-profit-making institutions.

Accordingly, existing laws will have to be revised and institutional constraints removed to bring about relationships of mutual responsibilities and account-

ability as well as complementary roles between NGOs and government. State institutions will have the most difficult task in this adjustment process, away from autocratic, centralized authority to a liberal decentralized caring system of government accountable to the people and their own NGOs. This shift is consistent with the government's present policy of undergoing the post-1991 development strategy for a market-oriented economy, based on its diminishing interventionist role, and a reciprocal dominant role of the private sector.¹⁰ In the face of these radical economic changes and to reinforce government efforts to sustain social gains, NGOs as intermediaries in development should be enabled to meet five challenges: cohesion, legal framework, management, partnership and expectations.

Cohesion: To maintain their cohesion and good image, Egyptian NGOs must learn to address the social fragmentation problems imposed upon them by the many segmentations that mark the fabric of Egyptian society. I refer here to the wide differences that exist among the various segments of the population. These segmentations include traditional differences in *perceptions* between rural and urban people; existing *gaps* between rich and poor as well as between the educated elite of western orientation and the massive illiterate segment of the poor people, perceptions of secular and religious groups, and the widening cultural gap between the *vision* of youth and adults. All of these gaps tend to be differently reflected in NGOs' identity and their vision of future development paths. Moreover, the social changes generated by the enforcement, in the 1960s, of socialist policy measures, followed a decade later by an open-door policy, and in the 1990s a by market-oriented policy, seem to have created new kinds of conflicts between social classes.

Nevertheless, the task ahead is not gloomy. It has been facilitated by a few steps taken to bridge these gaps since the 1994 International Population Conference held in Cairo (ICPD). At that conference, the question of cohesion was brought into focus in the attempt to bring about awareness and consensus regarding population issues in relation to development challenges. At that time, Egyptian NGOs with different social orientations held irreconcilable views with regard to the difficult questions of family planning and sex education. On the one hand, there were the traditional and religious views on women's role in society which stood in sharp contrast with the standards set by international instruments, as for example the 1979 UN Convention on the Elimination of all Forms of Discrimination against Women. Some Egyptian NGOs had to clarify confusions surrounding this convention, explaining that it was not a foreign social instrument and that Egypt had not only subscribed to it, but the government has already incorporated its principles in its own laws. Through a systematic debate a reconciliation was established between the adversaries. Another manifestation of a possible realization of social cohesion was the campaign initiated by the Egyptian NGOs in the early 1960s to promote family planning, and their campaign to eliminate the brutal practice of female circumcision (FGM) which we have noted earlier. All these initiatives were taken in the 1960s and 1970s by some NGOs – and by mentioning them, I have intended to offer an

optimistic view, and encourage both government's development practitioners and NGOs to proceed with confidence.

Legal framework: In order to empower NGOs, laws must be updated and unified. One such law was Law No. 32 of 1964, which governed and restrained a large number of NGOs who have campaigned against it for three decades until it was recently replaced first by Law No. 153 of 1999 and later by Law No. 84 of 2002. Both laws have failed to meet the expectations of NGOs, whose proposed elements have partially emerged in the final formulation of the 2002 law. However, one particular provision that NGOs have pressed for inclusion is the freedom of association, which is a primordial right in a democratic society. It is included in the ILO Convention of 1949 ratified by Egypt in 1957, but was omitted in the last version of the 1999 Law substituted by the Law of 2002. Another unsettled issue concerns the administrative rules regarding funding and dissolution, which are still considered objectionable to most NGOs and are unduly punitive of volunteer efforts at grass-roots level not by court ruling but instead by an administrative decision. Whereas some NGOs which are active in pursuing human rights and women's rights use the confrontational western approach, I prefer, instead, peaceful negotiation and a democratic debate to improve the legal framework, and I look forward to the day when laws are promulgated in a manner that reflects the will of the people, served by their own NGOs.

Management: This is a major challenge in a world of shifting development problems. To update the management ability of NGOs, information technology is essential for their work in the twenty-first century. NGOs must also try to reconcile the discipline and efficiency required by modern management with the sense of freedom and social values associated with volunteerism. In order to avoid being overpowered by high technology and commercialism, NGOs should be able to maintain the spirit and value of non-profit making, pioneering and creativity within the framework of efficient administration. To this end, NGOs should perhaps be able to develop new methods for the recruitment and involvement of volunteers, particularly young people. Management standards need to be developed to include transparency, accountability and modern methods of communication. They must demonstrate accountability to the trustees, donors, groups provided by services and to government. NGOs could also learn a great deal from the private profit-making sector with regard to the form of technology transfer, skills in management, market economics, while upholding their social values and upgrading the level of investment in people. On the other hand, NGOs should attempt to transfer the values of volunteerism and altruism to the profit-making private sector. Management should also be aware of the unpredictable sources of funding and the donors' shifting priorities. Hence management challenges revolve around fund raising without compromising NGOs' principles. In their fund-raising efforts NGOs' should not seek funds at any cost, but keep in mind that their mission and altruistic objective come first.

Partnership: Partnership between government and NGOs has been increasingly acclaimed in public statements by official authorities in Egypt. However,

the true meaning of partnership has yet to be practised, owing to the traditional notion of the supremacy of government authority over NGOs and the mistrust in their legitimacy in undertaking development functions. Partnership works best when the roles are complementary and well defined, a fact which is made more realistic when NGOs are able to be independent of government's financial support and political motives. Even then, they may still run the risk of being saddled with tasks which should normally be the responsibility of the government. I wish to add that the government should avoid co-opting NGOs as subservient to its policies. Rather, it should know that what makes NGOs unleash their potentials for the common good is their unquestioned sense of independence. From my nearly sixty years' experience in the NGOs movement, I say that they have the comparative advantage of working best with people at the community level and – with proper training – they could do more as indispensable partners in the design and implementation of development projects. Partnership with the government should be a two-way process marked by mutual respect, trust and good will.

Expectations: This is my last identified challenge facing NGOs in the twenty-first century. In the past, they have been able to meet some of the people's expectations because civil society is supposed to ensure the human face of development at a time when development is ruled by high technology, material motives and attitudes of commercialism. NGOs are also expected to play the role of a neutral intermediary, and maintain the balance of power between government, the profit-making private sector and grassroots. In the last analysis, non-governmental development organizations act as the conscience of society, in their capacity as representatives of people's interests dealing with development issues of public domain.

Governments are recognizing – now than ever – this important role of NGOs in development and are seeking their assistance in the attempt to remedy the negative consequences of recently implemented structural adjustment and trade liberalization policies. consequences such as unemployment, increasing poverty among certain groups and other social problems. However, and as I warned earlier, NGOs as development agencies should be wary of being used by government as scapegoats in the name of participation or partnership. A *bona fide* complementary role is what they should look for in their genuine collaboration with government in social development in general and poverty reduction in particular.

Notes

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1 In civil society, social scientists identify the first sector to be government, the second to be private business, and the non-profit NGOs being the third sector. Yet, there are different views on the various meanings and practical use of the concept of civil society and the role of NGOs that are engaged in the fields of poverty, environmental degradation and capabilities development of women and youth. See for example Edwards and Fowler (2002) especially chapter 1.

- 2 See Mahassen Mustafa (1996).
- 3 In the present constitution of Egypt, this right is provided in article 55.
- 4 Source: CAPMAS, *Statistical Yearbook*, June 2001: Tables 6.2 and 6.3.
- 5 These issues of legitimacy of NGOs and the obligations of the state and its citizens individually or through their own organizations constitute the heart of sociology and political science. See for example, the work of Max Weber, *Essays in Sociology* (1948) and several works on political theory, as for example John Dunn (1979).
- 6 The consultative status for NGOs is based on Article 71 of the UN Charter and the ECOSOC resolution adopted in 1996. The resolution enables qualified organizations to make contributions to the United Nations' work programme and goals, and to serve as advisers to governments and to the secretariat of the UN.
- 7 The same is true for international concerns with regard to women in development. NGOs influenced the UN to designate 1975 as International Women's Year and the UN General Assembly to convene the First International Women's Conference in Mexico City in 1975 followed by the Conference in Copenhagen (1980), Nairobi (1985) and Beijing (1995).
- 8 Mega Projects refer to development projects in process of implementation, outside the Nile Valley, Toshka, Owainat, al-Salam Canal in Sinai, and the Gulf of Suez, designed to generate employment and substantial economic yields, as well as major demographic and social changes for alleviating population pressure on the limited land area of the Nile Valley. On these planned schemes see Chapters 4 and 6 of this volume and the map of Egypt.
- 9 This information is based on an interview with Medhat Ayad, the head of the CEOSS regional office of Minya governorate where partnership work has progressed in seven villages.
- 10 In this process of transition to a market economy, a distinction can be made between 'civil society' in general and those NGOs working in the public domain of development (NGDOs). On this distinction, see Edwards and Fowler (2002: 3–5 and 20–2).

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10 Conclusion

Raymond Hinnebusch

Egypt's experimentation with different developmental strategies makes it a sort of laboratory for gauging the efficacy of policy options. Just as the developmental state was the dominant model in the 1960s and 1970s, so the neo-liberal state is now in fashion.¹ But none of the strategies Egypt has pursued has yet been shown to be so clearly superior to others in advancing it along the road to equitable development that debate over appropriate policies has been quieted or differences resolved. Given this, prescriptions for reform must depart from some interpretation of the record that has so far accumulated.

Interpreting Egypt's development record

Despite zigzags in policy, several constants and themes have defined a particular Egyptian development experience. Egypt, historically a 'hydraulic society,'² has enjoyed one fairly constant economic success, namely agriculture, the development of which in an arid land depended on state intervention. Putting aside the role of the Pharaonic state, modernization has meant hydraulic projects and commercial agriculture for export, beginning with Mohammad Ali (1805–48), continuing under Cromer (First Aswan Dam of 1902), and climaxing in the massive investments in irrigation and reclamation under Nasser; the resulting expansion in irrigated land, later combined with intensification via the application of subsidized inputs through state co-operatives, made Egyptian agriculture quite efficient by LDC standards.

However, rapid population growth in an extremely densely populated country is another Egyptian constant. Agricultural development has, except for short periods, not kept pace with this growth. This, together with falling world prices for primary products, drove down per capita income almost 50 per cent in the first half of the twentieth century, providing the underlying conditions for the 1952 revolution (Berque 1972: 620). As the possibilities of further agricultural expansion encountered falling marginal returns in an arid land, the revolutionary regime saw no alternative to the diversification of Egypt's monoculture primary product export economy, widely thought at the time to keep LDCs under-developed. Nasser's state-led import-substitute industrialization (ISI)³ endowed the country with a significant industrial

infrastructure. But the use of the public sector for political purposes – to absorb excess employment, provide low cost commodities, and as a tax milk-cow for the government budget – could not be reconciled with capital accumulation; beginning with the 1967 war and continuing under Sadat, industrialization stalled (although for a period the exploitation of oil fields filled the gap).

As Waterbury (1983) argued twenty years ago, poverty constrained the ability to extract a surplus from society without imposing the harsh primitive capital accumulation which would risk social conflict and political stability. This reality led the Nasser regime and its successors to largely eschew both the socialist and laissez-faire capitalist roads under which forced savings would be extracted from Egyptian labour. Rather, the state has, since the revolution, rested on a social contract in which political acquiescence is contingent on the government ensuring the basics of life, including guaranteed employment and subsidized food. Nasser's populist model of development turned a country that had once been highly unequal into one where inequality was relatively low by LDC standards. It was also reflected in a greater improvement in life expectancy than in most other developing countries. At the same time, however, in the post-Nasser period, the upper and middle classes were allowed to go on a consumption boom. The cost of the Egyptian 'model' has been a high propensity to consume, low national savings rates, chronic balance of payments and trade deficits, reliance on external financing, hence debt, and high vulnerability to shifts in the international environment.

As this volume's contributors point out, attempts to design a strategy that could redress the seeming exhaustion of import-substitute industrialization at the end of the Nasser era have gone through two major phases: the *infatih* era (1974–1990) and the post-structural adjustment (ERSAP) period of the 1990s. Elsewhere, Rodney Wilson (1993) argues that Sadat's *infatih* never aimed, despite its name, to fully liberalize the economy since foreign competition would have ruined both public and private industry, and that its real aim, in which it succeeded, was to overcome state financial constraints by fostering an influx of aid and workers' remittances. This influx of new resources lifted Egypt out of the stagnation of the post-1967 war years while labour shortages caused by labour migration actually increased the bargaining power of wage earners. Domestic manufacturing industry, still protected, benefited from its new access to imported parts and intermediate goods. *Infatih* did not, however, stimulate a takeoff in private investment, which from 1974 to 1993 was a mere \$2.3 billion, while the public sector and emigration created 90 per cent of new jobs between 1986 and 1996 (Cassandra 1995: 11–12). The foreign banks attracted by Egypt's liberalization mainly financed imports, not new industries, and exported Egyptian savings. Industrial and agricultural investment declined in favour of services while government control of agriculture was used to force crop deliveries at fixed lower-than-market prices, over-taxing and depressing agriculture; the one sector which was clearly efficient.

In both the Sadat period and the early Mubarak presidency, the regime remained caught between the demands of Nasser's constituency to preserve

certain populist rights and that of the bourgeoisie and international institutions for greater economic liberalization. In this half-way house, investors did not yet feel the state could be wholly bent to their requirements but the continued influx of oil-related earnings, including remittances and aid, made this compromise viable – until the collapse of oil prices.

The post-1991 phase, beginning with the World Bank- and IMF-enforced structural adjustment programme (ERSAP), has initiated an attempt to jettison the residues of Nasserism and create a private sector-dominated market economy pursuing an industrial export-driven strategy that would supposedly allow Egypt to join the ranks of the nearly industrialized countries (NICs). Nearly half of public sector companies were sold off by 2001 and the private share of investment increased to about two-thirds of Egypt's total.

By 2000 the record is, as the contributors to this volume document, quite mixed. Macro-economic stability was achieved and budget deficits and inflation brought under control. Privatized firms are said to enjoy increased profits and higher than average salaries. But privatization is a big risk. It makes the economy much more dependent on private investors and vulnerable to the extreme capital mobility typical of globalization and notoriously high in the Middle East. Additionally, it forces the state to bid down labour and environmental standards, taxation, etc., in what has been called a 'race to the bottom' induced by the ability of mobile capital to make LDCs compete to get and keep investment. To be sure, recently Egypt has become a beneficiary of capital inflows of nearly \$1 billion/year, with FDI accumulated totals in the 1990s reaching \$16.7 billion in 1998; the \$1,065 billion in FDI that Egypt realized in 1999 was the largest in the Muslim Middle East, exceeding even that of Turkey (Wilson 2002: 195). But, if the Latin American experience is any indicator, at a certain point, the export of profits will start to exceed the influx of new investment (dos Santos 1970).

Privatization was supposed to be accompanied by an export-led growth strategy but this failed to materialize, as El-Ghonemy documents in Chapter 4. Moreover, the new private industries are mainly assembly enterprises with low domestic content while the shift of household consumption away from locally produced commodities toward imports of western multinational corporations (MNCs) narrows the domestic market. Local investors, instead of investing in industry, are buying up government bonds, as the public debt becomes a mechanism to transfer wealth from the broad mass of taxpayers (mostly in the public sector) to rich investors. The liberalization of agricultural marketing has led to increased output of most crops but cotton production has fallen as the elimination of input subsidies squeezes farmers between rising costs and falling prices. Moreover, the elimination of subsidized credit, the government-sponsored spread of mechanization, the collapse of the agricultural co-operatives and the abolition of tenant security are likely to lead to decreased investment by smaller landholders, increased land concentration and landlessness. Arguably, a mere increase in producer prices would have secured the expansion in production at much less social cost. Overall, however, economic growth rates were respectable in the 1990s

(around 5 per cent/year) although per capita income growth only averaged 2.4 per cent (World Bank 2001: 44). Much of the proceeds of growth, however, accrued to the new capitalist class while poverty and inequality increased in both urban and rural sectors.

What must Egypt do?

The East Asian tigers provide the model of success which other LDCs are enjoined to emulate. These economies shared several characteristics, not all of which can readily be replicated by other countries, including Egypt, as the following will argue.

First, far from withdrawing from the market, the East Asian miracle was driven by strong interventionist states. But, by contrast to Egypt, they enjoyed efficient modernizing bureaucracies, with close ties to national-oriented bourgeoisies prepared to invest at home. Egypt could reform its bureaucracy by increasing official salaries and shedding excess manpower, as Radwan (Chapter 5) suggests. Less easy to overcome is the legacy of mistrust between the Egyptian bourgeoisie and the state. Most difficult to address is the preference of a bourgeoisie, lacking the uniquely 'national' characteristics of East Asian capital, for lower-risk investments abroad, reflected in a history of capital export which liberalization has only facilitated.

For the neo-liberal ideologues who dominate international economic institutions such as the World Bank and the IMF, the remedy when economic liberalization fails to stimulate productive investment is more liberalization: laws are said to be insufficiently investor-friendly, or arbitrary; and the excessive interventionism of the state is said to foster the 'wrong' kind of crony and rentier capitalists. This remedy ignores the history of capitalism, the universal tendency of the free market to end in oligopoly (with 'above' free market prices) and the prevalence of rent-seeking capitalism in early and late industrializers alike. It also ignores how far the interventionist authoritarian-bureaucratic state has been quite compatible with the entry of multinational firms in Latin America and with economic takeoff in East Asia. Still, the investors most put off by Egypt's over-regulating/or arbitrary state are the most likely analogues of East Asia's 'national capitalists', the small home-grown entrepreneurs who do not enjoy the patronage of powerful western states in dealing with the bureaucracy. Egypt could and apparently is attempting to cut the bureaucratic obstacles of which investors complain but confidence depends on deeper reform, above all strengthening of the rule of law. However, the East Asian experience gives no support to claims that Egypt's state should abdicate the management of the economy's integration into the world market.

Second, East Asian industrialization benefited from an enviable combination of protected home markets and free access to US markets – a special function of the Cold War. Egypt cannot hope, under the current world trade regime, to either similarly protect its home market or get comparable access to western markets. To be sure, the protection that the government still

provides for domestic industries, though reduced under external pressure in the 1990s from an average 42.1 per cent in 1991 to 26.8 per cent in 1999 (Wilson 2002: 205), indicates that Egypt still has some control of its domestic market. In addition, Egypt has taken advantage of several modest openings to western markets such as the Euro-Med scheme and the trade agreement with the US. But the world market has become far more crowded and competitive than it was for the original East Asian tigers. Because an exclusively industrial-export strategy is probably not possible for Egypt, it would be extremely risky for it to wholly abandon ISI or give up attempts at protection of the domestic market for ISI industries.

Third, the highly literate and skilled East Asian workforces were the products of age-old literate cultures and massive investment in human capital. Almost a century of educational neglect under the British rule put Egyptian literacy way behind East Asian levels and in the post-Nasser era investment in human capital has been neglected. Several of this book's contributors make the important point that in a market economy, investment in the human capital needed to make the masses employable, especially if combined with the labour-intensive industrialization providing the demand for such labour, is the single most efficacious way of raising and equalizing incomes. It might only take a change in government priorities to address educational neglect and provide incentives for job-creating forms of investment.

Fourth, East Asian growth was facilitated by a relatively egalitarian agrarian structure, in some cases the result of land reform (Kuo *et al.* 1981). Riad El-Ghony (1993) has elsewhere shown that in those Middle East countries where redistributive land reform took place, such as Algeria, Egypt and Tunisia, rural areas enjoyed better distribution of land and income, roads and drinking water, while those where it did not take place (Morocco, Sudan) were at the bottom of the human development index. However, Egypt is now jeopardizing this advantage through the reversal of laws giving tenants security and by its neglect of the disintegrating agricultural co-operatives – both essential instruments for reinforcing the role of small and medium farmers. It is widely recognized that such farmers are more productive than large ones and, in a labour-surplus economy, investment in them is just the sort of labour-intensive strategy Egypt *should* be following.

In summary, Egypt is unlikely to be able to use the world market to achieve NIC status as did the East Asian tigers without a comparable developmental state – both interventionist and rationalized in the Weberian sense.⁴ This, in turn, makes it all the more important that state institutions be reformed in ways that enable them to promote both effective and equitable development.

Institutional reform

According to the current consensus among liberal critics, what Egypt must do if it is to maximize the benefits and minimize the costs of its integration into the world capitalist market is to match economic reforms with political ones: not just the completion of privatization and further de-regulation but

particularly, rule of law, transparency and accountability are thought to be essential to investor confidence.

In fact, what the Egyptian regime has tried to do is pursue a lop-sided process of political liberalization which has opened access to influence over policy for the 'haves' – the potential investors – who can benefit from or adapt to liberal reforms, while marginalizing the 'have-nots' who pay the price of such reforms. This type of political liberalization amounts to a certain power-sharing between the state elite and the business bourgeoisie (which increasingly overlap) – more oligarchy than democracy. This aimed to allow the regime to minimize resistance to liberal economic policies, while increasing the confidence of investors. But it is questionable whether this approach has fostered equitable development.

Probably the least controversial element of prescriptions for political reform is the demand for rule of law, something that appears to be close to a national consensus across Egypt's political spectrum. A cornerstone of the rule of law is the judiciary. Fortunately, Egypt's judiciary is the one fairly independent professionalized governing institution that has survived Egypt's political vicissitudes. Egypt's post-Nasser empowerment of the judiciary to protect the property rights of investors was a minimum requirement for the revival of the depressed private sector. Reinforcement of the judiciary's independence and the allocation to it of the resources needed to unlog the litigation bottlenecks that still deter investors is the sort of reform which could have potentially large payoffs in both political legitimacy and economic growth.

Otherwise, regime power-sharing with the bourgeoisie remains inadequately institutionalized to give investors confidence. To be sure, the legislature and the system of consultation between government and business associations have become new channels of interest articulation for business. But because the executive still listens at its own discretion and because Parliament, controlled by it through the ruling party, is enervated as an interest-aggregation mechanism, clientele networks favouring those with personal connections to the top are more effective routes of influence than formal political institutions and processes. This system of networks, of course, encourages 'crony capitalism' (Hinnebusch 1993a: 165–7).

Democratization – free electoral contestation, a more autonomous Parliament and broad inclusion of the mass public in political participation – has been stalled. Once the marginalized strata started to be mobilized by Islamic extremists' movements which the regime decided it could not absorb or co-opt, democratization was considered a luxury the regime could not afford. But this failure of inclusion could only be sustained by a steady increase in repression: almost 90 per cent of deaths from civil strife since the 1952 revolution have been concentrated in the 1990s when the government has started to renege on the populist social contract and to reverse political inclusion (Cassandra 1995: 56). Yet without inclusion, the legitimacy and hence stability of the regime will always appear less than secure.

It is undeniable that many investors are likely to welcome the strong hand of a repressive state able to impose economic reform, deal with their labour

forces, and maintain social peace *if* this is combined with a judiciary that enforces property rights. Indeed, it is the case that the paralysis of economic liberalization in Egypt during the 1980s was paralleled by a relative widening of democratization which empowered groups (trade unions, opposition parties) opposed to it, while the 1990s advances in economic reform have been paralleled by democratic reversal (Hinnebusch 1993a: 168). Capitalist development has elsewhere (e.g. Chile) depended on an exclusionary repressive state although at high human cost. The East Asian NICs postponed democratization till growth had created a large middle class with a stake in the system. It is, however, debatable whether the rule of law and predictability can be consolidated without the deeper kind of accountability institutionalized through democratization. Moreover, the regime has sacrificed the legitimacy that economic reforms could be accorded if they emerged from a democratic process.

Nor has Egypt's lop-sided political liberalization necessarily made for more economically rational development policies. It was the dominance of Parliament by the agrarian bourgeoisie and the marginalization and silencing of those who once spoke for workers and peasants in that body that allowed the removal of tenants' rights in the agrarian sector to be pushed through at the expense of thousands of ordinary peasants (Hinnebusch 1993b). Similarly, Richards (1981) shows that government-sponsored agricultural mechanization made little economic sense in a labour surplus society, but it was nevertheless pursued because labour shortages in agriculture resulting from migration initially pushed up real wages 150 per cent to the disadvantage of employers.

It would be a mistake, however, to think that such policy shifts in Egypt are only the result of the shifting balance of domestic social power. Rather, they have always responded just as much to calculations of *external* pressures and opportunities. Nasser's Arab socialism responded to Egypt's ability during the Cold War to get better finance and markets from the Soviet Union for its industrialization effort than that on offer in the West. Sadat's need to appease the US to extract Egypt from its war with Israel dictated the switch in its economic dependence to the West. Egypt's extreme economic dependence on western donors became leverage used in furthering its incremental integration into the global capitalist system ever since. In this respect, the sharp limits dependency puts on Egypt's policy-making autonomy render somewhat academic any discussion of alternatives outside the relatively narrow band of options which are compatible with the sufferance of the core western powers that manipulate the international economic institutions and dispense largesse. Their main interest is to make the world safe for multinationals and finance capital while the ideologues that dominate them are seemingly intent on forcing a 'one size fits all' neo-liberal policy on all LDCs.

For better or worse, though, Egypt has often been able to escape the full application of neo-liberal strictures because of Washington's appreciation of its role in the stabilization of the Middle East to the benefit of Israel. Macroeconomic stability in the 1990s was reached with the help of the massive debt forgiveness granted Egypt for its role in facilitating the western coalition's

intervention in the Gulf War against Iraq. Egypt's experience is that foreign policy autonomy can be 'traded' for greater economic autonomy, but whether this is used to escape needed reform or to shelter Egypt from the misplaced ideological zeal of the Washington consensus mandarins is a matter of debate. If external demands for economic reform are periodically diluted for geopolitical reasons, there is even less serious pressure on the regime from outside for political reform including the democratization which would make the regime accountable to its own public, not just international bankers and western donor governments.

Less unbalanced policy outcomes might, however, result from a policy process that is less lop-sided and more accessible to the victims of current economic 'reforms'. While the ruling elite is wary of the consequences of wholly ignoring the interests of the mass public, its lack of accountability to a mass constituency means there is no countervailing power in the policy process to the demands of the local or expatriate bourgeoisies or of international economic institutions. It is highly unlikely, for example, that measures such as the end to security of agrarian tenancies could have been successfully pushed through a representative parliament.

Countervailing power on these powerful interests would require the inclusion of the mass public through such steps as the independence and empowerment of trade unions and NGOs, reconstruction of the co-operatives on a more autonomous basis, tolerance of peaceful Islamic movements, and free elections. Yet the government shows no signs of conceding such reforms and, indeed, has largely reversed the limited political liberalization of the early period of the Mubarak presidency. As Kienle (2001) has shown: in the 1990s as government control of elections increased, the Parliament became more unrepresentative; when the professional syndicates started to become alternative channels of dissent, controls were asserted over them; the press has been intimidated; and the use of military courts against dissidents has become a standard practice.

Springborg argues in this volume (Chapter 8) that Egyptians accept the legitimacy of the system and there is general agreement on the need to downsize the state sector. Yet legitimacy in the eyes of the masses is widely thought to rest on the tacit social contract on which economic reform requires the government to renege. For the liberal middle class, legitimacy depends on a procedural democracy that is blatantly lacking. While the East Asian NICs all enjoyed nationalist legitimacy, the post-Nasser Egyptian regime has steadily squandered its nationalist stature through its unpopular deference to Washington and Israel.

In this situation, Egyptian state elites apparently believe that only authoritarian controls can protect against the ever-present threat of social discord. They may argue that, as in East Asia, *only* when economic development has given a widening part of the population a stake in the system, can democratization be attempted without intolerable risks to political stability.

In this climate, the best that reformers in Egypt can hope to achieve may be to strike quiet alliances with the more politically liberal of regime elites or

to promote a deepening of civil society through non-confrontational work by NGOs, as advocated by Aziza Hussein in Chapter 9 of this volume. Islamic activists go further in seeking to create an alternative parallel society. The former strategy would be based on the anticipation that, as development gives a greater part of the population a stake in the system, Egypt's state elites (as in East Asia) will cease to view democratization as a threat to regime survival. On the other hand, the latter strategy rests on the expectation that successful institution-building from below can substitute for, and perhaps eventually replace, the structures created from above. The risk is that, in the meantime, the lack of governing institutions capable of delivering a more equitable distribution of reform's burdens and benefits, will bring about a mere 'development of under-development' in which the few are enriched at the expense of the many.

Notes

- 1 The developmental state model is based on the assumption that the state must correct for the weaknesses of the private sector; it must intervene actively to encourage development through planning, by protecting and subsidizing industrialization and by direct investment in strategic industries for which the private sector cannot mobilize sufficient capital. The neo-liberal model is based on the assumption that state intervention, puts politics (e.g. patronage) over economic rationality in decision-making, distorts market efficiency through bureaucratic practices, and promotes rentierism and corruption at the expense of productive investors; hence the state must confine itself to such minimal functions as the enforcement of contracts and the provision of infrastructure.
- 2 The 'hydraulic state' refers to the rise of autocracies based on state investment in and control of irrigation networks on which, in arid lands, the economy and population are dependent.
- 3 Import-substitute industrialization (ISI) refers to an early stage of development when the state tries to diversify a largely agrarian economy by fostering basic commodity industries to substitute for their import from abroad, notably textiles. This may involve state investment and certainly tariff protection of the domestic market from foreign competition; such industries, concentrating on the domestic market, may be unable to compete in export markets.
- 4 Max Weber's concept of the legal-rational state refers to one in which the central bureaucracy is run along 'rational lines', i.e. one in which the power of officials is derived from and carefully limited by their office and a set of legal rules, in which recruitment to office is by merit, and in which the law is applied impersonally and uniformly.

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- Zakat (in Islam) 200