

Annual Report 2009

Private Initiative
for Public Interest

THE EGYPTIAN CENTER FOR ECONOMIC STUDIES



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Contents

THE EGYPTIAN CENTER FOR ECONOMIC STUDIES (ECES)	5
<i>The Center at a Glance</i>	5
<i>Message from the Chairman of the Board of Directors</i>	6
<i>Message from the Executive Director and Director of Research</i>	7
<i>ECES Board of Directors</i>	8
<i>Members of ECES</i>	9
ECES IN RETROSPECT	12
<i>Milestones</i>	12
<i>Notable Contributions</i>	12
2009 IN FOCUS	14
<i>Flagship Activities</i>	15
<i>Focused Projects</i>	16
<i>Distinguished Lectures</i>	18
<i>Periodic Activities</i>	19
ECES STAFF	21
DISTINGUISHED CONTRIBUTORS	23
PARTNER ORGANIZATIONS	28
ECES PUBLICATIONS	29
FINANCIAL STATEMENTS	41



The Center at a Glance

- *ECES is an independent, non-profit research institute founded in 1992 by prominent members of Egypt's private sector.*
- *The mission of the Center is to promote economic development in Egypt by conducting and disseminating applied policy research. The aim is to develop viable policy options for Egypt in light of international experience.*
- *ECES research is conducted by the Center's staff, often in collaboration with local and international experts.*
- *The Center provides open forums for the exchange of views among key stakeholders through conferences, lectures and roundtable discussions.*
- *The Center's activities are carried out in the spirit of public interest.*



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Message from the Chairman of the Board of Directors

The year 2009 witnessed a return to stabilization in the world economy following the sharp volatility that characterized the crisis-ridden 2008. This growing positive sentiment has also been felt in Egypt, with the balance of payments returning to surplus and more firms reporting positive perceptions of economic growth and own activities. To support the recovery effort in Egypt, the Center offered policymakers and other stake-holders well researched options for dealing with the repercussions of the crisis on several sectors. Research questions included the effects of the international financial crisis on the labor market, the impact of current world financial developments on the textile industry, and the future of Egypt's food security in light of successive crises. Taking a proactive approach to crisis management, the Center also invited Professor Ravi Kanbur of Cornell University to explore ways of protecting the poor against the next crisis.

Besides responding to the crisis, the Center implemented its annual rigorous research agenda, which provided relevant and valuable insights into the various challenges facing the Egyptian economy, capitalizing both on cumulative knowledge and international experience. This diligent approach that responds to both timely concerns and long-term development requirements has certainly earned the Center the reputation of being a key player in Egypt's process of economic development. I am certainly proud to be chairman of this remarkable organization. This hard-earned status could not have been possible however without the commitment and hard work of the staff and management of ECES, especially the exceptional skills and dedication of our Executive Director Dr. Hanaa Kheir-El-Din and our Deputy Director Dr. Naglaa El Ehwany.

Taher Helmy

Chairman of the Board of Directors

▼ **Taher Helmy** is a founding partner of Helmy, Hamza and partners, members of Baker & McKenzie International. Dr. Helmy has practiced at Baker & McKenzie's head office in Chicago and other offices outside the US for over thirty three years, handling corporate securities, banking and commercial matters. Dr. Helmy is a founding member of ECES, Egypt's World Economic Forum, the British Businessmen Association, the Future Generation Foundation, the former president of the American Chamber of Commerce in Egypt and is currently the co-chairman of the US-Egypt Business Leaders Forum. ▼



Message from the Executive Director and Director of Research

Economic crises will continue to occur in the future as they have for centuries past. Actually, crises are being viewed now as the 'new normal' as succinctly described by Professor Kanbur in his lecture at ECES. While most recent work has been going in the direction of analyzing the crisis and the factors responsible, ECES has taken the road less travelled, focusing more on the importance of having a system of social protection capable of handling poverty resulting from these shocks. This approach is particularly relevant to developing countries, which are prone to crises, whether natural or man-made.

In addition to responding to unanticipated events, the Center continued to conduct formal research on the essential prerequisites for economic development in Egypt. Uppermost in the mind of the Center was to address the issues that have the most impact on the poor. While the issues covered were diverse, the focus was on rural development and privatization. The first investigated the current state of food security and key requisites to enhance rural development. The second assessed the impact of privatization on privatized companies in terms of financial performance, employment, investment, competitiveness and governance.

Besides research, the Center continued to disseminate research findings widely through the organization of conferences, roundtable discussions and through its varied publications. With these initial comments, I invite you to read our Annual Report to learn more details. But before I leave you with the report, I would like to note that this is my last year as executive director and director of research, a position which I have very much enjoyed. Thank you to all who made this experience so worthwhile and to the ECES staff, who have been a dedicated and professional group of colleagues over the past four and a half years. I would like in particular to thank Naglaa El Ehwany, the outgoing deputy director, for her exceptional role as both a lead economist and deputy director.

Hanaa Kheir-El-Din

Executive Director and Director of Research

▼ **Hanaa Kheir-El-Din** is the current Executive Director and Director of Research at the Egyptian Center for Economic Studies (ECES), as well as a research fellow at the Economic Research Forum. She is a Professor of Economics at Cairo University where she has held successively the positions of Director of the Center of Economic and Financial Research and Studies (1985-1990) and Chairperson of the Economics Department (Faculty of Economics and Political Science) (1990-1996). She received a Ph.D. in Economics from the Massachusetts Institute of Technology. ▼

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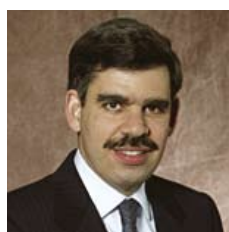


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ECES IN RETROSPECT

MILESTONES

Establishment. ECES was established in 1992 under Law 32 of 1964 as a non-profit, non-governmental organization. It was founded with the objective of promoting economic development in Egypt by conducting and disseminating applied policy research in light of international experience. The Center's founders believed that the creation of an independent think tank was in the best interest of Egypt, especially that the economy was undergoing a process of transformation that continues today. Financially, ECES received support per an endowment agreement between the Egyptian government and the United States Agency for International Development (USAID). Support was also provided by the ECES members themselves as well as such organizations as the World Bank and the United Nations Development Programme (UNDP).

Take off. After a gestation period, during which the Center's physical infrastructure was put in place and key staff appointed, ECES initiated a number of research activities. However, it was in 1996 that the founders' vision was translated into a systematic work program with diverse activities, including regular forums for discussion and dissemination of research, and a series of publications. Since then, the strategy of the Center has been based on two main pillars: knowledge generation and knowledge dissemination. Knowledge generation is decidedly in favor of applied policy research, and knowledge dissemination is guided by the strong desire to reach out to as many stakeholders as possible, whether through open forums, publications, and/or the ECES website (www.eces.org.eg).

Sustainability. Slowly but surely, the Center has acquired a reputation for producing relevant, quality research and for offering objective advice on the economic challenges facing Egypt. This reputation helped the Center acquire an endowment of LE 50 million, which will ensure the independence and sustainability of ECES for years to come.

FOUNDING MEMBERS OF ECES

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National Democratic Party

Assaad Saman
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NOTABLE CONTRIBUTIONS

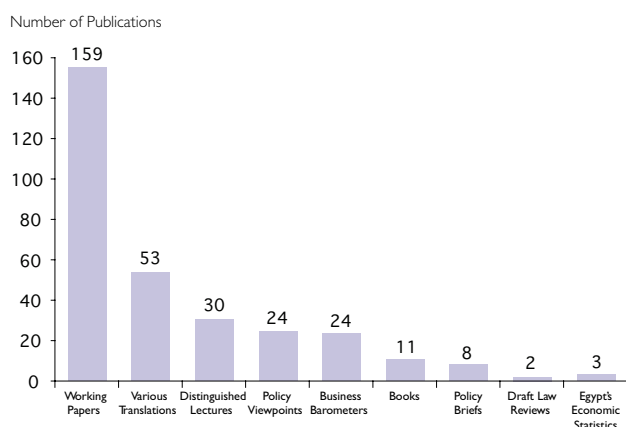
It would be difficult to recount the research and dissemination activities that ECES undertook over the past decade or so. Readers interested in the full range of initiatives are invited to consult the Center's website (www.eces.org.eg).

SUMMARY

In terms of sheer numbers, by the end of May 2010, ECES published as many as 159 working papers, 11 books, 30 distinguished lectures, 24 policy viewpoints, 24 editions of the business barometer, 8 policy briefs, 2 draft law reviews, 3 editions of Egypt's economic statistics as well as 53 various translations. The average is 23 publications per year (see Figure 1).

While most publications were written in English, some were written in Arabic and others were translated to ensure wide readership. For the same reason, the writing style of most of these publications is essentially non-technical.

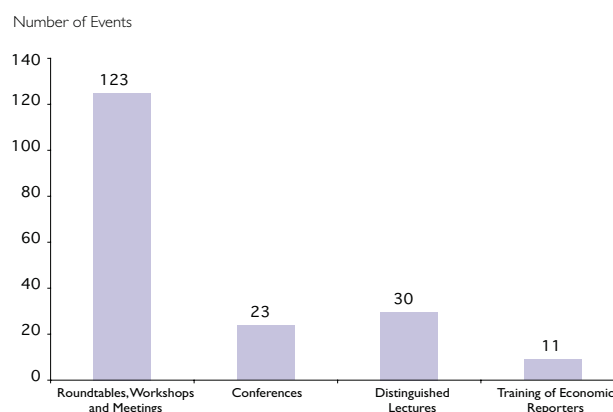
Figure 1. ECES Publications by Type, 1996-2010



Besides publications, during the same period the Center organized 186 forums for the exchange of views among different stakeholders, averaging at least one event per month. The number of conference participants typically exceeded 200, while each roundtable discussion included around 70 participants. In both instances, the speakers and participants were carefully selected to ensure diversity of views and representation. Policymakers, academia, private sector leaders, non-Egyptians, and members of civil society were invited, without prejudice to political affiliation.

To ensure wider dissemination, ECES paid special attention to the media and the development of a well-functioning website. With respect to the media, the Center established

Figure 2. ECES Events by Type, 1996-2010



a tradition of holding a three-day annual workshop for economic reporters. This workshop provides a forum for economic reporters to discuss topical issues and share best practices in effective economic reporting. As for the website, every effort was made to ensure it is user-friendly and continuously updated to convey information about the Center's recent and upcoming events. Also, in keeping with the spirit of public interest, visitors have been allowed to download ECES publications free of charge.

ECES Publications

The Working Paper Series aims to present research findings in a timely fashion and to elicit constructive feedback.

The Distinguished Lecture Series features lectures given at ECES by renowned international scholars or practitioners.

The Policy Viewpoint Series reflects the official stance of ECES on key economic and policy issues. It is written in a concise and non-technical manner.

The Business Barometer is a biannual assessment of the state of economic activity in Egypt based on a sample survey of large firms.

Books are edited volumes of multiple related research papers.

The Draft Law Review Series aims to support economic reform efforts in Egypt by providing timely input on proposed legislation in light of international experience.

Egypt's Economic Statistics intended mainly for investors and the business community, this annual series provides summary data and information on the various aspects of the Egyptian economy.



The Egyptian Center for Economic Studies was selected in 2007 as one of the leading think tanks in the region in the report entitled «Global Go-To Think Tanks».

This report was issued by the Think Tanks and Civil Societies Program, which is part of the US Foreign Policy Research Institute. This project grew out of never-ending requests from journalists, scholars and government officials who wanted a list of the leading think tanks in a particular country or region of the world. «Global Go-To Think Tanks» is the culmination of 18 months of polling and surveying to create the first global ranking of think tanks. For more about this report, follow the link: www.homepage.villanova.edu/james.mcgann.

2009-2010 in Focus

During the period January 2009–May 2010, ECES completed two flagship activities (*Food Security, Agriculture and Rural Development in Egypt*; and *Privatization in Egypt: Short-Term Challenges and Long-Term Opportunities*) and five focused projects (*Reviving the Waqf (Endowment) System in Egypt*; *Implications of the Global Economic Crisis for the Textiles and Ready-made Garments Sector in Egypt*; *Improving the System of City Management*; *Employment in Egypt: The Impact of the Global Crisis on Employment in Light of Labor Market Distortions*; and *Proposals for Promoting Exports in Egypt*). The Center also organized two distinguished lectures to discuss development in the Arab world and ways of protecting the poor against crises. In addition, the Center continued its periodic activities including the biannual Business Barometer, the annual effective economic reporting workshop and Egypt's Economic Statistics.

The Center also continued developing strong cooperative relationships with prominent economic centers and institutions, both locally and internationally. It contributed to the Ministry of State for Economic Development's Economic Observatory by producing a monthly business barometer; collaborated with the ILO in assessing the effects of the global financial crisis on the textile sector; with FEMISE in assessing the impact of the global food price shock on the poor in Egypt; and with the Board of Trustees of the General Authority for Investment in preparing a report on the investment climate in Egypt. The Center also hosted the launching of two World Bank reports: *The 2009 World Development Report: Reshaping Economic Geography*; and *Infrastructure and Economic Growth in Egypt*. It also organized two workshops to discuss the World Economic Forum's Global Competitiveness Report 2008-2009 and the African Economic Outlook 2009.

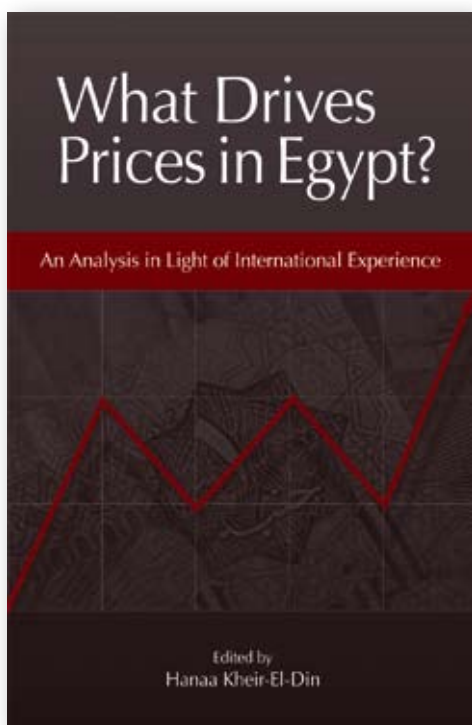


Indermit Gill (the World Bank) presents the results of the World Development Report.



Norman Loayza (the World Bank): Egypt has experienced remarkable progress in the provision of infrastructure in all areas.

On the publications side, the Center continued its various series (see the publications section of this report), with the highlight of 2009 being the publishing of the ECES volume entitled "What Drives Prices in Egypt?" in collaboration with the AUC Press. This volume provides a comprehensive analysis of the factors driving prices in Egypt that attempts to find a satisfactory balance between prices and economic growth. While Egypt is the focus of the analysis, the papers also draw upon international experience, making the findings applicable to other middle-income economies.



What Drives Prices in Egypt? Edited by Hanaa Kheir-El-Din

Flagship Activities

During the period January 2009-May 2010, the Center carried out two large-scale research activities entitled “Food Security, Agriculture and Rural Development in Egypt” and “Privatization in Egypt: Short-Term Challenges and Long-Term Opportunities.”

Food Security, Agriculture and Rural Development in Egypt

Over the past half century, agriculture has been largely neglected in Egypt. Unlike in developed countries, it has been heavily taxed through interventions in the form of price fixing and imposing compulsory delivery of main agricultural crops. Population growth resulted in overcrowding in the Nile Valley and in the expansion of urbanization at the expense of old agricultural land. Self-sufficiency ratios of major food products, such as cereals and edible oil, declined. Egypt became a major grain importer.

The steady surge in food prices observed since 2006-2007 followed by their sharp decline by the end of 2008, have had social consequences worldwide. The impact has been particularly strong on the poor. The impact of a food price shock on different economies and different groups of the

population differs depending on domestic food production and export/import structure, the relative importance of food consumption baskets, the degree of trade liberalization in agricultural/food products and domestic policies affecting food markets (e.g., direct subsidies, price controls and export bans).



Left to right: Saad Nassar (Ministry of Agriculture and Land Reclamation), Taher Helmy (ECES) and Hanaa Kheir-El-Din (ECES).

In light of the above, this research activity investigated the state of food security in Egypt and assessed the impact of the global food price shock on Egypt as a net food importer in comparison to food exporters such as Ukraine. Policy responses to improve Egypt's food security were proposed, including enhancing the economic efficiency of crop production, strengthening competitiveness of Egyptian vegetables and fruit exports and modernizing the irrigation system. Policies to promote farm and non-farm linkages and regionally integrating rural areas in the national development effort were discussed as key requisites to enhancing Egypt's agricultural and rural development.



Left to right: Naglaa El Ehwany (ECES), Ali Shaker (Principal Bank for Development and Agricultural Credit), Abdel Azim Mustafa (Fayoum University) and

Tarek Tawfik (Chamber of Food Industries).



Left to right: Omneia Helmy (ECES), Salwa Bayoumi (Cairo University) and Sherif El-Beltagy (Agriculture Export Council).

Privatization in Egypt: Short-Term Challenges and Long-Term Opportunities

With the adoption of the Economic Reform and Structural Adjustment Program in Egypt in 1991, a wave of privatization of companies in several sectors followed. Since then, privatization has given rise to a growing debate on the positive and negative implications of this policy. Merits of privatization include promoting competition, increasing productivity and efficiency, increasing capital and investments in the privatized companies, hence increasing economic activity, exports and employment. In addition, privatization has been expected to boost investor confidence, promote FDI, deepen and broaden domestic equity market and reduce the fiscal deficit. Notwithstanding these expected merits, the gains from privatization are not perceived by various stakeholders to be equitably distributed. There are mounting concerns about income and wealth being transferred from workers and consumers to capitalists. There are also concerns about monopolistic behavior, as well as irrational allocation of resources and mismanagement when companies are sold to employees' associations.

This research activity aimed at assessing the impact of privatization on companies from a wider perspective. The assessment was conducted in terms of the financial performance of privatized firms, as well as employment, investment, competitiveness, exports and governance. The assessment included the total population—rather than a sample—of privatized companies (reaching 88 companies). Several expert group meetings were held as part of this project.

Focused Projects

During the period January 2009–May 2010, the Center conducted five focused research projects as elaborated below.

Reviving and Improving the System of Waqfs (Endowments) in Egypt

This study discussed ways of reviving and improving the system of waqfs (endowments) in Egypt, a long-time source of sustainable development in Arab and Muslim communities and a forerunner of what are contemporarily known as civil society organizations. Historical experience also shows that this system once played a vital role in such areas as science, education, health, services and even entertainment. With this in mind, the study sets out to explore ways of bringing the system of waqfs to its past glory in an attempt to once again make it a main pillar of public interest and development. Specifically, the study addresses the following questions: Does the current waqf law, association law or other laws, allow the establishment of charity organizations for public interest? If yes, what are the required procedures and to what extent these organizations are afforded legal and judicial protection during establishment, operation and closure? To answer these questions, the study reviews the legal framework regulating these organizations in Egypt, drawing a comparison with the cases of Turkey and Iran, as well as the laws applied in the UK and the US.



Ibrahim El-Baiyoumy Ghanim (the National Center for Social Research) explores ways of reviving the waqf system in Egypt. Former ECES Chairman Mohamed Taymour appears to the left.

Effects of the Global Crisis on the Egyptian Textiles and Clothing Sector: A Blessing in Disguise?

The textile and clothing (TC) sector has not escaped the slowdown in the Egyptian economy in response to the global economic crisis. But this sector has been in decline since 2001 as a result of a changing global environment. Exports, which have been surviving on account of the politically-motivated qualifying industrial zones (QIZ) and Euro-Mediterranean Partnership agreements, have been hit hard by the crisis. Domestic sales are in decline as a result of liberalization, and non-QIZ exporters—unprotected by the agreement—have been turning to the domestic market in competition with non-exporters. If domestic sales continue to decline at this rate, without being offset by growth in exports, the industry will continue to decline. To deal with this situation, this research assessed the impact of the global economic crisis on the textiles and ready-made garments sector in Egypt and highlighted mitigation policies that can be considered in this respect. The assessment is based on two recent datasets compiled by the Egyptian Cabinet's Information and Decision Support Center reflecting firms' and workers' views regarding the impact of the crisis on the sector. This research project is a joint undertaking between ECES and the ILO.



Amirah El-Haddad (Cairo University) discusses the impact of the global economic crisis on the textile industry in Egypt.

Improving the System of City Management

The rapid increase in population and urbanization in Egypt has created many difficulties related to the provision of infrastructure services, such as water and sanitation, transport and traffic, as well as the environment. This roundtable addressed these challenges, noting that solving these problems requires the private sector to play an effective role in service provision, combined with a strong regulatory role by the state. The roundtable also put forth a vision of the type of institutional reform needed to provide better city management.



Hamed Mubarak puts forth his vision for better city management.

Employment in Egypt: The Impact of the Global Crisis on Employment in Light of Labor Market Distortions

This study attempts to assess the effectiveness of recent measures adopted by the government to counter the impact of the global economic crisis on employment in Egypt. The study begins by giving an overview of labor market conditions and distortions prior to the crisis. It then evaluates the depth and seriousness of the problem in light of the crisis. The study then assesses government measures to activate the national economy, and finally concludes by recommending ways to address the employment problem in Egypt. The findings of the study were produced in the *Policy Viewpoint Series*.

Proposals for Promoting Exports in Egypt

Promoting exports is one of the most important economic policy objectives in Egypt due to its essential role in increasing domestic production and employment, generating much-needed foreign currency and improving the balance of payments. In this context, the study explores reasons behind lackluster export performance in Egypt, citing two sets of obstacles. The first relates to barriers that prevent the utilization of existing capacity, while the second deals with factors that prevent increasing the export capacity. In light of this analysis, the study puts forth two sets of policies that aim at increasing the quality and quantity of exports in Egypt. Before embarking on the study, barriers to exports were discussed with stakeholders in an expert group meeting. The findings of the study were published in the *Policy Viewpoint Series*.

Distinguished Lectures

The Center also hosted two distinguished lectures by Abdulatif Youssef Al-Hamad (Director General and Chairman of the Arab Fund for Economic and Social Development); and Professor Ravi Kanbur (Cornell University). Both lectures were well attended and received wide media coverage.

Development in the Arab World: The Region at a Cross-Roads



His Excellency Abdulatif Al-Hamad discusses his vision for development in the Arab world.

This distinguished lecture discussed the future of development in the Arab world in a rapidly changing world. In particular, it reviewed the Arab experience with development over the past half century and drew some lessons regarding the

role of the regulatory, legal and administrative environment in encouraging innovation and investment. The lecture also discussed the most important challenges the Arab world is likely to face during the coming decades.

Protecting the Poor Against the Next Crisis

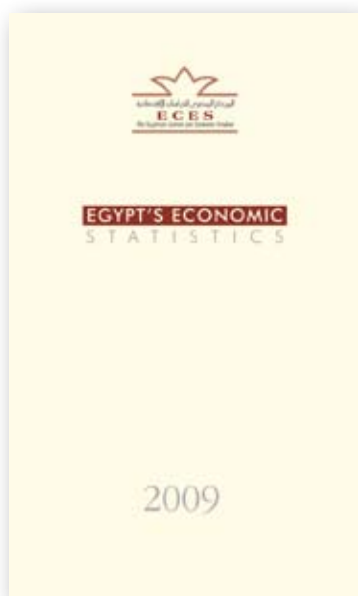
The global financial crisis of 2008 will pass, but for developing countries, periodic crises are likely to be the “new normal.” In this edition of the *Distinguished Lecture Series*, Ravi Kanbur, a leading scholar in the field of public and development economics, is of the view that since crises cannot be predicted, we might as well be prepared for them ex ante in order to cushion their impact on the poor. His main concern is to make protection of the poor in the face of crises part of the normal discourse of development through establishing a general system of social protection, capable ex ante of handling poverty increase coming from a wide range of different sources.



Ravi Kanbur: Crises are the “New Normal” of today’s world.

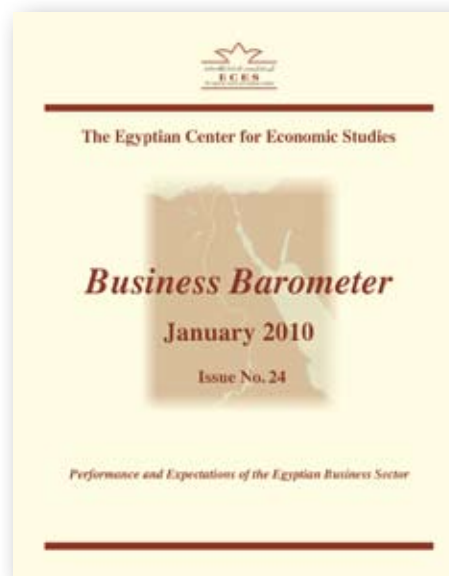
Periodic Activities

In addition, the Center produced the third issue of its publication entitled Egypt's Economic Statistics, and continued its periodic activities (*Business Barometer*, training of economic reporters, the annual survey of the competitiveness of the Egyptian economy and Egypt's note in the African Economic Outlook report). ECES also organized a workshop in collaboration with the Egyptian National Competitiveness Council (ENCC) to discuss the World Economic Forum's Global Competitiveness Report 2008-2009. Another workshop was also held at ECES to discuss the African Economic Outlook 2009.



Business Barometer

In the January 2009 edition, firms' negative outlook regarding overall economic performance and own activities was attributed to the deteriorating international economic outlook in the context of the global financial turbulence. In the July edition, the negative perceptions and business results persisted, with the majority of firms reporting lower production, domestic sales and exports. However, in the January 2010 edition, firms reported improved perceptions about economic growth compared to the previous survey. Firms' positive perceptions were explained by signs of recovery from the global economic crisis, at both the global and national levels.



Effective Economic Reporting

The aim of the training of economic reporters' workshop is to help reporters do their job more effectively and expose them to new ideas. The 2009 workshop covered issues related to global economic developments; the macroeconomic impact of the international crisis on Egypt; policy approaches to face the crisis; and the impact of the crisis on selected sectors such as industry, agriculture and construction. It also addressed the economic literature dealing with forecasting crises as well as media coverage of the crisis.

Global Competitiveness Report 2008-2009: Methodology and Key Results



Left to right: Mona El Baradei (ENCC), Helmy Abul Eish (ENCC), Taher Helmy (ECES) and Hanaa Kheir-El-Din (ECES). Inset: Malak Reda (ECES) discusses the report's results regarding Egypt.

The Global Competitiveness Report 2008-2009 contained a detailed profile of each of the 133 economies featured in the report, providing a comprehensive summary of the overall position in the rankings as well as the most prominent

competitive advantages and disadvantages of each country/ economy based on the analysis used in computing the rankings. A workshop was conducted by ECES and the Egyptian National Competitiveness Council (ENCC) to discuss the report's methodology and executive opinion survey.

Egypt's Note in the African Economic Outlook 2009

The AEO is widely recognized as an authoritative report that provides comprehensive analyses of economic, social and political developments on the African continent. It is produced by the African Development Bank (AfDB), jointly with the OECD and the UN Economic Commission for Africa (ECA). The AEO is a comprehensive report that contains country notes analyzing the recent economic situation and the medium-term prospects for each country. A comparative synthesis of Africa's economic and social prospects that places the evolution of African economies in the world economic context, as well as a statistical

appendix are included in this report. Every year, country notes also focus on a special theme of importance to African economies. The 2009 AEO special theme was innovations in information and communications technologies (ICTs). Since 2007/2008, ECES has been contributing to the report by preparing the Egypt country note.



Jean-Philippe Stijn (OECD) discusses the African Economic Outlook report.

ECES STAFF

HANAA KHEIR-EL-DIN

Executive Director and Director of Research

Hanaa Kheir-El-Din is the current Executive Director and Director of Research, the Egyptian Center for Economic Studies (ECES), as well as a research fellow at the Economic Research Forum. She received a Ph.D. in Economics from the Massachusetts Institute of Technology (USA) in 1967. She is a Professor of Economics at Cairo University where she held successively the positions of Director of the Center of Economic and Financial Research and Studies (1985-1990) and Chairperson of the Economics Department (Faculty of Economics and Political Science) (1990-1996). She is also a member of the Academy for Scientific Research (Economic Council), the Specialized National Councils, and the board of the Egyptian Competition Authority (ECA). She has had several academic and professional activities among which are membership of the Board of Trustees of the Economic Research Forum, membership of the Board of the United Nations University (Tokyo, Japan) (1992-1998), membership of the Board of the Capital Market Authority (Cairo, Egypt) (1996-2004), and membership of the Shura Council (2001-2007). Her research fields of interest cover international trade, macroeconomic modeling, industrial development, project evaluation, poverty, and gender assessment.

NAGLAA EL EHWANY

Deputy Director and Lead Economist

Naglaa El Ehwany is the Deputy Director and Lead Economist at the Egyptian Center for Economic Studies (ECES) and professor of economics at the faculty of Economics and Political Science (Cairo University). She previously held the position of Director of the Center for European Studies at the Faculty of Economics and Political Science of Cairo University during the period 2002-2006. Professor El Ehwany has been a consultant with several international organizations, including the International Labour Organization, the Economic and Social Commission for Western Asia (ESCWA), and the American Chamber of Commerce (Amcham).

Dr. El Ehwany has published several research papers on topics such as employment, poverty, labor market, labor productivity, and economic reform in Egypt. She earned her Ph.D. in economics from the Faculty of Economics and Political Science, Cairo University.

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Lead Economist

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P.O.Box: 110/12655
Tel.: (202) 33032229 / 33030701
Fax : (202) 33032228

FINANCIAL STATEMENTS

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE EGYPTIAN CENTER FOR ECONOMIC STUDIES (ECES)

We have audited the accompanying financial statements of the Egyptian Center for Economic Studies (ECES), an independent not for profit organization which comprise the balance sheet as of 31 December 2009, and the statements of revenues and expenses, and receipts and disbursements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Center's Management as Management is responsible for the preparation and fair presentation of the financial statements in accordance with Egyptian Accounting Standards and in light of relevant Egyptian laws and regulations. The Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of relevant Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As described in Note 2a, the statement of receipts and disbursements has been prepared on the cash basis, which is a Comprehensive Basis of Accounting.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Egyptian Center for Economic Studies (ECES)—an independent not for profit organization—as of 31 December 2009, and its financial performance for the year ended in accordance with the Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations.

Report on Other Legal and Regulatory Requirements

The Center maintains proper books of accounts that include all that is required by the Law and the center's bylaws, and the financial statements are in agreement therewith.

The financial information included in the Board of Directors' report, which has been prepared in accordance with the requirements of Law No. 84 of 2002 and its Executive Regulations, is in agreement with the relevant information in the Center's books..



Taha M. Khaled

Chartered Accountant

R.A.A. 5136

Cairo, 11 March 2010

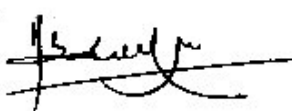
BALANCE SHEET
31 December 2009

	Note	2009 LE	2008 LE
ASSETS			
LONG TERM ASSETS			
Property and equipment	5	6,431,064	6,831,095
Restricted cash	6	50,000,000	50,000,000
Total long term assets		<u>56,431,064</u>	<u>56,831,095</u>
CURRENT ASSETS			
Cash and bank balances	7	5,487,678	5,963,805
Other debit balances	8	373,316	93,888
Balance of fund investment certificates	9	1,808,455	1,671,218
Total current assets		<u>7,669,449</u>	<u>7,728,911</u>
Total assets		<u>64,100,513</u>	<u>64,560,006</u>
SURPLUS AND ENDOWMENT AND LIABILITIES			
Surplus and endowment			
Surplus funds	11	13,580,565	14,032,750
Restricted endowment fund	6	50,000,000	50,000,000
Total surplus and endowment		<u>63,580,565</u>	<u>64,032,750</u>
LIABILITIES			
Other credit balances	10	519,948	433,096
Claim provision		-	94,160
Total current liabilities		<u>519,948</u>	<u>527,256</u>
Total surplus and endowment and liabilities		<u>64,100,513</u>	<u>64,560,006</u>

Auditor's report attached.



Ms. Magda Awadallah
Finance & Administration Manager



Mr. Mounir Abdel Nour
Treasurer



Dr. Taher Helmy
Chairman

The attached notes 1 to 18 form an integral part of these financial statements.

STATEMENT OF REVENUES AND EXPENSES
For the year ended 31 December 2009

	Note	2009 LE	2008 LE
REVENUES:			
Endowment fund interest income	12	5,080,254	4,717,753
Other interest income		90,731	70,497
Revenues on research conducted to others		746,551	242,658
Member subscriptions/contributions	13	400,000	460,000
Other revenue	14	32,002	26,162
Net change in market value of fund's investment certificates in "CIB Osoul Fund"		137,237	132,735
Total revenues		<u>6,486,775</u>	<u>5,649,805</u>
EXPENSES:			
Salaries and other benefits		(4,281,252)	(3,670,315)
Operational and administrative costs	15	(2,205,435)	(1,896,764)
		<u>(6,486,687)</u>	<u>(5,567,079)</u>
Depreciation	5	(439,539)	(474,372)
Foreign exchanges (losses) / gain		(12,734)	5,415
Total expenses		<u>(6,938,960)</u>	<u>(6,036,036)</u>
Excess of expenses over revenue	11	<u>(452,185)</u>	<u>(386,231)</u>

The attached notes 1 to 18 form an integral part of these financial statements.

STATEMENT OF RECEIPTS AND DISBURSEMENTS
For the year ended 31 December 2009

	Note	2009 LE	2008 LE
Cash and bank balances at the beginning of the year		<u>5,963,805</u>	<u>6,098,091</u>
RECEIPTS:			
Endowment fund interest income		5,080,254	4,717,753
Other interest income		90,731	70,497
Revenues on research conducted to others		746,551	242,658
Member subscriptions/contributions		400,000	460,000
Publication revenues		13,025	9,662
Other revenue		18,977	-
Other payables		519,948	433,096
Receipts from other receivables		93,888	152,913
Foreign exchange gain		-	1,991
Total receipts		<u><u>6,963,374</u></u>	<u><u>6,088,570</u></u>
DISBURSEMENTS:			
Purchases of property and equipment		39,508	191,943
Operational and administrative costs		2,205,435	1,896,764
Salaries and other benefits		4,281,252	3,670,315
Other payables settlement		433,096	369,946
Other receivables		373,316	93,888
Foreign exchange loss		12,734	-
Settlement provision claim		94,160	-
Total disbursements		<u><u>7,439,501</u></u>	<u><u>6,222,856</u></u>
Cash and bank balances at the end of the year	7	<u><u>5,487,678</u></u>	<u><u>5,963,805</u></u>

The attached notes 1 to 18 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

1 ACTIVITIES

a) Introduction

The Egyptian Center for Economic Studies ("ECES" or the "Center") is an independent non-profit, non-government research center, established in January 1992 and registered with the Ministry of Social Solidarity (Ex. Ministry of Social Affairs) and Cairo Governorate, in accordance with Law No. 32 of 1964 as amended by Law No. 84 of 2002. The Center's head office is located at Cornish El Nil, Ramlet Boulaq Nile City Building- 8th floor, Cairo, Egypt.

The mission of the Center is to promote economic development in Egypt by conducting and disseminating applied policy research. The aim is to develop viable policy options for Egypt in light of international experience. The Center's activities are carried out in the spirit of public interest.

The Board of Directors approved the issuance of the financial statements for the year ended 31 December 2009 on 8 March 2010.

b) ECES Objectives are to:

- Provide policy-makers with results of applied economic policy research to support the policy formulation process.
- Foster an active dialogue between policy makers and private sector institutions.
- Strengthen the capacity of government institutions for policy analysis.
- Promote applied economic policy research and the advancement of the science of economics, finance and management.
- Promote public understanding of economic development issues and encourage active participation in the economic process.

c) Sources of Funding:

- **Endowment Fund**

In May 2001, the Ministry of International Cooperation (MIC) and the United States Agency for International Development (USAID) has entered into an Agreement with the Center to endow ECES with a grant of L.E. 50 million to be invested for the benefit of the recipient. The objective of this grant is to ensure the independence and sustainability of the Center. This grant is considered to be the main source of finance for the Center. The actual transfer of the fund was made in April 2002. The USAID had a five year oversight period, starting from the effective date of the endowment agreement (May 2001) and ended May 2006, over ECES's management of the endowment and implementation of the program. According to the agreement, two asset managers, currently manage the endowment portfolio. This endowment creates a legacy for the Center (Note 6).

- **Other Sources of Finance**

In addition to the Endowment Fund, there are other sources of funding such as the income derived from research activities received from various donors, as well as the annual subscription, membership fees and contribution made by ECES members.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES USED

The Center applies the following accounting policies with consistency which agrees with policies applied in preparing the annual financial statements as follows:

a) Basis of preparation

The financial statements were prepared on accrual basis except for the statement of receipts and disbursements which is prepared on a cash basis as required by the Ministry of Social Solidarity.

The financial statements were prepared in accordance with the Egyptian Accounting Standards and related local laws and regulation.

The financial statements are presented in Egyptian Pound.

b) The accounting convention

The financial statements are prepared under the historical cost convention, modified for measurement of investments in fund investment certificates at fair value through receipts and disbursements statement.

c) Property and equipment and its depreciation

Property and equipment are recorded on purchase at cost and are presented in the balance sheet net of accumulated depreciation and impairment losses. Historical costs include costs associated with the purchase of the asset.

Depreciation is provided on a straight line basis to write off the cost less estimated residual value of each asset over its expected useful life using the following rates:

Office premises	50	years
Decoration & fixtures	10	years
Motor vehicles	5	years
Office furniture	5	years
Office equipment	3	years

d) Assets impairment

Asset values are reviewed at the balance sheet date to determine if there is any indication of impairment. In case of such an indication, an estimate is made of the recoverable amount and compared to the book value. Impairment loss, being the excess of book value over its recoverable amount, is taken to the statement of income on the same date.

e) Cash and cash equivalents

For the purposes of the receipts and disbursements statements, cash and cash equivalents comprise cash at banks, time and certificate of deposits held at banks, and cash held by asset management. Restricted cash represents the amount of the Endowment Fund, which is disclosed in the financial statements as long term assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

f) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits is required to settle this obligation and then a reliable estimate can be made for the obligation.

Provisions are reviewed at the balance sheet date and adjusted (if necessary) to present the best current estimate.

g) Revenue recognition

Revenue is recognized on the accrual basis upon signing contracts.

h) Expenses

The operating expenses are recognized and charged to the income statement for the fiscal year during which it occurs.

i) Pension and social insurance

The Center contributes in the social insurance scheme for the benefit of its employees in accordance with the Social Insurance Law No. 79 of 1975 and its amendments. Contributions are charged to the statement of revenues and expenses in salaries and other benefits item on accrual basis.

j) Foreign currency transactions

The accounting records are maintained in Egyptian Pounds which are the measurement currency of ECES. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All retranslation exchange profit and loss on date of financial statements are taken to the statements of revenues and expenses and receipts and disbursements.

3. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods if it affects future periods.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

On-balance sheet financial instruments comprise receivables, payables, bank balances and cash. Note (2) to the financial statements includes the accounting policies adopted in the recognition and measurement of financial instruments.

The significant risks associated with the financial instruments and the procedures followed by the center to mitigate these risks are as follows:

- **Interest rate risk**

ECES activities are affected by changes in market interest rates as the organization has significant interest bearing. ECES uses two asset managers to ensure that market rates of interest are earned, and to ensure that exposure to changes in interest rates is minimized.

- **Foreign currency risk**

Foreign currency risk is represented by changes of exchange rates, which affect cash inflows and outflows in foreign currency, and the valuation of assets and liabilities in foreign currencies. Most of the ECES's transactions are in Egyptian Pounds as the main activities are carried out in Egypt. Contracts of services quoted in foreign currency are paid in Egyptian pounds, whenever possible and total assets in foreign currency which has cash nature on balance sheet date are equivalent to L.E. 1,472,899 as mentioned in Note (2-j) and assets with cash nature are translated at the rate of exchange ruling at the financial statements date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

5. PROPERTY AND EQUIPMENT

	Office premises	Decoration & fixture	Motor vehicles	Office furniture	Office equipment	Total
	LE	LE	LE	LE	LE	LE
Cost:						
At 1 January 2009	6,660,000	1,051,911	560,053	607,305	1,118,908	9,998,177
Additions during the year	-	-	-	-	32,708	32,708
Replacement (resale) during the year	-	-	-	-	6,800	6,800
Disposals during the year	-	-	-	-	(13,110)	(13,110)
At 31 December 2009	<u>6,660,000</u>	<u>1,051,911</u>	<u>560,053</u>	<u>607,305</u>	<u>1,145,306</u>	<u>10,024,575</u>
Depreciation:						
At 1 January 2009	694,483	471,219	560,053	501,177	940,150	3,167,082
Provided during the year	133,199	105,191	-	101,808	99,341	439,539
Disposals	-	-	-	-	(13,110)	(13,110)
At 31 December 2009	<u>827,682</u>	<u>576,410</u>	<u>560,053</u>	<u>602,985</u>	<u>1,026,381</u>	<u>3,593,511</u>
Net book value:						
At 31 December 2009	<u>5,832,318</u>	<u>475,501</u>	<u>-</u>	<u>4,320</u>	<u>118,925</u>	<u>6,431,064</u>
At 31 December 2008	<u>5,965,517</u>	<u>580,692</u>	<u>-</u>	<u>106,128</u>	<u>178,758</u>	<u>6,831,095</u>

Property and equipment include a fully depreciated assets which are still in use, those assets represent motor vehicles amounting to L.E. 560,053, office furniture amounting to L.E. 576,100 and office equipment amounting to L.E. 888,087.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

6. RESTRICTED CASH

The restricted cash is invested by two asset managers in time deposits, certificates of deposit, treasury bills and investment certificates of mutual fund. The current weighted average interest rate on the Endowment Fund restricted cash is approximately 9.6% during the year.

ECES is allowed to utilize the interest generated from investing the Endowment Fund, and is prohibited from utilizing the principal amount, without the prior written approval from USAID in accordance with the terms of the agreement.

The endowment principal has been distributed between the two asset managers as follows:

	2009	2008
	LE	LE
Beltone Asset Management Co	30,000,000	-
Arab African Investment Management Co.	20,000,000	-
Phoenix Kato Asset Management Co.	-	30,000,000
HC Securities and Investment Co.	-	20,000,000
	<u>50,000,000</u>	<u>50,000,000</u>

- According to the minutes of the Board of Directors meeting No. (2) dated 10 February 2009, the Board of Directors decided to terminate contracting with both Phoenix Kato Asset Management Co. and HC Securities and Investment Co.
- On 1 April 2009 and upon signing new contracts with two new asset management companies, the endowment fund was transferred to both companies as follows:
 - a) L.E. 21,000,000 to Arab African Investment Management Company.
 - b) L.E. 32,141,676 to Beltone Asset Management Company.

7. CASH AND BANK BALANCES

	2009	2008
	LE	LE
Cash at banks	1,676,841	529,833
Time and certificate of deposits	1,520,600	1,522,500
Cash held by asset managers (note 12)	2,290,237	3,911,472
	<u>5,487,678</u>	<u>5,963,805</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

The weighted average effective interest rate on short-term US Dollars bank deposits was 4.125% annually. These deposits have an average maturity of one month. In addition to short term time deposits in Egyptian pounds with interest rate of 5% annually and 3 years fixed income certificates of deposit with a weighted average interest rate of 9.11% annually.

The cash held by asset managers represents the endowment principal and its unrestricted interest earned on its investment. The interest earned remains in banks under the supervision of the asset managers (Note 12).

8. OTHER CREDIT BALANCES

	2009	2008
	LE	LE
Prepaid expenses	49,939	53,888
Debit balances	323,377	40,000
	<u>373,316</u>	<u>93,888</u>

9. BALANCE OF FUND INVESTMENT CERTIFICATES

ECES subscribed in CIB Osoul Fund. The total number of certificates as of 31 December 2009 is 12188 at L.E. 148.38 per certificate with a total amount of L.E. 1,808,455 (2008: L.E. 1,671,218). Net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

10. OTHER CREDIT BALANCES

	2009	2008
	LE	LE
Accrued publication expenses	210,500	242,960
Accrued technical assistance	142,500	152,500
Professional fees	27,500	30,000
Other credit balances	14,448	7,636
Revenues received in advance/(Deferred revenue)	125,000	-
	<u>519,948</u>	<u>433,096</u>

11. SURPLUS FUNDS

	2009	2008
	LE	LE
Balance at the beginning of the year	14,032,750	14,418,981
Excess of expenses over revenues	(452,185)	(386,231)
Balance at the end of the year	<u>13,580,565</u>	<u>14,032,750</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

12. ENDOWMENT FUND INTEREST

According to Law No. 84 of 2002, ECES can receive and invest funds, following the approval of the Ministry of Social Solidarity. ECES obtained such approval to receive and invest the Endowment Fund in September 2002.

The schedule below analyzes the cash balances held by asset managers:

	Phoenix Kato Asset Management Co. L.E.	HC Securities & Investment Co. L.E.	Beltone Asset Management Co. L.E.	Arab African Investment Management Co. L.E.	2009 Total L.E.	2008 Total L.E.
Balance at the beginning of the year	2,724,949	1,186,523	-	-	3,911,472	4,615,518
Accrued interest during the period (*)	801,450	500,685	-	-	1,302,135	4,717,753
Cash transferred to the ECES	(1,320,000)	(630,000)	-	-	(1,950,000)	(5,200,000)
Treasury bills taxes	(47,444)	-	-	-	(47,444)	(105,064)
Management fees (**)	(17,280)	(11,157)	-	-	(28,437)	(116,735)
Balance at the end of March 2009	2,141,675	1,046,051	-	-	3,187,726	3,911,472
Transfers to the new asset management on 1 April 2009	(2,141,675)	(1,046,051)	2,141,675	1,046,051	-	-
Accrued interest during the period (*)	-	-	2,260,234	1,517,885	3,778,119	-
Cash transferred to the ECES	-	-	(2,550,000)	(1,638,845)	(4,188,845)	-
Treasury bills taxes	-	-	(144,716)	(245,703)	(390,419)	-
Management fees (**)	-	-	(56,990)	(39,354)	(96,344)	-
Balance at the end of the year	-	-	1,650,203	640,034	2,290,237	3,911,472

(*) Endowment fund interest income balance represented as follows:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

	2009 L.E.
Interest from 1 January till 31 March 2009	1,302,135
Interest from 1 April till 31 December 2009	3,778,119
	<u>5,080,254</u>

(**) Annual fees comprised of the asset management fees include:

1. Fixed fees amounting to 0.25% annually, of the market value of the portfolio, calculated and accrued on daily basis and paid quarterly.
2. ECES bears all costs related to the purchase, sale, trading, custody and disposition of the debt securities included in the portfolio.

13. MEMBERS SUBSCRIPTIONS/CONTRIBUTIONS

	2009 LE	2008 LE
Entry fees	-	150,000
Members subscriptions	300,000	310,000
Members contributions	100,000	-
	<u>400,000</u>	<u>460,000</u>

Members subscriptions/contributions used in financing ECES activities represent the following:

- An entry fee of LE 25,000 paid by each new member.
- An annual subscription fee of L.E. 10,000 which is determined by the Extraordinary General Assembly Meeting of 20 February 2008 and in accordance with ECES bylaws.
- ECES members contribute, sometimes, in financing some activities and events operated by the center (i.e. conferences and seminars).

14. OTHER REVENUE

	2009 LE	2008 LE
Publication revenues	13,025	9,662
Resale asset gain	-	16,500
Other revenue	18,977	-
	<u>32,002</u>	<u>26,162</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

15. OPERATIONAL AND ADMINISTRATIVE COSTS

	2009	2008
	LE	LE
Taxes on treasury bills (Note 12)	437,863	105,064
Maintenance and insurance	404,570	219,267
Technical assistance	352,286	354,876
Roundtable and conferences	251,325	243,166
Publications	139,046	376,653
Endowment asset managers fees (Note 12)	124,781	116,735
Auto, insurance and fuel	103,244	87,131
Office supplies	98,328	88,903
Data and subscriptions	65,598	76,219
International travel and per diem	30,988	47,510
Entertainment	29,712	25,009
Telephone and fax	29,569	27,971
Professional fees	27,500	30,000
Water and electricity	26,217	12,101
Rent	15,600	15,600
Courier, postage and shipment	6,844	11,900
Bank charges	2,967	2,491
Local travel	2,391	2,724
Miscellaneous	56,606	53,444
	<u>2,205,435</u>	<u>1,896,764</u>

16. FAIR VALUES

Fair values of financial assets and liabilities are not materially different from their carrying value at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

17. TAXATION

ECES is exempted from income taxes in accordance with Law No. 157 of 1981 as amended by Law No. 187 of 1993 and Law No. 91 of 2005 Article 50(3). ECES is also exempted from customs duties in accordance with Ministerial Decree No. 260 of 1984.

- **Payroll tax**

ECES calculates and pays the taxes to the Tax Authority on a timely basis.

- **Withholding tax**

ECES calculates withholding taxes every three months and pays them to the Tax Authority regularly.

18. COMPARATIVE FIGURES

Prior year figures such as the balance of fund investment certificates, have been reclassified to conform with the presentation in this year.

Balance of Fund investment certificates which amounted to L.E. 1,671,218 was reclassified from cash and bank balances to balance of Fund investment certificates.