

Annual Report 2010

Private Initiative
for Public Interest

THE EGYPTIAN CENTER FOR ECONOMIC STUDIES



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The Center at a Glance

- *ECES is an independent, non-profit research think tank 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

Despite the economic fallout of the 25th of January Revolution, such impact has been dwarfed by the far-reaching positive effects on all walks of life in Egypt. One can sincerely sense a new outlook on life by all. To be sure, these positive perceptions will need to be translated into higher commitment towards increasing productivity and exports and a strong will to boosting economic growth and development while paying attention to strengthening income distribution policies so as the fruits of development can be felt by all. To accelerate the economic rebound and improve future prospects, the government is well advised to press ahead with the necessary reforms as well as reinforce social, political and economic stability.

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 revolution on various aspects of the economy. Researched areas included exploring Egypt's economic priorities in the near and medium terms. Specifically, the Center addressed ways of reforming government spending and the tax system with an eye on mobilizing additional revenues for the growing social agenda. Attention was also focused on creating more jobs and supporting productive activity to help vulnerable groups graduate from continued dependency on subsidies. Further, ECES hosted a timely distinguished lecture given by Professor Guido Tabellini on the links between democracy and development.

Besides responding to unforeseen events, the Center implemented its regular 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 reform. Before leaving you to leaf through the annual report to find out more about ECES activities and the audited financial statements, I would like to express my gratitude to the ECES staff and management. Their hard work and commitment have been extremely instrumental in earning the Center its hard-won reputation as one of Egypt's leading think tanks.

Alaa Arafa

Chairman of the Board of Directors

▼ **Alaa Arafa** is ECES Chairman and Executive Director and Chairman of Arafa Holding Co. He is board member of the Commercial International Investment Company (CIIC) and Citadel Capital, and Chairman of the Egypt Readymade Garments Export Council. He is also member of a number of business associations, including the Federation of Egyptian Industries and the American Chamber of Commerce. ▼



Message from the Executive Director and Director of Research

During the period 2010-2011, ECES has been faced with the pressing task of attempting to contribute to the economic stabilization effort in post-revolutionary Egypt. In response to the recent dramatic events, the Center prepared a study highlighting the importance of reforming government spending and the tax system in the short run to raise additional revenues for the increasingly inflated social expenses. Emphasis was also laid on creating more jobs and supporting productive activity to help limited-income groups graduate from continued dependency on subsidies and increase income in line with productivity growth. The Center also analyzed the intricacies involved in the relationship between democracy and economic development in a lecture with a very telling title: Democracy and Development: The Devil in the Details.

Besides responding to the recent events, the Center continued to implement its rigorous and ambitious annual work program. The emphasis during the period 2010-2011 has been on privatization, and labor market and job creation. The first focused on assessing Egypt's privatization program since the 1990s with a view to offering recommendations to enhance the role of the private sector in Egypt's economic development. Egypt's labor market is characterized by strong annual increases of the labor force, low participation of women, a high share of employment in public institutions, a high share of people in vulnerable employment situations, low levels of productivity and wages, and a high level of unemployment, particularly among women and youth. The aim of this project has been to reach innovative ideas to face these undesirables. This flagship research activity culminated in a three-day workshop that featured a very distinguished group of speakers, discussants and moderators.

Looking forward, ECES plans to intensify research activities to counteract the negative implications of the uncertainty and instability that has characterized the past few months in Egypt and help in preparing a road map towards achieving an economic take-off. 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 first year as Executive Director and Director of Research, a demanding position through which I aspire to contribute positively to economic research in Egypt. Thank you to all who made my first year worthwhile, especially the ECES Board of Directors for their staunch support and the ECES staff for putting up with continuous work pressure and excellent performance.

Magda Kandil

Executive Director and Director of Research

▼ *Magda Kandil is the current Executive Director and Director of Research of the Egyptian Center for Economic Studies (ECES). Previously, she worked with the IMF where she held the positions of Advisor to the Executive Director and Senior Economist. Before embarking on her career at the IMF in 1999, she was professor and chair of the Department of Economics at the University of Wisconsin-Milwaukee.* ▼

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Mounir Abdel Nour
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Yasser El Mallawany
Chairman & CEO, EFG-Hermes Holding
SAE

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.

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).

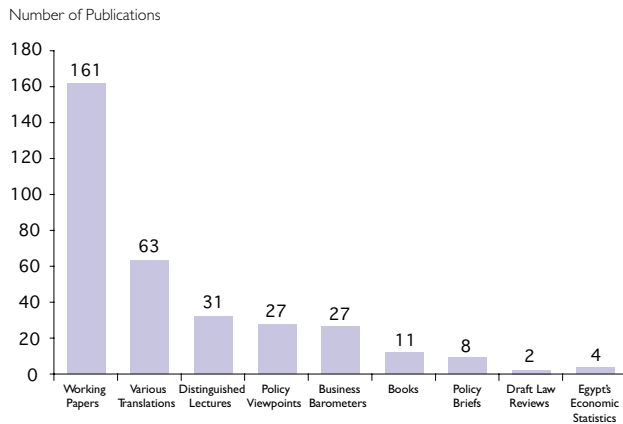
SUMMARY

In terms of sheer numbers, by the end of June 2011, ECES published as many as 161 working papers, 11 books, 31 distinguished lectures, 27 policy viewpoints, 27 editions of the business barometer, 8 policy briefs, 2 draft law reviews, 4 editions of Egypt's economic profile and statistics as well as 63 various translations. The average is 21 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.

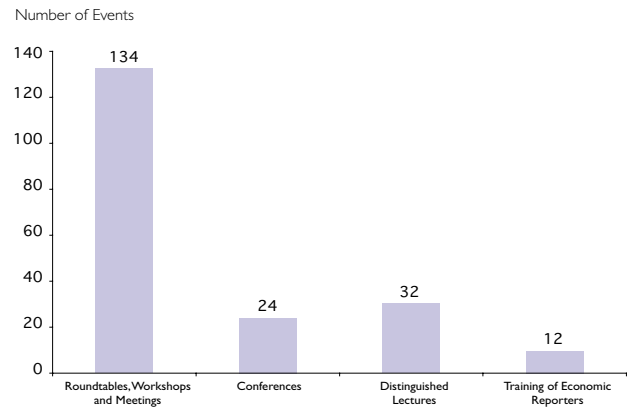
Besides publications, during the same period the Center organized 202 forums for the exchange of views among different stakeholders, averaging at least one event per month. The number of conference participants typically exceeded 200, while each roundtable discussion included around 70 participants. 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.

Figure 1. ECES Publications by Type, 1996-2011



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 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

Figure 2. ECES Events by Type, 1996-2011



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 Profile and 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.

2010-2011 in Focus

During the period June 2010 – June 2011, ECES completed three flagship activities (Privatization in Egypt: Lessons Learned to Promote the Role of the Private Sector in Economic Development; Price Subsidies in Egypt: Alternatives for Reform; Human Capital in Egypt: The Road to Sustainable Development) in addition to seven focused projects (Economic Prospects for the Middle East and Central Asia; Trade in Natural Resources: A Blessing or a Curse?; Recent Challenges to Monetary Policy: How Should the Central Bank React to Persistent Shocks? Currency Wars: Implications for Egypt; Egypt-Laying the Ground for Sustained Growth; the Egyptian Economy: Short and Medium-Term Prospects; and Towards Enhancing Egypt's Competitiveness in the Global Economy).

The Center also hosted a distinguished lecture by internationally-renowned economist Peter J. Montiel to discuss macroeconomic reforms in Egypt and resilience to shocks. Two expert group meetings were also held during the year addressing privatization and the role of the private sector in Egypt's economic development, and the role of the IMF post the global economic crisis.

Flagship Activities

In 2010-2011, the Center carried out three large-scale research activities: Privatization in Egypt: The Role of the Private Sector in Economic Development; Price Subsidies in Egypt: Alternatives for Reform; and Human Capital in Egypt: The Road to Sustainable Development.

Privatization in Egypt: Lessons Learned to Promote the Role of the Private Sector in Economic Development

In 1991, Egypt embarked on a massive privatization program to transfer the ownership of many public enterprises and assets to the private sector. Underlying this strategy were two major factors: (i) the state of many public enterprises which proved to be unproductive and inefficient, and (ii) resulting financial liability that further constrained government's resources, contributing to a larger budget deficit that necessitated an increase in domestic borrowing and crowded out necessary resources for private activity. This project takes stock of

the sales and mobilization of privatization proceeds, and evaluates the effects on macroeconomic performance and firms' performance. Finally, the study recognizes shortcomings in implementation that have slowed down progress and fueled public anger, in a few cases, diverting attention away from the overarching objectives of privatization. The study concludes that shortcomings in implementation should be properly addressed without compromising the privatization philosophy as a cornerstone towards maximizing the benefits of economic reforms and energizing the role of the private sector in economic activity. The main results of this research project were discussed in a series of expert group meetings and will be published in an edited volume.



High-level attendance during the ECES conference on subsidies.

Price Subsidies in Egypt: Alternatives for Reform

Subsidies are a major item in government expenditures in Egypt, accounting for 36 percent of total expenditures in 08/09. They aim at mitigating the cost of living on vulnerable groups, providing basic fuel and food products at prices that fall below the market price. However, persistent budget deficit (reaching 6.9 percent of GDP in 08/09) and limited capacity to mobilize additional resources to tackle other government spending priorities on education and health have brought to the fore a heated debate concerning subsidy reform in Egypt. Opponents have attacked the current system on two accounts: (i) the high fiscal cost and its implications for the budget and rising public debt, and (ii) failure to target vulnerable groups, wasting government resources in financing excessive consumption and profits. Advocates of maintaining the current subsidy system have emphasized concerns about the adverse effects of removing

subsidies on inflation, growth and social equity besides the difficulty to target and administer cash transfers and/or rationing cards to the poor. The discussion engaged both sides in a lively debate. The main results of this research project were discussed in a large-scale workshop and were published in a policy viewpoint.



David Cody (the International Monetary Fund) and Magda Kandil (ECES) during Session 1 entitled: Overview of Subsidies Reform: International Experience and Egypt's Specifics.

Human Capital in Egypt: The Road to Sustainable Development

Although Egypt has made significant progress towards reviving economic growth, unemployment remains persistently high and a significant increase in job opportunities is still needed to absorb the increasingly growing labor force.



Human Capital was the topic of three ECES workshops.

Egypt's labor market is characterized by significant annual increases in the labor force, with the challenge to absorb around 700,000 new entrants to the labor market annually. Other labor-related problems include low female

participation, excessive government employment, a high percentage of people in non-decent employment, low productivity and wages, and high unemployment among youth and women. In addition, there is a significant mismatch between available skills and labor market requirements. Last but not least, weak social protection programs preclude the generation of enough decent work opportunities. The main results of this research project were discussed in a series of workshops and will be published as working papers and in a policy viewpoint. Ultimately, the research papers will also be compiled in an edited volume.



Magda Kandil (Executive Director) and Omneia Helmy, (Deputy Director for Research), ECES.

Focused Projects

During the period June 2010-June 2011, the Center conducted seven focused projects/roundtable discussions as elaborated below.

Economic Prospects for the Middle East and Central Asia

The economic prospects for the countries of the Middle East and Central Asia are improving along with the global recovery, albeit the latter remains fragile. Growth in the region—comprising the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) oil exporters; MENAP oil importers; and Caucasus and Central Asia (CCA)—gathered momentum in 2010, but stayed below pre-crisis levels. While the impact on the region of the Dubai crisis and the unfolding events in Greece has been limited so far, a re-pricing of sovereign debt cannot be ruled out, adding an element of uncertainty to the outlook. Dealing with the legacy of the global economic crisis was a priority in 2010. In some MENAP oil exporters, bank balance-sheet strains emerged during the crisis, and country-specific solutions to address these strains will



Saade Chami (IMF) addressing the audience during the ECES roundtable discussion.

need to be found. As unemployment continues to rise in the MENAP oil importers, the need to raise growth and competitiveness will take center stage, against the backdrop of a weak pickup in external demand and tight competition from other emerging markets.

Trade in Natural Resources: A Blessing or A Curse?

Natural resources, including fuels, are vital to virtually every aspect of human activity, key to countries' comparative advantage and critical to economic growth. Natural resource exports are also important to development in Egypt and other Middle Eastern economies, accounting for some 44 and 70 percent of total exports, respectively. But these exports can also contribute to the exhaustion of resources by accelerating their depletion and may be associated with price volatility; de-industrialization and environmental externalities.

This roundtable discussion reviewed the key findings of the World Trade Report 2010 "Trade in Natural Resources." Specifically, it discussed the appropriate mix of trade and domestic policies such as export taxes and/or quotas; import restrictions; consumption taxes and subsidies that Egypt could employ to ensure a sustainable level of resource extraction that balances the competing needs of present and future generations; hedge against large swings in resource prices; protect the environment; diversify economic activity and increase the scope of Middle East intra-regional trade in natural resources.



Michele Ruta (World Trade Organization) reviews the key findings of the World Trade Report 2010.

Recent Challenges to Monetary Policy: How Should the Central Bank React to Persistent Shocks

The monetary policy framework has progressed since early 2004. Major changes reshaped the strategy of the monetary policy including the ultimate target, the intermediate target and the operational target. Moreover, the implementation framework and the communication strategy have been modernized. This modern framework of monetary policy is facing many challenges.

The challenge of relative price shocks has increased in recent years through steep increases in commodity and vegetable prices. These increases were associated with spikes in inflation (quite higher than the implicit target) in 2008 and more recently in 2010. These shocks have not dissipated quickly. They are quite persistent, threatening to raise inflation expectations. The conduct of monetary policy has been complicated by other multiple shocks, including the slowdown in the recovery of the global economy, the volatility of capital flows and its consequences on the exchange rate, and the change in the business sentiment, among other shocks

How should the central bank respond to the persistent and potentially long lasting relative price shock? Does such shock pose a challenge for the current monetary policy framework? How do multiple shocks complicate the conduct of monetary policy? Given the complexity of the economy, are the conventional instruments already in place enough? A

roundtable discussion was held to address these questions. The results are forthcoming in a policy viewpoint.



Mona Mansour (CIB) explains the Central Bank's response to persistent shocks.

Currency Wars: Implications for Egypt

Several major economies are intervening in their currency markets to enhance competitiveness, particularly on the trade side. By causing its currency to depreciate, a country would enhance demand for exports while curbing demand for imports, resulting in improved trade balance. However, if competitive depreciation is the result of persistent quantitative easing in major trading partners, emerging economies could be continuously losing grounds in trade competitiveness. Specifically, low interest rates in advanced economies could result in a surge in "hot capital inflows" to developing countries, increasing appreciation pressures.

The discussion in this roundtable addressed the implications of currency wars for the Egyptian economy, mainly a widening current account deficit and the resulting consequences of inflationary pressures, asset bubbles and high sterilization costs. Policy options to mitigate these threats, including the need to resort to protectionist trade measures and capital controls, were discussed. A roundtable discussion was held to address these issues. The results were published in a policy viewpoint.



Magda Kandil (ECES) explores the implications of global currency wars for the Egyptian economy.

Egypt—Laying the Ground for Sustained Growth

Egypt weathered the post-Lehman crisis better than many other countries. A strong record of reforms, lower global integration of financial markets, and countercyclical economic policies helped Egypt weather the crisis. Economic growth has resumed since the crisis and while the global outlook is positive, uncertainties are high and the Middle East countries will face stiffer competition from emerging markets in other regions in the coming years. Continuing reforms and preserving macroeconomic stability will be needed to sustain rapid growth of output and provide jobs for the rising number of unemployed youth.

Ms. Ratna Sahay, Deputy Director of the Middle East and Central Asia Department, of the International Monetary Fund, and Mr. Alan MacArthur, IMF Mission Chief for Egypt, discussed the world and regional economic outlook and the macroeconomic and structural policies to lay the ground for rapid growth in Egypt.



Ratna Sahay (IMF MCD), Magda Kandil (ECES) and Alan MacArthur (IMF Mission Chief, Egypt) discuss laying the ground for rapid growth in Egypt.

The Egyptian Economy: Short and Medium Term Prospects

No sooner had the Egyptian economy started to show signs of recovery from the economic slowdown following the recent global economic crisis than it was hit by the political and social upheaval that broke out on January 25, 2011. Mal-distribution of income, inadequate human development alongside lack of political reforms were among the key factors behind the widespread social discontent.

Against this backdrop, this roundtable discussed Egypt's economic priorities in the near and medium terms. Specifically, in the short term the economic agenda should target reforming government spending and the tax system to mobilize additional revenues for the growing social agenda. In the medium-term, the agenda should focus on creating more jobs and supporting productive activity to help vulnerable groups graduate from continued dependency on subsidies and increase income in line with productivity growth. A roundtable was held at ECES to discuss this topic, featuring a presentation by Egypt's Finance Minister Dr. Samir Radwan. The results were published in a policy viewpoint.



Alaa Arafá (ECES), H.E. Samir Radwan (Minister of Finance), and Magda Kandil (ECES).

Towards Enhancing Egypt's Competitiveness in the Global Economy

The overall performance of the Egyptian economy and its ability to mobilize investment and attract foreign direct investment are highly dependent on the country's competitiveness. In that respect, the 2010-2011 Global Competitiveness Report benchmarks Egypt to other countries in the same stage of development and other countries that are more developed, pinpointing both strengths and weaknesses of the economy. Over the last few years, Egypt's competitiveness indicators exhibited weak signals in areas such as macroeconomic stability, education quality, efficiency of labor market and capacity for innovation. However, the Egyptian economy continues to have a clear competitive advantage in market size and infrastructure. Specifically, this roundtable discussion attempted to: 1) assess Egypt's progress so far and identify specific areas where the country has lagged behind relative to comparators; 2) highlight the structural and policy deficiencies that have negatively impacted Egypt's competitiveness; and 3) present specific policy recommendations addressing shortcomings and leading to greater competitiveness.



Adla Ragab (Ministry of Tourism), Magda Kandil (ECES), Malak Reda (ECES) and Nagwa El Shenway (MCIT).

Distinguished Lectures

Macroeconomic Reforms in Egypt and Resilience to Shocks: Lessons from the Great Recession

The Egyptian economy has proven to be resilient during the past global economic crisis, with real GDP growth reaching 4.7 percent during 2008/2009 and 5.1 percent for the first three quarters of 2009/2010. Egypt's resilience to external shocks could be attributed to macroeconomic reforms undertaken over the past decade, as evident by more diversity of sectoral sources of growth, fiscal reforms that availed the space to introduce timely countercyclical packages, and monetary reforms that increased the ability of the Central Bank to weather external shocks and contain domestic inflationary pressures.

What are the payoffs from macroeconomic reforms? Whether such reforms yield higher long-term growth has long been controversial. The experience of the Great Recession suggests that other important benefits may have been neglected in the controversy over the growth benefits of reform. Specifically, in contrast with previous international recessions, recovery from the Great Recession has been led by emerging and developing economies, many of which have implemented significant reforms over the past two decades. How much of the resilience of these economies can be attributed to these reforms? Drawing on international experience, the lecture focused on the desirability of further reforms in Egypt to ensure that the economy is growing at its potential capacity and achieve better diversification

and distribution of growth that balance the economic and social agendas and ensure that the benefits of reforms are sustainable going forward.



Professor Peter J. Montiel (Williams College) discusses macroeconomic reforms and resilience.

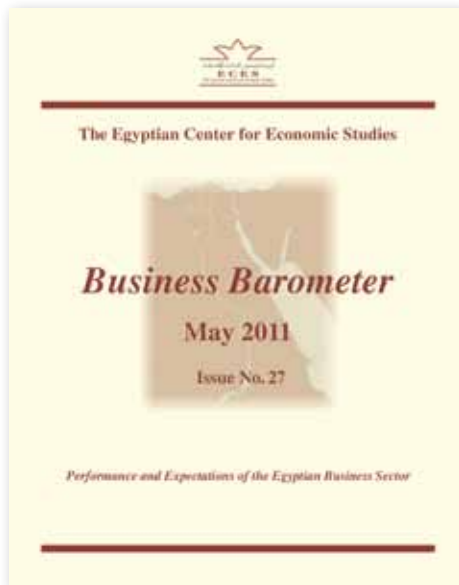
Periodic Activities

In addition, the Center produced the fourth issue of its publication entitled Egypt's Economic Profile and 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 chapter in the African Economic Outlook report*).



Business Barometer

In the July 2010 edition, firms' views were somewhat cautious due to persistent fears that the Greek crisis could escalate into a large-scale European crisis. In the January 2011 edition, as the Egyptian economy was steadily recovering from the effects of the global economic crisis and subsequent slowdown, it was hit by the outbreak of Egypt's popular uprising. Naturally, this reflected negatively on firms' performance and expectations. The May 2011 edition came out earlier than scheduled to reflect the impact of the 25th of January Revolution on the business environment in Egypt.



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. This year's workshop discussed the role of the private sector in Egypt's economic development.

ECES STAFF

MAGDA KANDIL

Executive Director and Director of Research

Magda Kandil is the current Executive Director and Director of Research of the Egyptian Center for Economic Studies (ECES). Previously, she worked with the IMF where she held the positions of Advisor to the Executive Director and Senior Economist. She was also a visiting scholar at the IMF Institute and Research Department. Dr. Kandil has undertaken several academic and professional activities at various institutions, including Professor and Chair of the Department of Economics at the University of Wisconsin-Milwaukee, Washington State University, Southern Illinois University and the Justus-Liebig Universitat, Giessen, Germany. Dr. Kandil received several awards, including three citations of excellence for the highest quality rating by ANBAR Electronic Intelligence. In 2000, she was ranked 344th among the top 500 economists in the world. In 2011, she was ranked 39 (top 1 percent) based on number of journal pages weighted by number of authors, using data for 26675 authors. She is member of the American Economic Association, Canadian Economic Association, Arab Society for Economic Research, and the Economic Research Forum for the Arab Countries, Iran, and Turkey (ERF), where she was elected as the first woman chair of ERF research fellows. She has published extensively on various topics such as debt accumulation, public spending, price flexibility, exchange rate fluctuations, and macroeconomic policies. Dr. Kandil received her Ph.D. in economics from the Washington State University, Pullman, Washington.

OMNEIA HELMY

Deputy Director for Research and Lead Economist

Omneia Helmy is currently the Deputy Director for Research and Lead Economist at the Egyptian Center for Economic Studies (ECES) as well as professor of economics at the Faculty of Economics and Political Science, Cairo University. She was also a visiting professor at the University of Barcelona, Spain; in addition to her appointment as affiliate professor of economics at George Mason University, USA. Dr. Helmy is a member of the Egyptian Society for Political

Economy, Statistics and Legislation and Egypt's Scientific Research Academy. She has undertaken several professional activities at various prominent organizations including the World Trade Organization, the World Bank and the Center for Economic and Financial Research and Studies at Cairo University. Her areas of interest include international economics, trade policy, institutional economics, pension reform in Egypt, in addition to macro- and microeconomic analysis. Dr. Helmy earned her Ph.D. in economics from Cairo University.

IMAN AL-AYOUTY

Senior Economist

Iman Al-Ayouty is a senior economist at ECES previously working as adjunct faculty at the American University in Cairo, research assistant at Cairo University and teaching assistant at the Arab Academy for Science, Technology and Maritime Transport. She was awarded both her master's and doctoral degrees in economics (2003, 2009) from Cairo University. Dr. Al-Ayouty's Ph.D. dissertation dealt with the efficiency and industrial upgrading of textile and apparel firms in Egypt from the perspective of their engagement in global commodity chains. She was also the recipient of the Fulbright Non-Degree Scholarship for the academic year 2006/07, during which she was affiliated with the Latin American Institute at the University of California, Los Angeles. Her research interests include international economics, industrial organization and development.

MALAK REDA

Senior Economist

Malak Reda has practical experience in banking and economic research. She has worked as a consultant for several organizations including ESCWA, Swiss Development Fund and the African Development Bank. On the academic front, she has authored several publications on topics such as banking efficiency, economic development, SMEs development and finance. Malak Reda received her Ph.D. in business administration with distinction from the Maastricht School of Management (MSM), the Netherlands in 2006

and obtained her first Master's Degree in money, banking and finance in 1997 from the University of Birmingham, UK. She also taught money, banking and finance at the German University in Cairo and microeconomics courses in Modern Science Academy.

MAYE EHAB

Economist

Maye Ehab is an economist at ECES. Her areas of interest include economic development, education, welfare and poverty as well as labor economics. She earned her M.A. in economics from the American University in Cairo.

TAREK EL-GHAMRAWY

Economist

Tarek El-Ghamrawy is an economist at ECES. His areas of interest include international economics, macroeconomics and economics of growth. He earned his M.A. in international economics from Université Paris I Panthéon-Sorbonne.

SARA AL-NASHAR

Economist

Sara Al-Nashar is an economist at ECES. Her areas of interest include public finance and open-economy macro. She earned a Master's degree in economics from Cairo University, as well as an M.A. in policy economics from Williams College, USA.

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1998 / PVP4 / English or Arabic

Priorities for Rapid and Shared Economic Growth in Egypt

Ahmed Galal
1998 / PVP3 / English or Arabic

Towards More Efficient Telecommunications Services in Egypt

Ahmed Galal
1998 / PVP2 / English or Arabic

How Accurate is Egypt's Consumer Price Index?

Ahmed Galal & Hala Fares
1997 / PVPI / English or Arabic

POLICY BRIEFS

Legal Empowerment of the Poor

Labor Rights (1/4)

Naglaa El Ehwany
2007 / PB2 / Arabic

Business Establishment (2/4)

Amal Refaat
2007 / PB2 / Arabic

Real Estate Property Rights (3/4)

Mostafa Madbouly & Khaled Serry Seyam
2007 / PB2 / Arabic

Access to the Rule of Law (4/4)

Khaled Serry Seyam, supervised by Mohamed Al-Dakroury
2007 / PB2 / Arabic

Strengthening the Capacity of the Egyptian Parliament in Legislation and Oversight of WTO and Other Trade Agreements

Regional Trade Agreements (1/4)

Hanaa Kheir-El-Din
2007 / PBI / English or Arabic
Doha Development Agenda (2/4)
Magda Shahin
2007 / PBI / English or Arabic

Trade Liberalization and Poverty (3/4)

Omneia Helmy
2007 / PBI / English or Arabic

Trade in Services (4/4)

Ahmed Ghoneim
2007 / PBI / English or Arabic

DRAFT LAW REVIEW SERIES

Draft Law on Real Estate Tax
Hanaa Kheir-El-Din & Nihal El Megharbel
2007 /DLR2 /Arabic

Draft Law on Consumer Protection
Hanaa Kheir-El-Din, Amal Refaat, and Yasser Selim
2006 / DLR1 / Arabic

BUSINESS BAROMETER

The Business Barometer has been a biannual publication since 1998. To date, ECES has published 27 editions, the latest of which is BB 27 published in July 2011.

EGYPT'S ECONOMIC PROFILE AND STATISTICS

2010 / EES4 / English
2009 / EES3 / English
2008 / EES2 / English
2007 / EES1 / English

BOOKS

Egypt's Privatization Program: Assessment and Recommendations for the Future
Editors: Magda Kandil, Hanaa Kheir-El-Din, Naglaa El-Ehwany and others
2011/BK12/Arabic

What Drives Prices in Egypt? An Analysis in Light of International Experience
Editor: Hanaa Kheir-El-Din
2009 / BK11 / English
Co-Published with the American University in Cairo Press

Industrial Policy in the Middle East and North Africa: Rethinking the Role of the State
Editor: Ahmed Galal
2008 / BK10 / English
Co-Published with the American University in Cairo Press

The Egyptian Economy: Current Challenges and Future Prospects
Editor: Hanaa Kheir-El-Din
2008 / BK9 / English
Co-Published with the American University in Cairo Press

Fiscal Sustainability in Emerging Markets: International Experience and Implications for Egypt
Editors: Ahmed Galal and Nadeem UI Haque
2005 / BK8 / English
Co-published with the American University in Cairo Press

Arab Economic Integration Between Hope and Reality
Editors: Ahmed Galal and Bernard Hoekman
2003/ BK7/ English or Arabic
Co-published with the Brookings Institution

Globalization and Firm Competitiveness in the Middle East and North Africa Region
Editor: Samiha Fawzy
2002 / BK6 / English or Arabic
Co-published with the World Bank & the Mediterranean Development Forum

Monetary Policy and Exchange Rate Regimes: Options for the Middle East
Editors: Eliana Cardoso & Ahmed Galal
2002 / BK5 / English or Arabic

Partners for Development: New Roles for Government and Private Sector in the Middle East & North Africa
Editors: Samiha Fawzy & Ahmed Galal
1999 / BK4 / English
Co-published with the World Bank & the Mediterranean Development Forum

Financial Development in Emerging Markets: The Egyptian Experience
Editors: Mohamed El-Erian & Mahmoud Mohieldin
1999/ BK3 / English or Arabic
Co-published with the International Center for Economic Growth

Building Bridges: An Egypt-US Free Trade Agreement
Editors: Ahmed Galal & Robert Z. Lawrence
1998 / BK2 / English or Arabic
Co-published with the Brookings Institution

Regional Partners in Global Markets: Limits and Possibilities of the Euro-Med Agreements
Editors: Ahmed Galal & Bernard Hoekman
1997 / BK1 / English
Co-published with the Centre for Economic Policy Research



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 2010, 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. The statement of receipts and disbursements has been prepared by management of the Center using the cash basis of accounting as described in Note (3a).

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 the cash basis of accounting as described in Note (3a) and Egyptian Accounting Standards and in the 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.

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 2010, and its financial performance for the year then ended in accordance with the Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations.

Emphasis Of Matter:

Without qualifying our opinion, we draw attention to the following:

- Basis of Accounting

Note (3a) of the notes to the financial statements which describes the basis of preparation of the statement of receipts and disbursements on a cash basis.

- Note (17) of the notes to the financial statements, due to the lack of information, the Center's management was unable to disclose the effects of the subsequent events, post the financial statements date, on the value of some of the assets and liabilities during the coming financial periods. Whereas, the valued assets and liabilities may vary significantly during the coming period, if the Center's management was able to provide reliable indicators or proofs which can be utilized by the Center's management to identify the effect and magnitude of the subsequent events on the value of some of the assets and liabilities in the financial statements

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 27 March 2011

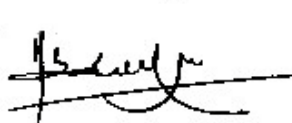
BALANCE SHEET
31 December 2010

	Note	2010 L.E.	2009 L.E.
ASSETS			
LONG TERM ASSETS			
Property and equipment	5	6,172,080	6,431,064
Restricted cash	6	50,000,000	50,000,000
Total long term assets		<u>56,172,080</u>	<u>56,431,064</u>
CURRENT ASSETS			
Cash and bank balances	7	3,966,660	5,487,678
Other debit balances	8	219,402	373,316
Balance of fund investment certificates	9	1,953,615	1,808,455
Total current assets		<u>6,139,677</u>	<u>7,669,449</u>
Total assets		<u><u>62,311,757</u></u>	<u><u>64,100,513</u></u>
SURPLUS AND ENDOWMENT AND LIABILITIES			
Surplus and endowment			
Surplus funds	10	12,106,216	13,580,565
Restricted endowment fund	6	50,000,000	50,000,000
Total surplus and endowment		<u>62,106,216</u>	<u>63,580,565</u>
LIABILITIES			
Other credit balances	11	205,541	519,948
Total current liabilities		<u>205,541</u>	<u>519,948</u>
Total surplus and endowment and liabilities		<u><u>62,311,757</u></u>	<u><u>64,100,513</u></u>

Auditor's report attached.



Ms. Magda Awadallah
Deputy Director for Finance &
Administration



Mr. Mounir Abdel Nour
Treasurer



Mr. Omar Mohanna
Vice 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 2010

	Note	2010 L.E.	2009 L.E.
REVENUES:			
Endowment Fund interest income	12	4,856,477	5,080,254
Other interest income		89,801	90,731
Revenues on research conducted to others		376,990	746,551
Members subscriptions/contributions	13	220,000	400,000
Other revenue	14	9,573	32,002
Net change in market value of funds investment certificates in «CIB Osoul Fund»		145,160	137,237
Total revenues		<u>5,698,001</u>	<u>6,486,775</u>
EXPENSES:			
Salaries and other benefits		(4,408,340)	(4,281,252)
Operational and administrative costs	15	(2,502,292)	(2,205,435)
		<u>(6,910,632)</u>	<u>(6,486,687)</u>
Depreciation	5	(332,961)	(439,539)
Foreign exchanges gain/(losses)		71,243	(12,734)
Total expenses		<u>(7,172,350)</u>	<u>(6,938,960)</u>
Excess of expenses over revenue	10	<u><u>(1,474,349)</u></u>	<u><u>(452,185)</u></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 2010

	Note	2010 L.E.	2009 L.E.
Cash and bank balances at the beginning of the year		5,487,678	5,963,805
RECEIPTS DURING THE YEAR :			
Endowment Fund interest income	12	4,856,477	5,080,254
Other interest income		89,801	90,731
Revenues on research conducted to others		376,990	746,551
Members subscriptions/contributions	13	220,000	400,000
Publication revenues	14	7,773	13,025
Other revenue	14	1,800	18,977
Other payables		205,541	519,948
Receipts from other receivables		373,316	93,888
Foreign exchange gain		71,243	-
Total receipts		6,202,941	6,963,374
DISBURSEMENTS DURING THE YEAR :			
Purchases of property and equipment	5	73,977	39,508
Operational and administrative costs	15	2,502,292	2,205,435
Salaries and other benefits		4,408,340	4,281,252
Other payables settlement		519,948	433,096
Other receivables	8	219,402	373,316
Foreign exchange loss		-	12,734
Settlement provision claim		-	94,160
Total disbursements		7,723,959	7,439,501
Cash and bank balances at the end of the year	7	3,966,660	5,487,678

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

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 Management of the center approved the issuance of the financial statements for the year ended 31 December 2010 on 24 March 2011.

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 2010

2. 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.

The estimates and underlying assumptions that affect the financial statements are as follows:

- Estimated useful life for Property and Equipment
- Claim Provision

3. 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 statement of revenues and expenses was prepared on accrual basis and statement of receipts and disbursements was prepared on a cash basis as required by the Ministry of Social Solidarity.

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.

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) 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

c) **Assets impairment**

Asset values are reviewed at the financial statements 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.

d) **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 and investment management. Restricted cash represents the amount of the Endowment Fund, which is disclosed in the financial statements as long term assets.

e) **Fund investment certificates**

Fund investment certificates are recognized at the acquisition by cost and are revalued on the balance sheet date at fair value and net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

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 financial statements date and adjusted (if necessary) to present the best current estimate.

g) **Debtors**

Provision for debtors and other debit balances is provided when there is estimation for amounts not expected to be collected in full and this provision is to be included in the statement of revenues and expenses.

h) **Accounts payable**

Liabilities represented in amounts to be paid in the future for goods received or services rendered to the center, whether billed or not billed by the supplier.

i) **Revenue recognition**

- The subscription and membership fees are recognized as revenue based on accrual basis.
- The endowment fund interest is recognized as revenue based on accrual basis.
- Research conducted to others is recognized as revenue based on accrual basis.
- Interest income is recorded on a time apportionment basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

j) Expenses

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

k) 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.

l) 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 financial statement 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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

On-balance sheet financial instruments comprise receivables, payables, cash and bank balances. Note (3) 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 the financial statements date are equivalent to LE. 1,500,613 as mentioned in note (3-i) 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 2010

5. PROPERTY AND EQUIPMENT

	Office premises L.E.	Decoration & fixture L.E.	Motor Vehicles L.E.	Office furniture L.E.	Office equipment L.E.	Total L.E.
Cost:						
At 1 January 2010	6,660,000	1,051,911	560,053	607,305	1,145,306	10,024,575
Additions during the year	-	-	-	2,623	71,354	73,977
At 31 December 2010	<u>6,660,000</u>	<u>1,051,911</u>	<u>560,053</u>	<u>609,928</u>	<u>1,216,660</u>	<u>10,098,552</u>
Depreciation:						
At 1 January 2010	827,682	576,410	560,053	602,985	1,026,381	3,593,511
Provided during the year	<u>133,200</u>	<u>105,191</u>	<u>-</u>	<u>2,554</u>	<u>92,016</u>	<u>332,961</u>
At 31 December 2010	<u>960,882</u>	<u>681,601</u>	<u>560,053</u>	<u>605,539</u>	<u>1,118,397</u>	<u>3,926,472</u>
Net book value:						
At 31 December 2010	<u>5,699,118</u>	<u>370,310</u>	<u>-</u>	<u>4,389</u>	<u>98,263</u>	<u>6,172,080</u>
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>

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. 599,787 and office equipment amounting to L.E. 1,041,520.

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 9.54% 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:

	2010	2009
	L.E.	L.E.
Beltone Asset Management Co.	30,000,000	30,000,000
Arab African Investment Management Co.	20,000,000	20,000,000
	<u>50,000,000</u>	<u>50,000,000</u>

7. CASH AND BANK BALANCES

	2010	2009
	L.E.	L.E.
Cash at banks	1,488,203	1,676,841
Time and certificate of deposits	1,299,100	1,520,600
Cash held by asset managers (Note 12)	1,179,357	2,290,237
	<u>3,966,660</u>	<u>5,487,678</u>

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 9.15% 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 DEBIT BALANCES

	2010	2009
	L.E.	L.E.
Prepaid expenses	165,771	49,939
Advance payment	3,631	-
Debit balances	50,000	323,377
	<u>219,402</u>	<u>373,316</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

9. BALANCE OF FUND INVESTMENT CERTIFICATES

ECES subscribed in CIB Osoul Fund. The total number of certificates as of 31 December 2010 is 12188 at L.E. 160.29 per certificate with a total amount of L.E. 1,953,615 (2009: L.E. 1,808,455). Net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

10. SURPLUS FUNDS

	2010	2009
	L.E.	L.E.
Balance at the beginning of the year	13,580,565	14,032,750
Excess of expenses over revenues	(1,474,349)	(452,185)
Balance at the end of the year	<u>12,106,216</u>	<u>13,580,565</u>

11. OTHER CREDIT BALANCES

	2010	2009
	L.E.	L.E.
Accrued publication expenses	136,000	210,500
Accrued technical assistance	25,600	142,500
Professional fees	30,000	27,500
Other credit balances	13,941	14,448
Revenues received in advance/(Deferred revenue)	-	125,000
	<u>205,541</u>	<u>519,948</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

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 movement of cash transactions held by asset managers:

	Belton Asset Management Co. L.E.	Arab African Investment Management Co. L.E.	2010 Total L.E.	2009 Total L.E.
Balance at the beginning of the year	1,650,203	640,034	2,290,237	3,911,472
Accrued interest during the year	2,771,533	2,084,944	4,856,477	5,080,254
Cash transferred to the ECES	(3,400,000)	(1,800,000)	(5,200,000)	(6,138,845)
Treasury bills taxes	(257,043)	(381,682)	(638,725)	(437,863)
Annual fees (*)	(77,564)	(51,068)	(128,632)	(124,781)
Balance at the end of year	<u>687,129</u>	<u>492,228</u>	<u>1,179,357</u>	<u>2,290,237</u>

(*) Annual fees comprised of the two 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

	2010 L.E.	2009 L.E.
Members subscriptions	220,000	300,000
Members contributions	-	100,000
	<u>220,000</u>	<u>400,000</u>

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

- An entry fee of L.E. 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).

NOTES TO THE FINANCIAL STATEMENTS
31 December 2010

14. OTHER REVENUE

	2010	2009
	L.E.	L.E.
Publication revenues	7,773	13,025
Other revenue	1,800	18,977
	<u>9,573</u>	<u>32,002</u>

15. OPERATIONAL AND ADMINISTRATIVE COSTS

	2010	2009
	L.E.	L.E.
Taxes on treasury bills (Note 12)	638,725	437,863
Maintenance and insurance	462,192	404,570
Roundtable and conferences	237,245	251,325
Technical assistance	202,531	352,286
Auto, insurance and fuel	185,658	103,244
Endowment asset managers fees (Note 12)	128,632	124,781
International travel and per diem	120,275	30,988
Publications	117,975	139,046
Office supplies	117,620	98,328
Data and subscriptions	59,625	65,598
Water and electricity	32,940	26,217
Professional fees	30,000	27,500
Entertainment	28,928	29,712
Rent	22,988	15,600
Telephone and fax	19,253	29,569
Courier, postage and shipment	7,988	6,844
Bank charges	4,326	2,967
Local travel	2,739	2,391
Miscellaneous	82,652	56,606
	<u>2,502,292</u>	<u>2,205,435</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

16. FAIR VALUES

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

17. EVENTS AFTER THE BALANCE SHEET DATE

In light of the latest events that had occurred in the Arab Republic of Egypt, such events may have an impact on the economic sectors in general and may lead to a significant decline in economic activities during the coming periods. Therefore, these events may have a substantial impact on the elements of assets and liabilities and recoverable amounts during the subsequent period. Currently we cannot determine the impact of these events on the assets and liabilities included in the financial statements of the center.

18. 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 monthly to the Tax Authority on timely basis.

- **Withholding tax**

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