

Annual Report 2007

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 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

I am delighted to report on my first year as Chairman of the Egyptian Center for Economic Studies. I became chairman in 2007 following Mr. Galal El-Zorba who served ECES with distinction. I would like to take this opportunity to pay tribute to his dedication and hard work.

This year was a gratifying year at ECES. The Center continued to support development efforts in Egypt through its rigorous research, conferences and publications. Although research conducted was varied as usual, two research activities stood out as extremely relevant and timely. The first discussed the factors driving prices in Egypt in an attempt to find a satisfactory balance between the growth performance and price level. Addressing this issue was particularly important as inflation tends to impair economic efficiency because it distorts price signals. Greater uncertainty about future prices could also lead to rising real interest rates that tend to reduce the rate of investment and capital formation.

The second project aimed to empower the poor segments of the society in the areas of labor, establishing businesses, real estate property rights and access to the rule of law. The aim is to identify financial and legal impediments, which prevent vulnerable groups from feeling the fruits of positive economic development, especially that the majority of these groups are significant contributors to society and the economy, and that they possess significant unutilized capital.

Another highlight of 2007 is the selection of ECES as one of the leading think tanks in the region in the recently released 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. On this positive note, I would like to thank the ECES management and staff for their hard work throughout the year, and together we look forward to the year ahead with commitment as well as aspirations for a better future for Egypt.

### **Mohamed Taymour**

*Chairman of the Board of Directors*

▼ **Mohamed Taymour** is currently chairman of Pharos Holding Co. for Financial Investments and chairman of the Egyptian Center for Economic Studies. He is the founder and former chairman (1980-2005) of EFG-Hermes, Egypt's largest investment banking group. Dr. Taymour is also the chairman of the Egyptian Capital Market Association, and a member of the board of Egypt's Supreme Council for Reconstruction. ▼



## Letter from the Executive Director and Director of Research

**A**lthough the Egyptian economy has witnessed rapid growth over the past few years, the growth performance did not translate into higher incomes for the poor or poverty reduction. To explore the reasons, ECES undertook in 2007 multiple major research projects dealing with factors driving prices in Egypt; legal empowerment of the poor; and ways of strengthening the capacity of the Egyptian parliament in legislation and oversight of WTO and other trade agreements. The latter project included a major study on the impact of trade liberalization on poverty reduction.

The Center also undertook a large-scale research initiative on employment, productivity and poverty in Egypt. The purpose was to analyze employment, productivity, and poverty in various sectors of the economy; ways to enhance the quality of jobs and linkages between SMEs and large firms; and gender occupational inequality in Egypt. A common thread that runs through all the above research projects is an attempt on the part of ECES to strike a balance between conducting formal policy-oriented research and exploring ways to empower the poor in Egypt to benefit from the growth performance—widely known as inclusive growth.

Additionally, the Center continued to host international economists to discuss recent economic thinking worldwide, publish the forward-looking business barometer, and organize workshops for economic reporters. The Center also published the first issue of its new annual publication entitled “Egypt’s Economic Statistics” that provides the business community and prospective investors with summary data and information on the various aspects of the Egyptian economy.

This report highlights the Center’s research activities in 2007 and briefly demonstrates how they addressed Egypt’s various economic challenges and concerns. It also includes the 2007 financial statements, which show the solid financial position of ECES well into the future. Finally, I would like to thank the ECES staff for their commitment and dedication throughout the year, hoping that the coming year would be as dynamic and productive as 2007.

**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. ▼

## ECES BOARD OF DIRECTORS



**Moustafa Khalil**

ECES Honorary Chairman,  
& Former Prime Minister, Egypt



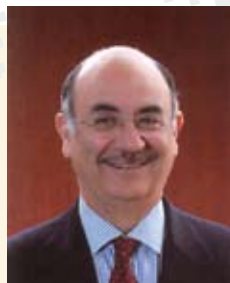
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Chairman, Nile Holding Co.



**Mohamed Taymour**

ECES Chairman, Chairman,  
Pharos Holding Co. for  
Financial Investments



**Moataz El Alfi**

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**Abdel Salam El Anwar**

*Chairman & CEO, HSBC, Egypt*



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**Gamal Mubarak**

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Med Invest Associates, London*



**Ahmed Ezz**

*Chairman, Ezz Industries Group*



**Hamza El Kholly**

*Chairman & CEO, First Arabian  
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Vice Chairman & Managing Director,  
Arab African International Bank



**Mohamed El Erian**  
Managing Director, Pacific Investment  
Management Company



**Hassan El-Khatib**  
Managing Director, Carlyle Group



**Mohamed L. Mansour**  
Minister of Transportation, Egypt



**Hesham Mekkawy**  
President, BP Egypt



**Mohamed Samir  
Abdel Razeq**  
Vice President,  
Near East Proctor & Gamble



**Ibrahim El Moallem**  
Chairman, Dar El Shourouk for  
Publishing and Printing



**Mohamed Shafik Gabr**  
Chairman & Managing Director, Artoc  
Group for Investment and Development



**Khaled Abu Bakr**  
Managing Director,  
Arab Company for Energy (Taqa)



**Nassef Sawiris**  
CEO, Orascom Construction Industries

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*Minister of Trade and Industry, Egypt*



**Taher Helmy**

*Partner, Baker & McKenzie Law Firm*



**Yaseen Mansour**

*President and CEO,  
El Mansour & El Maghraby for  
Investment & Development*



**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](http://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

**Moataz El Alfi**

*Americana Group, Egypt*

**Farouk El Baz**

*Boston University*

**Moustafa El Beilady**

*Beilady Group*

**Taher Helmy**

*Baker and McKenzie*

**Ibrahim Kamel**

*Kato Aromatic Co.*

**Mohamed Farid Khamis**

*Oriental Weavers*

**Ahmed El Maghraby**

*Minister of Housing, Egypt*

**Gamal Mubarak**

*National Democratic Party*

**Assaad Saman**

*Financial and Investment Studies Office*

**Galal El Zorba**

*Nile Holding*

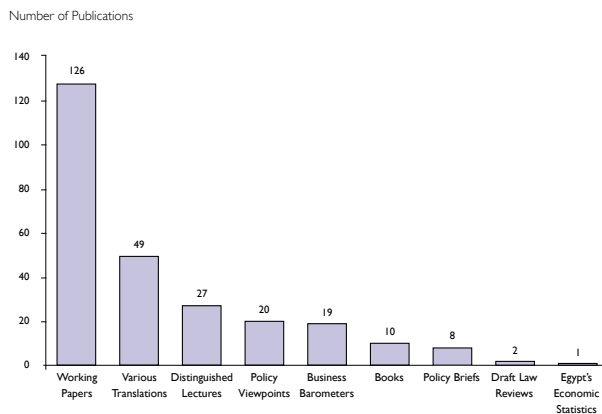
## NOTABLE CONTRIBUTIONS

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](http://www.eces.org.eg)). This section only provides a summary of these activities and a brief description of eight research projects as examples.

## SUMMARY

In terms of sheer numbers, by the end of 2007, ECES published as many as 126 working papers, 10 books, 27 distinguished lectures, 20 policy viewpoints, 19 editions of the business barometer, 8 policy briefs, 2 draft law reviews, 1 edition of Egypt's economic statistics as well as 49 various translations. The average is 24 publications per year (see Figure 1).

Figure 1. ECES Publications by Type, 1996-2007



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 158 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.

### 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.

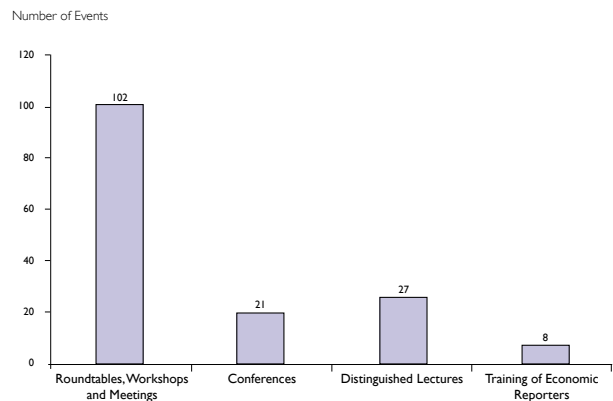
**The Business Barometer** is a biannual assessment of the state of economic activity in Egypt based on a sample survey of large firms.

**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.

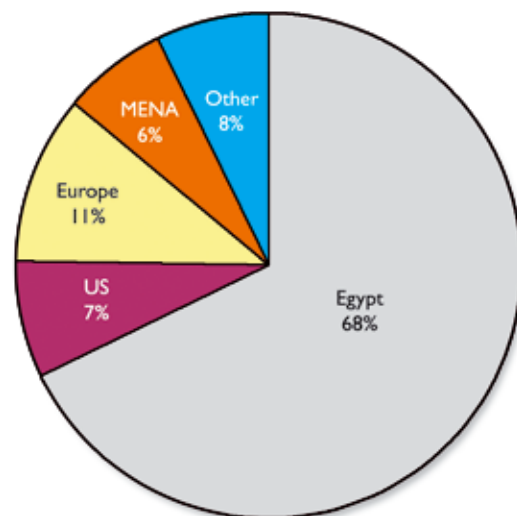
**Egypt's Economic Statistics** intended mainly for investors and the business community, this annual series provides summary data and information on the various aspects of the Egyptian economy.

Figure 2. ECES Events by Type, 1996-2007



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 provided 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. During the period 1996-2007, the number of visitors to the website increased significantly and registered users have become geographically diverse (Figure 3).

Figure 3. Registered ECES Website Users by Region, 2007



## MAIN RESEARCH PROJECTS

In selecting research topics, ECES attempted to focus on issues that posed real challenges for the Egyptian economy, or those that were likely to do so in the future. In conducting the research itself, every effort was made to strike a balance between methodological rigor and policy relevance. Moreover, there was a serious attempt to capitalize on accumulated knowledge in developing options for policymakers in Egypt. Below is a brief description of eight of these projects, although the number of activities undertaken exceeds one hundred.



**Growth Beyond Stabilization: Prospects for Egypt (February 1999).** Left to right: Nancy Birdsall (Inter-American Development Bank); Taher Helmy (then Chairman of the ECES Board of Directors); Atef Ebeid (former Prime Minister of Egypt); Youssef Boutros Ghali (then Minister of Economy, Egypt).

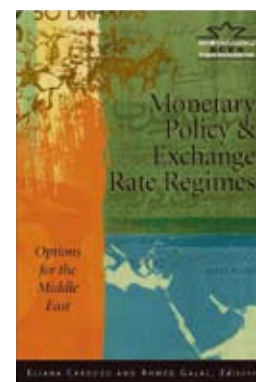
### **Growth Beyond Stabilization**

Having successfully completed a stabilization program in the early 1990s, it was important toward the end of that decade to search for a set of structural reforms that would allow Egypt to achieve higher sustainable economic growth. To this end, ECES organized an international conference that focused on four themes: achieving faster growth through trade liberalization; financial system reform to enhance economic growth; human capital development in an emerging market economy; and legal and institutional reform for economic growth. The conference was held in collaboration with the Center for Institutional Reform and the Informal Sector (IRIS) and the Harvard Institute for International Development (HIID). It featured such prominent speakers as Jeffrey Sachs and Steven Radelet (HIID), and Nancy Birdsall and Ricardo Hausmann (Inter-American Development Bank). In addition, the conference hosted some 700 participants from the

government and private sector, as well as academics and professional economists from Egypt and abroad.

### **Monetary Policy**

Egypt fixed its exchange rate during most of the 1990s, which brought the Egyptian pound under pressure and highlighted the need for an orderly exit strategy. To help in developing such a strategy, ECES conducted a large-scale research project to answer the following questions: Are the choices of exchange rate regime limited to hard fixing or fully floating? Are capital flight and banking crises avoidable? What is the best way to coordinate monetary and fiscal policies? Answers to these questions were developed by a group of international and local experts, including Michael Bordo (Rutgers University), Gerard Caprio (the World Bank), Eliana Cardoso (ECES), Mohamed El Erian (Pacific Investment Management Company and ECES), Faika El Refaie (Central Bank of Egypt and ECES), Ugo Panizza (American University of Beirut), Andres Velasco (Harvard University), and John Williamson (Institute for International Economics). The papers were first presented in a large conference in Cairo in November 2000, then published in the ECES working paper series and



**Monetary Policy and Exchange Rate Policies: Options for Egypt (November 2000).** Left to right: Mohamed El Erian (Pacific Investment Management Company and ECES), Mohamed Ozalp (Ozone Financial Advisors), and Andres Velasco (Harvard University).

subsequently in a volume entitled “Monetary Policy and Exchange Rate Regimes: Options for the Middle East,” edited by Eliana Cardoso and Ahmed Galal. The book was also translated into Arabic and published in collaboration with Al-Ahram Center for Translation and Publishing.

### Trade Policy

Like other developing countries, Egypt followed an inward-looking strategy after World War II. In an attempt to help Egypt integrate into the world economy in a way that maximizes benefits and avoids shortcomings, ECES undertook several research projects on Egypt’s bilateral and multilateral trade arrangements. The list includes the Egypt-EU association agreement; the US-Egypt free trade agreement; retaliation

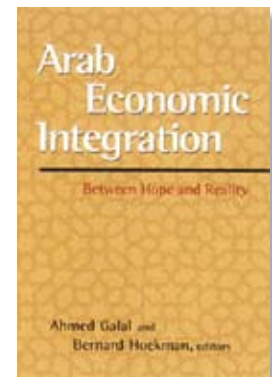


**Arab Economic Integration Between Hope and Reality (October 2001).** Left to right: Ian Boag (European Commission), Gamal Mubarak (NDP and ECES), Taher Helmy (then Chairman of the ECES Board of Directors), Youssef Boutros Ghali (then Minister of Economy), Ahmed Galal (then Executive Director of ECES).

under the WTO, trade policies for rapid development, Egypt’s export policy and most notably a research project entitled “Arab Economic Integration between Hope and Reality.” A brief description of the latter is given below.

Arab economic integration (AEI) has been on the agenda of Arab politicians, intellectuals, and the public at large for some 50 years. During this period, several integration attempts have been made. The Arab League was created in 1945, providing a potential focal point for carrying out such a project. The driving force for AEI has been a belief that the formation of a united Arab economic bloc would strengthen the bargaining power of the region in an increasingly polarized world

and offer the population an opportunity for better standards of living. In support of this effort, ECES conducted a large-scale research project to explain the mystery of the persisting gap between the hope for Arab economic integration and the reality of the limited achievements to date. The goal was to offer policymakers in Egypt and other Arab countries an assessment of the merits and means of – and obstacles to – pursuing regional integration in the future. Seven research papers were commissioned for the conference and were subsequently published in a volume edited by Ahmed Galal and Bernard Hoekman. A translation into Arabic was also published in collaboration with Al-Ahram Center for Translation and Publishing.



### Employment and Unemployment

The issue of unemployment came to dominate the agenda of policymakers in Egypt toward the end of the 1990s. There were also questions about the capacity of the economy to generate 600,000 jobs a year to accommodate the new entrants to the labor market. To contribute to this discussion, ECES commissioned 10 papers to find out what could be



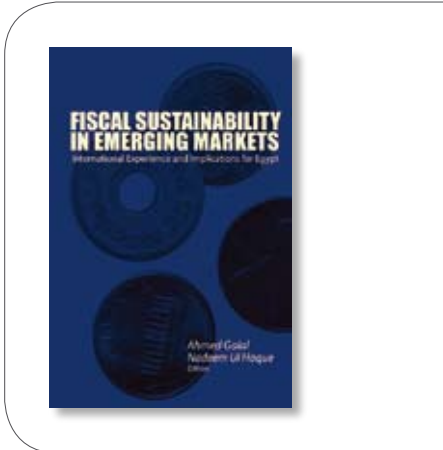
**Employment and Unemployment in Egypt (January 2002).** Left to right: Galal Amin (AUC), Said El Nagaar (New Civic Forum), Mustapha Nabli (the World Bank), and Hazem Biblawi (New Civic Forum).

done to boost job-creating growth in the short and medium runs; align the supply of labor with demand through reforms of the education system; and finally to make the labor market less segmented and more flexible while protecting workers. These papers were presented in a large conference, and subsequently published in the Center's working paper series. The authors included local and international experts such as Mustapha Nabli (the World Bank), Maurice Guirgis (LTC Technico-Economics) and Ali Abdel Gadir (Arab Planning Institute, Kuwait). The conference was opened by Egypt's Prime Minister at the time, Dr. Atef Ebeid, and featured several prominent participants such as Gamal Mubarak (National Democratic Party and ECES), Mohamed Taymour (EFG-Hermes and ECES), Ahmed Ezz (Ezz Group and ECES), Hazem Biblawi and Said El Nagaar (New Civic Forum), and Galal Amin (The American University in Cairo). A summary of the main ideas was published in a policy viewpoint.

### **Fiscal Sustainability**

Until 1991, Egypt had a chronic and large fiscal deficit that was brought under control in the context of a successful stabilization program. By the end of the 1990s, however, budgetary problems resurfaced and the budget deficit (and public debt) started growing in the context of rigid expenditures and revenues. Issues of fiscal sustainability became cause for concern, which prompted ECES to conduct a large-scale project to address the following questions: Is the level of fiscal deficit and public debt sustainable? Is government expenditure on investment, civil service, and social services efficient and equitable? Is the budgetary process sufficiently

transparent? In seeking answers to these questions, the Center commissioned nine papers, which were presented in a large conference in October 2003 in the presence of the Minister of Finance. Speakers included Willem Buiter (European Bank for Reconstruction and Development), Peter Montiel (Williams College), and Nadeem Ul Haque (International Monetary Fund). The papers were published in the working paper series as well as in an edited volume by Ahmed Galal (ECES) and Nadeem Ul Haque (IMF).



**Formalization of Business and Real Estate in Egypt (January 2004).** Left to right: Mounir Abdel Nour (Vitrac and ECES); Ahmed Galal (then Executive Director of ECES); Jack Kemp (Empower America); Medhat Hassanein (former Minister of Finance, Egypt); Faiza Abul Naga (Minister of International Cooperation); Hernando de Soto (ILD) and Taher Helmy (Baker & McKenzie).



**Fiscal Sustainability and Public Expenditures in Egypt (October 2003).** Left to right: Gannat El Samalouty (Cairo University), Heba Handoussa (ERF), Galal El Zorba (Nile Holding and then ECES Chairman of the Board), Nadeem Ul Haque (IMF), Samir Radwan (International Labour Organization).

### **The Informal Sector**

Integrating the informal sector into mainstream economic activity in Egypt is critical to achieving the dual objectives of rapid economic growth and better income distribution. The informal business sector is large, accounting for more than 80 percent of entrepreneurs and employing over 40 percent of workers. The size of real estate informality is also significant, amounting to over 60 percent of assets. This means that a large percent of human and physical resources in Egypt are underutilized. To address this problem, ECES and the



Institute of Liberty and Democracy (ILD, Peru) joined forces in conducting an extensive long-term study that concluded in 2004. The study identified the reasons behind widespread informality in Egypt and offered concrete solutions (including draft legislation) to address the problem. The findings were presented to the Egyptian cabinet in January 2004, and immediately thereafter in a large conference in Cairo and another one in Washington, D.C. (in collaboration with the Institute of International Economics). While the comprehensive five-volume study was not published, the Center produced a paper on the potential winners and losers from formalization, which later appeared in an edited book by the World Bank. An ECES policy viewpoint on the issue was also published.

### **EGYPT ON THE ECONOMIC CUSP**

*“Egypt stands on the cusp of an economic revolution. If the reforms proposed by the ECES/ILD study are implemented, it will ignite the most far-reaching economic and social transformations since the Japanese, Korean and Taiwanese economic wonders were created in the aftermath of World War II.*

*If Egypt implements these reforms, it could ignite an economic transformation not only in the Middle East but throughout the entire Arab and Islamic world.”*

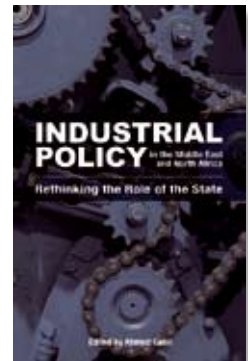
**Jack Kemp, Empower America**  
<http://www.townhall.com>



**Rethinking the Role of the State: An Assessment of Industrial Policy in MENA (November 2005).** Left to right: Samiha Fawzy (Ministry of Trade and Industry), Ahmed Galal (then Executive Director of ECES), Mustapha Nabli (World Bank), and Marcus Noland (IIE).

### **Rethinking the Role of the State: An Assessment of Industrial Policy in MENA**

Most governments in the MENA region use trade policy to protect certain industries, provide tax incentives to promote a particular type of investment, and make subsidized credit available to firms of a certain size. Such government intervention, known as industrial policy, was the topic of a large conference held by ECES on November 13, 2005. Speakers in the conference included Hasan Ersel (Sabanci University, Turkey), Mona El Garf (Cairo University, Egypt), Ahmed Galal (ECES and the World Bank), Najib Harabi (University of Applied Sciences, Northwestern Switzerland), Mustapha Nabli (World Bank), and Marcus Noland (Institute for International Economics). The papers were published in the working paper series and are forthcoming as an edited volume by Ahmed Galal.



## The Egyptian Economy: Current Challenges and Future Prospects



Minister of State for Economic Development Osman M. Osman delivers a keynote speech during the opening session.

The purpose of this conference was to take stock of key reforms undertaken in Egypt in recent years and discuss reform prospects in areas such as macroeconomic and institutional reforms. In addition, the conference focused on two specific sectors; namely the healthcare and energy sectors.



From left to right: Mounir Abdel Nour (Vitrac and ECES), Hanaa Kheir-El-Din (ECES) and Hossam Badrawi (NDP) at the concluding session.

At the macroeconomic and institutional levels, the conference addressed topics such as growth, distribution and poverty reduction; monetary policy and exchange rate regimes; trade liberalization and competitiveness; unemployment and job creation; and the new pension system reform. On growth and poverty reduction, specific policies and strategies were highlighted that would simultaneously lead to high and sustained GDP growth, more equitable distribution and a

rapid reduction in poverty. Under monetary policy, the main object was to present a review of the salient developments in the structure of monetary policy in Egypt starting 1991 to 2005. The effect of depreciation of the Egyptian pound on consumer prices and its implications on the poor were also discussed. As for unemployment and job creation, a comprehensive assessment was conducted of the impact of diverse employment and macroeconomic policies on job creation in Egypt. Lastly, the newly proposed pension system was explained in detail and specific proposals were offered to ensure that the new system benefits all concerned parties including employees, employers and the national economy.

At the sectoral level, the conference focused on the *health-care and energy sectors*. The purpose was to assess each sector in three areas: financing, organization and policy management. With respect to the health sector, the conference explored alternative financing methods to help mobilize additional funds for health care development; analyzed the pros and cons of decentralization; and discussed ways of promoting public-private partnerships and improving public health management and performance. As to the energy sector, an analysis and forecast were conducted for Egypt's energy resources of oil and natural gas. An investigation was also conducted of the impact of removing energy subsidies in Egypt on energy-intensive industries.

This large-scale project involved commissioning several research papers, the findings of which were discussed in a widely-attended two-day conference in Cairo. Research papers were published in the working paper series and are forthcoming as an edited volume by Hanaa Kheir-El-Din .



## 2007 IN FOCUS

In 2007, ECES completed 16 research projects, held 16 forums to discuss research findings, and produced and disseminated 22 varied publications. The research activities ranged from flagship activities—large-scale projects with multiple papers—to more focused projects with emphasis on a concrete problem, and periodic activities such as the Business Barometer and the annual workshop for the training of economic reporters, and contributing to the annual Global Competitiveness Report. The Center also devoted some time to reviewing draft economic legislations, and continued the tradition of bringing world-renowned economists to Egypt in the context of its distinguished lecture series. The Center also produced the first issue of its new publication entitled Egypt's Economic Statistics. Below is a brief account of some of these activities.

### Flagship Activities

In 2007, the Center carried out two large-scale research activities: Employment, productivity and poverty in Egypt; and What drives prices in Egypt?

#### *Employment, Productivity and Poverty in Egypt*

Economic growth reduces poverty through raising employment, and increasing labor productivity and real wages. It is sometimes claimed that raising productivity through modern technology and innovative production techniques reduces demand for labor. However, empirical evidence has shown that new technologies generate productivity growth and create more productive, higher-skilled and better-paid jobs. At the same time, raising incomes and reducing poverty improve workers' productivity since they will be able to enjoy better health and acquire more education.

Among the major issues facing the Egyptian economy are the increasing levels of poverty and income inequality. More recently, attention has focused on the impact of economic reforms on poverty reduction and job creation. The upsurge in economic growth that took place in the last few years was not correlated with a decline in the incidence of poverty.

While a large proportion of the new entrants to the labor market is absorbed by the informal sector, the types of jobs available in this sector are not productive enough and offer very low wages. In addition, the mismatch between the outcomes of the education system and the needs of the labor market raised unemployment rates.

The agricultural sector, which also absorbs a large share of the labor force, is deteriorating in terms of productivity and wage levels. The non-agricultural private formal sector is mainly dominated by micro and small enterprises. Despite the important role of these firms in creating jobs, they offer low wages and are mainly concentrated in traditional sectors, thus lack the capabilities to adopt new technologies and upgrade labor productivity. These factors reduced the ability of the economy to create productive jobs, raise income levels and consequently reduce poverty.

A large number of studies examined issues related to job creation policies and characteristics of the Egyptian labor market. Others dealt with the relationship between growth and poverty, while a third group of studies was concerned with measuring productivity. However, very little has been written on the relationship between employment, productivity and poverty. Moreover, recent developments in the Egyptian economy in terms of high unemployment rates and widespread poverty coupled with high growth rates underscored the need to address the relationship between these issues, especially at the sectoral level.



Naglaa El Ehwany (ECES) presents the findings of her research on «the employment intensity of growth in the Egyptian economy, with a focus on the manufacturing industries».



From left to right: Werner Sengenberger (ILO), Hazem Hassan (ECES), and Hanaa Kheir-El-Din (ECES).

The main research issues addressed by the conference include:

1. Employment and growth in the construction sector in Egypt: Informality and human capital development.
2. Employment intensity of growth in the Egyptian economy with reference to the manufacturing industries.
3. The main trade-offs between labor-intensive employment and productivity growth.
4. The constraints that face the agricultural sector and limit its ability to raise employment, increase productivity and reduce poverty.
5. How to enhance SMEs through linkages, clustering and networking with large firms?
6. Do female workers face wage discrimination or other constraints in landing decent jobs?

A one-day conference was held on 26 June 2007 to discuss the results of six research papers undertaken by in-house or outside experts. The opening session featured a rich keynote address delivered by Werner Sengenberger (ILO).

### **What Drives Prices in Egypt?**

Over the past two years, the wide-ranging economic reforms pursued by the Egyptian government have led to robust economic expansion, a healthy external position and increased investor confidence. Notwithstanding these positive macroeconomic developments, inflation has been rising since April 2006, reaching 11.8 percent in October 2006 compared to 3.1 percent in October 2005. The average inflation since the beginning of fiscal year 2006/2007 was

reported by the Ministry of Finance at almost 9.7 percent, compared to 3.9 percent during the previous year.



From left to right: Hanaa Kheir-El-Din (ECES), Mohamed Taymour (ECES), and Klaus Schmidt-Hebbel (Central Bank of Chile).

Clearly, inflation is costly to an economy. It redistributes both income and wealth. Earners of fixed income, especially civil servants and pensioners see inflation erode their real income. Unanticipated inflation redistributes wealth from creditors to debtors, helping borrowers and hurting lenders. Inflation impairs economic efficiency because it distorts price signals. By making it harder to distinguish between changes in relative prices and changes in the overall price level, inflation could lead to misallocation of resources. Greater uncertainty about future prices leads to rising real interest rates that tend to reduce the rate of investment and capital formation.



Omneia Helmy (ECES) presents the findings of her research paper entitled «Does Fiscal Policy Drive Prices in Egypt?».

Inflation comes either from the demand side (aggregate demand rising more rapidly than the economy's productive potential), or from the supply side (rising production costs),

or from structural factors (related to sectoral bottlenecks and institutions). But one key fact is that inflation develops an internal momentum which is difficult to stop once underway.

The purpose of this research was to identify factors driving prices in Egypt and their relative importance in an attempt to find a satisfactory balance between the growth performance and the price level.

This research project culminated in a two-day conference, held on 25-26 November 2007, which brought together leading academics, researchers, policymakers, prominent figures from private sector and the media to address the following questions in Egypt:

- 1- Inflation and growth in Egypt: Is there a threshold effect?
- 2- How accurate and reliable are the consumer and wholesale price indices?
- 3- How to implement a full-fledged inflation-targeting framework?
- 4- Does fiscal policy threaten price stability?
- 5- Wage growth and price inflation: which leads the other in Egypt?
- 6- Does product market competition reduce inflation?

Six research papers were conducted to address the above questions. While Egypt was the focus of the analysis, the papers drew on the relevant literature and international experience.

### **Focused Projects**

In 2007, the Center conducted five focused projects as elaborated below.

#### ***Egypt's Global Competitiveness: Unlocking the 2006-07 Report***

The purpose of this research was to take a closer look at the results of the 2006-07 Global Competitiveness Report to address questions such as how far has Egypt gone along the route covered by its comparators on the nine pillars of the Global Competitive Index of the report. What are Egypt's main comparative (dis)advantages? And more broadly, are reform efforts in Egypt paying off adequately, and if not, why?

The crux of the analysis is that our reform efforts have not yet put us on an equal footing with other emerging economies as regards competitiveness. Besides the need to enhance macroeconomic stability in the economy, Egypt would do well to accelerate structural reforms especially as related to the financial sector and the regulatory environment. To keep pace with a rapidly changing world and overcome persistent problems in the economy would require a bolder approach to reform, while realizing that success will ultimately rest on the presence of a strong political will for reform. It also entails setting forth communication plans capable of effecting behavioral changes among the main stakeholders of the reform process. This study was published in the policy viewpoint series.

### ***An East Asian Renaissance: Ideas for Growth***

Emerging East Asia has achieved remarkable growth rates since 1998, and successfully integrated both regionally and globally. This study attempts to contribute to the debate on what this region—and other middle-income countries—need to do to join the ranks of developed nations. Besides the importance of exploiting economies of scale, the paper points out that the harder task ahead for Emerging East Asia is to complement global and regional integration with domestic integration. This requires strengthening social



Homi Kharas (World Bank) discusses the successful growth experience of East Asia and derives valuable lessons for middle-income countries.

cohesion so that societies stay as strong as economies; addressing issues of inequality and rapid urbanization; and providing clean governments, which efficiently reinvest the economic returns that accompany fast growth. If developing East Asia's policymakers can succeed in making this third

integration as successful as the first two, they can, within a generation, eliminate poverty and hence provide valuable lessons for middle-income countries around the world. This study was published in the working paper series.

### ***An Assessment of Maritime Transport and Related Logistics Services in Egypt***

This study provides an assessment of the status of maritime and related logistics services in Egypt in order to identify the impact of trade liberalization on this sector. Moreover; it attempts to identify the reasons behind the weak performance of some maritime and related logistics services, and provides policy and regulatory suggestions to improve such services and enhance Egypt's competitiveness. The study finds out that the maritime and related logistics services in Egypt suffer from a number of regulatory and policy pitfalls including overlapping jurisdictions between different authorities in ports, absence of separating ownership and regulation,



Omneia Helmy (ECES) and Ahmed Ghoneim (Cairo University) assess maritime and logistics services in Egypt, and suggest proposals for improving such services to enhance the competitiveness of the Egyptian economy.

heavy governmental control over pricing, domination of public sector in logistics services and lack of clear regulations. The study proposes a number of policy recommendations including the need for establishing an effective independent regulator for the maritime sector; fixing the pricing systems of logistics services while enhancing the financial autonomy of port authorities, accelerating automation procedures of ports, overcoming the scarcity and inconsistency of data, creating an efficient regulatory framework for multimodal operations, enhancing cooperation with international

institutions, and promoting public-private partnerships. This study was published in the working paper series.

### ***Corporate Social Responsibility***

The recent interest in corporate social responsibility (CSR) is due to increased globalization, which advocates organizing the economy on the basis of private entrepreneurship and allocating resources based on market forces. Globalization is associated with positive as well as negative impacts on producers and consumers in both developed and developing countries. Two negative aspects are of particular importance in reviving concern about CSR: the increased deterioration of income distribution and the failure of many large corporations, which were thought to have been both viable and financially sound. CSR includes four dimensions: i) economic (or financial) responsibility reflected in viability, profit maximization, and growth of the corporation over time; ii) legal responsibility; iii) ethical responsibility; and iv) discretionary or "philanthropic" responsibility.

The purpose of this project was to investigate, in light of international experience, the extent of CSR practices, and the role of various stakeholders in enhancing CSR. The results of this study were presented in a roundtable discussion held in December and will be published in the working paper series.



Nihal El-Megharbel (ECES) discusses relevant international experience in the area of corporate social responsibility.

## ***Trade in Services through the Temporary Presence of Natural Persons: a Win-Win Formula for Egypt and the EU***

With the stall of negotiations under the WTO Doha Development Agenda (DDA), many countries have been pursuing bilateral and regional preferential trade arrangements in the area of trade in services. In the context of these arrangements and the Association Agreement between Egypt and the EU, this study explores the one specific area of trade in services of particular interest to Egypt: the liberalization of service delivery through the temporary presence of natural persons, or what is known as 'Mode 4' under the General Agreement on Trade in Services (GATS). Specifically, the study addresses the following questions:

- 1- What are the key issues involved in the liberalization of 'delivery of services through the temporary presence of natural persons'?
- 2- Given the traditional reluctance of developed countries to liberalize this mode of service delivery (vis-à-vis developing countries), are there economic or other arguments as to why it could be advantageous to the EU as well as to Egypt?
- 3- What key issues need to be taken into consideration in the specific Egypt-EU context so as to maximize Egypt's negotiating outcomes at the business level?

Regarding dissemination, a roundtable discussion was held on 6 January 2008, and the study will be published in the working paper series.



From left to right: Abdul Hamid Mamdouh (WTO), Hanaa Kheir-El-Din (ECES), Akrum Bastawi (Ministry of Trade and Industry), Samiha Fawzy (Ministry of Trade and Industry), Magda Shahin (TRAC-AmCham) and Johannes Bernabe (ICTSD).

## **Policy Briefs**

The Center also completed two large-scale research projects in collaboration with the UNDP: Strengthening the capacity of the Egyptian parliament in legislation and oversight of WTO and other trade agreements; and the legal empowerment of the poor in Egypt.

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

The objective of this research project was to update Egypt's parliamentarians on recent developments in international trade and their economic and welfare implications. Specifically, it covered four main issues: regional trade agreements; the Doha Development Round; trade and poverty reduction; and liberalization of trade in services. The four policy briefs conducted and published under this project (available in both English and Arabic) were undertaken by ECES and funded by UNDP in the context of a program of collaboration with the Egyptian People's Assembly. Four research digests were published as separate supplements to the policy briefs. A sizeable manual was also produced in both English and Arabic under the title *Handbook on Parliament and International Trade*. Below is a brief description of each of the four studies as well as the handbook.

#### **Regional Trade Agreements**

This study describes various forms of RTAs and the reasons for their recent proliferation, the main RTAs in which Egypt is engaged and the impact of regional integration. In addition, it highlights the consistency between behind-the-border policies with various RTAs and the World Trade Organization (WTO) commitments.

#### **Doha Development Agenda**

This paper explains the WTO, traces the history of the General Agreement on Tariffs and Trade (GATT), and discusses the outcome of the Fourth Ministerial Conference in Doha. It also explores the Doha Development Round of trade negotiations and Egypt's position regarding agricultural liberalization and market access for non-agricultural products.

### Trade Liberalization and Poverty

The purpose of this study was to discuss the linkages between trade liberalization and poverty alleviation in an attempt to strengthen the capacity of Egyptian parliamentarians during trade negotiations and the drafting of trade-related legislations. The aim is to enable them to have a more effective role in formulation, implementation and oversight of trade agreements.

### Trade in Services

This paper explains what is meant by trade in services, and why this concept has gained importance over the past 30 years. The study identifies major differences and similarities between trade in goods and that in services; provides an overview of the General Agreement on Trade in Services (GATS); explains how services have been included in regional trade agreements (RTAs); and assesses the possible impact of liberalizing trade in services on the balance of payments, labor and cost of production. It also provides an overview of the latest trade in services initiatives at the multilateral and regional levels.

### Handbook on Parliament and International Trade

The Handbook on Parliament and International Trade is designed for the use of Egyptian parliamentarians to enhance their role—as legislators and monitors of the government—in discussing foreign trade issues in general and the impact of trade agreements on different economic variables and poverty in particular. The aim of the handbook is to fill the gap between the increased importance of trade policy and the need to monitor it more effectively by parliamentarians.

### The Legal Empowerment of the Poor

Conducted by ECES under the international project of the UN High-Level Commission on Legal Empowerment of the Poor, this research project attempted to contribute to ongoing efforts aimed at empowering the poor in the areas of labor, establishing businesses, real estate property rights and access to the rule of law. Research findings were discussed at four expert group meetings held at ECES that brought together specialized professionals, civil society organizations, academics, representatives of the banking system as well as several government officials. The results were also discussed in a large one-day conference organized on 9 September by ECES in collaboration with the Social

Fund for Development (SFD) and the UNDP. The purpose of the four studies was to establish a national dialogue on the link between exclusion, poverty and the law. Research papers were published as policy briefs (available in Arabic) and a conference proceedings report was presented to the UN High-Level Commission on Legal Empowerment of the Poor. Below is a brief description of each of the four studies.



From Left to right: Osman M. Osman (Minister of State for Economic Development), Fouad Sultan (former Minister of Tourism); and Ali El-Meselhi (Minister of Social Solidarity) during the opening session of the ECES conference on «Legal Empowerment of the Poor.»

### Labor Rights

This study addresses the link between poverty and depriving individuals of their labor rights, including decent work. It discusses means of empowering the poor labor force in accordance with international charters and as set by the International Labour Organization (ILO).

### Establishing Businesses

This paper describes the informal business sector in Egypt, in terms of its size and characteristics, and discusses key problems facing it as well as reform attempts over the past few years. In addition, the study explores key proposed reform alternatives.

### Real Estate Property Rights

The focus of this study is on the mechanisms of gaining and exercising real-estate property rights under the Egyptian legal system. It aims to identify relevant legal and financial impediments, particularly those facing the poor, while attempting to propose mechanisms for removing such impediments.



### Access to the Rule of Law

This policy brief explains the right to access the rule of law, and identifies key impediments that prevent individuals, particularly the poor, the illiterate and women from exercising such right. Additionally, the study puts forth a set of proposals to eliminate such impediments.

### Distinguished Lectures

#### *The Idea of Social Capital: Communities as Economic Institutions*

Economists have traditionally studied markets and the state. They have developed a sophisticated theory that uncovers the desirable balance between the two institutions. What has been missing from that enormous literature is an institution of the greatest importance in the lives of people in the poor world, namely, communities. In this lecture, Prof. Partha Dasgupta (University of Cambridge) regarded communities as a class of economic institutions. Specifically, he showed the way in which communities solved resource allocation problems in villages and towns; and described the ways in which they differ from markets. He also pointed out the strengths and weaknesses of communities as well as related the idea of communities to a somewhat different subject studied recently by sociologists and political scientists, namely, "social capital".



Partha Dasgupta (University of Cambridge) explains the idea of social capital.

### Draft Law Reviews

This new series was introduced in 2006 to support economic reform in Egypt by providing timely input on proposed legislation in light of international experience. The first issue, published in 2006, contributed to the debate on the consumer protection draft law in 2007, assessed the real estate proposals for improvement. The positive feedback in the acader



## **Egypt's Economic Statistics**

The Center published the first issue of its new annual publication entitled "Egypt's Economic Statistics" that highlights basic facts and data on the Egyptian economy. This publication caters to needs of investors, business community, policy makers and academicians for summary information on the various aspects of the Egyptian economy.

## **Periodic Activities**

Besides the above research projects, ECES produced two editions of the Business Barometer, as well as organized a two-day workshop for economic reporters. It also continued to act as a local partner for the World Economic Forum in the process of compiling an index of the competitiveness of the Egyptian economy.

The Business Barometer reports the results of a sample survey of large public and private firms. It covers their assessment of economic growth and the results of their operations in terms of their production, sales, inventories, prices, wages, employment and investment over the preceding six months. It also summarizes their expectations for overall future economic performance as well as own activities for the next six months. The July 2007 edition included three new sectors surveyed for the first time, namely transportation, communications and financial intermediation.

The aim of the training of economic reporters' workshop was to help reporters do their job more effectively and expose them to new ideas. This year's workshop covered issues related to inclusive growth; productivity, labor and poverty reduction; basic concepts of inflation; credibility of the media; industrial policy; and trade liberalization with a focus on the maritime transport sector. As usual, this workshop was organized in collaboration with the Association of Economic Reporters.



The Egyptian Center for Economic Studies was selected in 2007 as one of the leading think tanks in the region in the recently released 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](http://www.homepage.villanova.edu/james.mcgann).

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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 (U.S.A) 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.

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### *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).

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Omneia Helmy is Lead economist at ECES and professor of economics at Cairo University. She is an active member of several distinguished institutions including the Academy for Scientific Research, the Egyptian Society for Political Economy, Statistics and Legislation, and the Youth Committee of the National Democratic Party. She is affiliate professor of economics at George Mason University, as well as a training facilitator for the World Bank and the Center for Economic and Financial Research and Studies at Cairo University. Dr. Helmy earned her Ph.D. from Cairo University.

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François Bourguignon is currently director of the Paris School of Economics. He previously served as Chief Economist of the World Bank and Senior Vice President, Development Economics from October 6, 2003 to October 22, 2007. He is internationally recognized as an intellectual leader in the economics of public policy, inequality, economic growth, income distribution and development. He also has extensive practical experience of the World Bank and its interactions with developing countries and other partners.

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Hernan Büchi is the founder, advisor, and former board member of the Institute for Liberty and Development, Chile. Previously, he was president of the institute's Center for International Economics, the former Chilean minister of finance and national planning, and a candidate in the Chilean presidential election of 1989. Mr. Büchi received his M.A. in Economics from Columbia University.

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Eliana Cardoso is professor of economics at Escola de Economia da Fundacao Getulio Vargas, Sao Paulo. She has taught at Boston University, the Fletcher School of Law and Diplomacy at Tufts University, and Yale. She also worked for the World Bank where she served as the lead economist for the China and Mongolia department. She has written extensively on issues such as inflation, income distribution, development, and exchange rate policy. Dr. Cardoso earned her Ph.D. in economics from MIT.

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Sir Partha Sarathi Dasgupta is the Frank Ramsey Professor of Economics at the University of Cambridge, United Kingdom, and a fellow of St John's College, Cambridge. From 1991 to 1997, Prof. Dasgupta was chairman of the scientific board of the Beijer International Institute of Ecological Economics of the Royal Swedish Academy of Sciences and, from 1989 to 1992, professor of economics and philosophy, and director of the Program in Ethics in Society at Stanford University. Research interests have covered welfare and development economics; the economics of technological change; population, environmental and resource economics; the theory of games; and the economics of under-nutrition.

## **HERNANDO DE SOTO**

Hernando de Soto is currently president of the Institute for Liberty and Democracy (ILD) in Lima, Peru. Mr. de Soto is also a frequent advisor to heads of state worldwide and the director of various mining firms. He has served as an economist for the General Agreement on Tariffs and Trade, as president of the Executive Committee of the Copper

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Leroy P. Jones is a professor of economics at Boston University and has been the CEO of the Boston Institute for Developing Economies since 1987. His entire professional career has been devoted to policy reform in developing and transition economies. While he works in the areas of privatization and SOE reform, regulation, industry, pricing, cost-benefit analysis, taxation, public expenditure analysis, development and trade, he is best known for his ground-breaking work in public enterprise reform and privatization. He has worked in more than 40 countries, including nine years residence in Asia. Dr. Jones holds a Ph.D. in economics from Harvard University.

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Michael Klein is currently World Bank-IFC vice president for Private Sector Development and chief economist, International Finance Corporation. Prior to his current position he was the director of the joint Bank-IFC Private Sector Advisory Services from 2000 to 2003 and chief economist of the Royal Dutch/Shell Group from 1997 to 2000. He first joined the World Bank in 1982 as an economist on oil and gas projects, trade and industrial policy, financial sector reform, and macroeconomic analysis. Before joining the World Bank, Dr. Klein was active in Amnesty International and served on its German board (1977-79) and International Executive Committee (1979-82). Dr. Klein received his Ph.D. in economics from the University of Bonn, Germany.

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Anne O. Krueger served as the first deputy managing director of the International Monetary Fund from September 2001 to August 2006. Before her time at the IMF, Dr. Krueger was

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### **JEAN-JACQUES LAFFONT (1947-2004)**

Jean-Jacques Laffont was a professor of economics at the University of Toulouse and the director of the Institut d'Economie Industrielle, which he created in 1990 and has since become one of Europe's leading centers for economic research. He held visiting positions at the California Institute of Technology, the University of Pennsylvania, Harvard University and the Australian National University. He was president of the Econometric Society (1992) and of the European Economic Association (1998). Dr. Laffont obtained his Ph.D. from Harvard.

### **ROBERT LAWRENCE**

Robert Lawrence is the Albert L. Williams professor of trade and investment at the John F. Kennedy School of Government, Harvard University. He is also a senior fellow at the Institute for International Economics and a research associate at the National Bureau of Economic Research. Dr. Lawrence was appointed by President Clinton to serve as a member of his Council of Economic Advisors in 1999. He held the New Century Chair as a nonresident senior fellow at the Brookings Institution and founded and edited the Brookings Trade Forum. Dr. Lawrence received his Ph.D. in economics from Yale.

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Robert Mabro is currently a fellow of St. Antony's College, Oxford and former director of the Oxford Institute for Energy Studies. Prof. Mabro began his academic career at the School of Oriental and African Studies at London University then moved on to Oxford to take up a position at Oxford University as Senior Research Officer in the Economics of

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### **VINCENT J. MCBRIERTY**

Vincent J. McBrierty is a former professor of physics at Trinity College, Dublin, Ireland and was the pro vice chancellor for Academic Affairs at Sultan Qaboos University in Oman. Originally from Ireland, he has had a long and distinguished academic career as both an administrator and as a physicist. Dr. McBrierty has published extensively on the relationship between industry and academia. He is an expert on science policy and Ireland's experience joining the knowledge economy.

### **MICHAEL MUSSA**

Michael Mussa has been a senior fellow at the Institute for International Economics since 2001. From 1991-2001 he was the economic counselor and director of the Research Department at the International Monetary Fund. Before joining the staff of the IMF, he was a long time member of the faculty of the School of Business in the University of Chicago, where he also earned his Ph.D. He was a faculty member of the Department of Economics at the University of Rochester from 1971 to 1976. During this period he also served as a visiting faculty member at the graduate center of the City University of New York, the London School of Economics, and the Graduate Institute of Economic Studies in Geneva, Switzerland. By appointment of President Reagan, Dr. Mussa also served as a member of the U.S. Council of Economic Advisors from August 1986 to September 1988.

### **JOHN NELLIS**

John Nellis is currently a non-resident senior fellow at the Center for Global Development, and a principal at International Analytics. Dr. Nellis is also a consultant on privatization and public sector reform for a number of organizations including the World Bank, the International Monetary Fund, the International Law Institute, and the G17 Institute. From 1984-2000, he was a staff member at the

World Bank, eventually reaching the position of director of the Private Sector Development Department. Prior to his work at the World Bank, Dr. Nellis held research and teaching positions at the University of Nairobi, Carleton University in Ottawa, Canada, and the Maxwell School at Syracuse University. He served two years as the representative of the Ford Foundation in North Africa. Dr. Nellis has published extensively and authored a number of books and articles with a concentration on the effects of privatization. He earned his Ph.D. in political science from Syracuse University.

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Roger G. Noll is a professor of economics at Stanford University, where he is also director of the Stanford Center for International Development. His principal research interests are antitrust, regulation, communications policy, the economics of sports, and the positive theory of public law. Dr. Noll is the author or co-author of thirteen books and monographs and over 300 articles on a wide range of topics. He earned his Ph.D. in economics from Harvard University.

### **DOUGLASS C. NORTH**

Douglass C. North is an American economist and co-recipient of the 1993 Nobel Prize in economics for helping renew research in economic history by applying modern economic theory and quantitative methods to historical economies. North shared the award with American economist Robert W. Fogel. Dr. North taught economics at the University of Washington in Seattle from 1950 until he became professor emeritus in 1983. Also in 1983, he accepted a position as professor of law, liberty, and economics at Washington University in St. Louis, Missouri. North received his Ph.D. from the University of California at Berkeley.

### **JOHN PAGE**

John Page is the Chief Economist for the Africa Region at the World Bank. In this position, he provides strategic guidance and policy advice for the Bank's country strategies and operations in Africa. He joined the Bank in 1980 and has undertaken a wide range of research, policy and operational assignments. From 1985 to 1992 he was a divisional manager for operations in Latin America. In 1992 and 1993 he was the senior economic advisor to the Policy Research

Department. He was also chief economist of the Middle East and North Africa Region and director of its Social and Economic Development Group from 1993 to 1999. Before assuming his current position in March 2000, he was the Bank's director of Economic Policy. Dr. Page obtained his Ph.D. from Oxford University.

### **SAMIR RADWAN**

Samir Radwan is currently consultant to the General Authority for Free Zones and Investment. Previously, he served as managing director of the Economic Research Forum and as advisor to the director general on development policies and councilor for Arab countries at the International Labor Organization in Geneva. He was a former lecturer at the Faculty of Economics at Cairo University and at the Institute of Economics and Statistics, Oxford, and member of St. Anthony's College, Oxford. He has participated and led several employment policy missions to various developing and transition economies and has acted as a consultant to numerous international organizations including UNDP, the World Bank, FAO, OECD, and the Arab Labor Organization, among others, and was adviser to the prime minister of Egypt for the development of a National Employment Program (2000-2001). Dr. Radwan received his Ph.D. from the University of London.

### **JEFFREY SACHS**

Jeffrey Sachs is director of the Earth Institute at Columbia University, and Quetelet Professor of Sustainable Development, and professor of Health Policy and Management at Columbia. He was also a special advisor on the Millennium Development Goals to United Nations Secretary General Kofi Annan, and a research associate at the National Bureau of Economic Research. Previously, Dr. Sachs has been an advisor to the IMF, the World Bank, the OECD, the World Health Organization, and the United Nations Development Programme. He received his Ph.D. from Harvard.

### **IBRAHIM SHIHATA (1937-2001)**

Ibrahim Shihata was an international economic and financial lawyer, scholar, international agency practitioner and creator

of international institutions. His career spanned Egyptian government service, Ain-Shams University (where he was a professor), IFAD (where he served as executive director), the Arab Fund for Social and Economic Development, the Kuwait Fund for Arab Economic Development, the OPEC Special Fund, IDLI (which he chaired) and, finally, the World Bank where he served for over 15 years as general counsel, senior vice president and secretary general of the ICSID investment arbitration center. He received an LL.D. from Harvard University.

### **LYN SQUIRE**

Lyn Squire currently serves as the director of the Global Development Network. Prior to this, he worked with the World Bank for 30 years where he held several prestigious positions both in Operations and Research. Among his many accomplishments, Dr. Squire established the Economic Research Forum in Cairo when he was chief economist for the Middle East and North Africa. He also served as director of development policy in the Office of the Bank's Chief Economist and as staff director for the 1990 World Development Report on Poverty. Dr. Squire has researched and written extensively on a wide array of development related subjects and has co-authored six books. His current area of research focuses on aid effectiveness, inequality and project evaluation.

### **NICHOLAS STERN**

Nicholas Stern was the World Bank chief economist and senior vice president, development economics from 2000-2003. From 1994 to late 1999, he was chief economist and special counselor to the president at the European Bank for Reconstruction and Development. Having extensively served as an economic advisor to businesses, governments and international institutions, Dr. Stern has also held a number of positions in academia, including visiting scholar or professor at the Massachusetts Institute of Technology, the Ecole Polytechnique in Paris, the Indian Statistical Institute in Bangalore and Delhi, and the People's University of China in Beijing, where he is an Honorary Professor. Dr. Stern earned his Ph.D from Oxford University.



## VITO TANZI

Vito Tanzi is the former director of the Fiscal Affairs Department at the International Monetary Fund. Prior to joining the IMF in 1974, Prof. Tanzi was professor and chairman of the department of economics at the American University and was a faculty member at George Washington University. He was senior associate at the Carnegie Endowment for International Peace, and from 1990 to 1994 he was president of the International Institute of Public Finance. From May 2001 to July 2003 he served as Undersecretary for Economy and Finance in the Italian government. In addition, he has served as a consultant for the World Bank, the United Nations, the European Central Bank, the European Commission, the Organization of American States, and the Stanford Research Institute.

## JOHN B. TAYLOR

John B. Taylor is currently the Raymond Professor of Economics at Stanford University and the McCoy Senior Fellow at the Hoover Institution. Dr. Taylor served as under secretary for international affairs, U.S. Department of the Treasury during the period 2001-2005. Dr. Taylor is a globally recognized expert on international monetary and financial issues and has produced extensive research on monetary policy, fiscal policy, and international economic policy. He earned his Ph.D. in economics from Stanford University.

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**Towards A Value-Added Tax in Egypt**

A.M. Abdel-Rahman  
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-Dakrouy  
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 / PB1 / English or Arabic

**Doha Development Agenda (2/4)**

Magda Shahin  
2007 / PB1 / English or Arabic

**Trade Liberalization and Poverty (3/4)**

Omneia Helmy  
2007 / PB1 / English or Arabic

**Trade in Services (4/4)**

Ahmed Ghoneim  
2007 / PB1 / English or Arabic

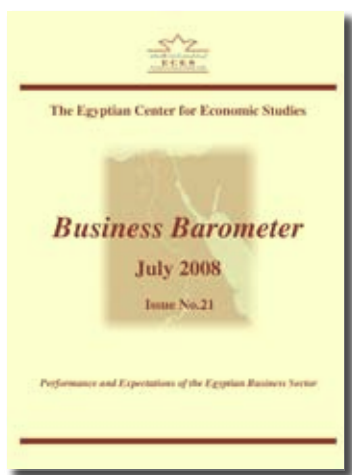
## DRAFT LAW REVIEW SERIES

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 & Yasser Selim  
2006 / DLR1 / Arabic

## BUSINESS BAROMETER

The Business Barometer has been a biannual publication since 1998. To date, ECES has published 19 editions, the latest of which is BB19 published in July 2007.



## EGYPT'S ECONOMIC STATISTICS

Egypt's Economic Statistics  
2007 / EES1 / English

## BOOKS

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-U.S. 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



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Fax : (202) 33032228

# FINANCIAL STATEMENTS

## **AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE EGYPTIAN CENTER FOR ECONOMIC STUDIES (ECES)**

We have audited the financial statements of the Egyptian Center for Economic Studies (ECES) an independent not for profit association, represented in the balance sheet as of 31 December 2007 and the statements of revenues and expenses, cash flows and receipts and disbursements for the year then ended. These financial statements are the responsibility of the Association's management. 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. The Egyptian Standards on Auditing require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We have obtained the information and explanations, which we considered necessary for the purpose of our audit. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements referred to above and the related notes, present fairly, in all material respects, the financial position of the association as of 31 December 2007, and the revenues and expenses, cash flows as well as the receipts and disbursements for the year then ended in accordance with accounting policies detailed in note (2) to the financial statements.

The association maintains proper books of accounts which comply with the requirements of the law and the association's bylaws, and the financial statements are in agreement therewith.

The financial information included in the Board of Director's report, which has been prepared in accordance with the requirements of Law 84 of 2002 and its Executive Regulations, are in agreement with the association's books, where applicable.

Taha M. Khaled

*Chartered Accountant*

R.A.A. 5136

Cairo, 13 March 2008

**BALANCE SHEET**  
31 December 2007

	Note	2007 L.E.	2006 L.E.
<b>ASSETS</b>			
<b>LONG TERM ASSETS</b>			
Property and equipment	4	7,097,024	7,528,592
Restricted cash	5	50,000,000	50,000,000
<b>Total long term assets</b>		57,097,024	57,528,592
<b>CURRENT ASSETS</b>			
Cash and bank balances	6	7,636,574	7,269,902
Other debit balances	7	152,913	58,137
<b>Total current assets</b>		7,789,487	7,328,039
<b>CURRENT LIABILITIES</b>			
Other credit balances	8	369,946	161,031
Claim provision		97,584	97,584
<b>Total current liabilities</b>		467,530	258,615
<b>Working capital</b>		7,321,957	7,069,424
<b>Total investment</b>		64,418,981	64,598,016
<b>FINANCED AS FOLLOWS:</b>			
Surplus funds	9	14,418,981	14,598,016
Permanently restricted net assets	5	50,000,000	50,000,000
<b>Total finance of investment</b>		64,418,981	64,598,016

The attached notes 1 to 15 form an integral part of these financial statements.

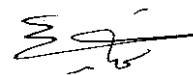
Auditor's report attached.



Ms. Magda Awadallah  
Finance Manager



Mr. Mounir Abdel Nour  
Treasurer



Dr. Mohamed Taymour  
Chairman

**STATEMENT OF REVENUES AND EXPENSES**  
For the year ended 31 December 2007

	<b>Note</b>	<b>2007 L.E.</b>	<b>2006 L.E.</b>
<b>REVENUES:</b>			
Endowment Fund interest income	10	4,828,516	5,111,630
Other interest income		91,939	93,929
Research revenues		469,798	392,362
Members subscriptions/contributions	11	160,000	374,019
Publication revenues		5,649	16,022
Other revenue	12	51,995	6,484
<b>Total revenues</b>		5,607,897	5,994,446
<b>EXPENSES:</b>			
Operational and administrative costs	14	(1,750,491)	(1,610,290)
Salaries and other benefits		(3,530,731)	(3,079,733)
Claim provision		-	(97,584)
Foreign exchange loss		(28,004)	(3,599)
		(5,309,226)	(4,791,206)
Damaged books and manuals		-	(28,576)
Depreciation	4	(477,706)	(571,431)
<b>Total expenses</b>		(5,786,932)	(5,391,213)
<b>(Deficit)/Surplus of the year</b>	9	(179,035)	603,233

The attached notes 1 to 15 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2007

	<b>Note</b>	<b>2007</b> <b>L.E.</b>	<b>2006</b> <b>L.E.</b>
<b>Cash flows from operating activities</b>			
(Deficit)/Surplus of the year		(179,035)	603,233
Adjustments for:			
Depreciation		477,706	571,431
Claim provision		-	97,584
Operating profit before changes in working capital		<u>298,671</u>	<u>1,272,248</u>
Other debit balances		(94,776)	87,958
Other credit balances		208,915	824
Net cash from operating activities		<u>412,810</u>	<u>1,361,030</u>
<b>Cash flows from investing activities</b>			
Damaged books and manuals		-	28,576
Purchases of property and equipment		(46,138)	(29,480)
Net cash used in investing activities		<u>(46,138)</u>	<u>(904)</u>
<b>Increase in cash and bank balances</b>		366,672	1,360,126
Cash and bank balances at beginning of the year		<u>7,269,902</u>	<u>5,909,776</u>
Cash and bank balances at end of the year	6	<u><u>7,636,574</u></u>	<u><u>7,269,902</u></u>

*The attached notes 1 to 15 form an integral part of these financial statements.*

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**  
For the year ended 31 December 2007

	<b>Note</b>	<b>2007 L.E.</b>	<b>2006 L.E.</b>
Cash and bank balances at the beginning of the year		7,269,902	5,909,776
<b>RECEIPTS:</b>			
Endowment Fund interest income		4,828,516	5,111,630
Other interest income		91,939	93,929
Research revenues		469,798	392,362
Members subscriptions/contributions		160,000	374,019
Publication revenues		5,649	16,022
Other income		51,995	6,484
Other payables		369,946	161,031
Receipts from other receivables		58,137	146,095
<b>Total receipts</b>		<u>6,035,980</u>	<u>6,301,572</u>
<b>DISBURSEMENTS:</b>			
Purchases of property and equipment		46,138	29,480
Operational and administrative costs		1,750,491	1,610,290
Salaries and other benefits		3,530,731	3,079,733
Other payables settlement		161,031	160,207
Other receivables		152,913	58,137
Foreign exchange loss		28,004	3,599
<b>Total disbursements</b>		<u>5,669,308</u>	<u>4,941,446</u>
Cash and bank balances at the end of the year	6	<u><u>7,636,574</u></u>	<u><u>7,269,902</u></u>

The attached notes 1 to 15 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 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 (formerly the Ministry of Social Affairs) and Cairo Governorate, in accordance with Law No. 32 of 1964 as amended by Law No. 84 of 2002.

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.

#### 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; and
- 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 LE 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 5).

- **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 and contribution made by ECES members.



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 2 ACCOUNTING POLICIES

#### 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 (formerly the Ministry of Social Affairs).

#### b) The accounting convention

The financial statements are prepared under the historical cost convention.

#### c) Foreign currency translations

The financial statements are presented in Egyptian pounds, which is 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 differences are taken to the statements of revenues and expenses and receipts and disbursements.

#### d) Property and equipment

All property and equipment are owned by the Center and stated at historical cost.

#### e) Depreciation

Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over the estimated useful lives of assets.

Estimated useful lives of assets are as follows:

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 2007

### 2 ACCOUNTING POLICIES - *continued*

#### f) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, deposits held at banks, and CIB Osoul Fund. Restricted cash represents the amount of the Endowment Fund, which is invested by the asset managers in time deposits, certificates of deposits, treasury bills and mutual funds certificates. The amount is presented in long term assets.

#### g) Assets management fees

- Fixed fees amounting to 0.215 percent annually, of the market value of the portfolio, calculated and accrued on daily basis and paid quarterly.
- ECES bears all costs related to the purchase, sale and disposition of the securities included in the portfolio.

#### h) Provisions

Provisions are created in case of the existence of any legal contingencies or any evidenced liabilities arising from a past event that will probably cause economic benefits, which are used to repay that liability which was estimated on a reliable basis.

The provisions are reviewed as of the balance sheet date and adjusted (if necessary) to show the best estimate.

#### i) Revenue recognition

Revenue is recognized on the accrual basis.

#### 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 pre-operating income statement in social insurance item.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 3 FINANCIAL INSTRUMENTS AND MANAGING THEIR RELATED RISKS

Financial instruments include bank and cash balances, other debit balances and other credit balances. The significant risks associated with the financial instruments and ECES procedures adopted 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 4 PROPERTY AND EQUIPMENT

	<b>Office premises L.E.</b>	<b>Decoration &amp; fixture L.E.</b>	<b>Motor Vehicles L.E.</b>	<b>Office furniture L.E.</b>	<b>Office equipment L.E.</b>	<b>Total L.E.</b>
<b>Cost:</b>						
At 1 January 2007	6,660,000	1,022,563	696,541	599,784	1,079,145	10,058,033
Additions during the year	-	29,348	-	5,600	11,190	46,138
Disposals during the year	-	-	(136,488)	-	(834)	(137,322)
At 31 December 2007	<u>6,660,000</u>	<u>1,051,911</u>	<u>560,053</u>	<u>605,384</u>	<u>1,089,501</u>	<u>9,966,849</u>
<b>Depreciation:</b>						
At 1 January 2007	428,083	261,816	582,182	261,849	995,511	2,529,441
Provided during the year	133,200	104,212	80,038	119,547	40,709	477,706
Disposals	-	-	(136,488)	-	(834)	(137,322)
At 31 December 2007	<u>561,283</u>	<u>366,028</u>	<u>525,732</u>	<u>381,396</u>	<u>1,035,386</u>	<u>2,869,825</u>
<b>Net book value:</b>						
At 31 December 2007	<u>6,098,717</u>	<u>685,883</u>	<u>34,321</u>	<u>223,988</u>	<u>54,115</u>	<u>7,097,024</u>
At 31 December 2006	<u>6,231,917</u>	<u>760,747</u>	<u>114,359</u>	<u>337,935</u>	<u>83,634</u>	<u>7,528,592</u>

Disposals represent value of 2 cars (fully depreciated since December 2000), which were given to the Ministry of International Cooperation as a donation on 12 November 2007. In addition to disposal of office equipment fully depreciated and damaged.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 5 RESTRICTED CASH

The restricted cash is invested by two asset managers in time deposits and certificates of deposit. The current weighted average interest rate on the Endowment Fund restricted cash is approximately 8.8 percent 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:

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Phoenix Kato Asset Management Co.	30,000,000	30,000,000
HC Securities and Investment Co.	20,000,000	20,000,000
	<u>50,000,000</u>	<u>50,000,000</u>

### 6 CASH AND CASH BALANCES

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Cash at banks	359,123	917,554
Time and certificate of deposits	1,123,450	1,241,500
Cash held by asset managers (Note 10)	4,615,518	4,704,346
CIB Osoul Fund	1,538,483	406,502
	<u>7,636,574</u>	<u>7,269,902</u>

- The weighted average effective interest rate on short-term US Dollars bank deposits was 4.12 percent 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 percent annually.
- The cash held by asset managers represents unrestricted interest earned by the asset managers on the investment of the Endowment Fund of LE 50 million. The interest earned remains in banks under the supervision of the assets managers (Note 10).
- ECES subscribed in CIB Osoul Fund. The total number of certificates as of 31 December 2007 is 12,188 certificates amounted to LE 1,538,483 and the market value per certificate is LE 126.22 as of December 31, 2007.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 7 OTHER DEBIT BALANCES

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Debit balances	60,180	11,936
Prepaid expenses	92,733	46,201
	<u>152,913</u>	<u>58,137</u>

### 8 OTHER CREDIT BALANCES

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Deferred revenue	105,000	-
Publication expenses	142,000	77,000
Technical assistance	77,630	53,600
Professional fees	27,000	23,500
Other credit balances	18,316	6,931
	<u>369,946</u>	<u>161,031</u>

### 9 SURPLUS FUNDS

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Balance at the beginning of the year	14,598,016	13,994,783
(Deficit)/Surplus of the year	(179,035)	603,233
Balance at the end of the year	<u>14,418,981</u>	<u>14,598,016</u>

### 10 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 (Ex. Ministry of Social Affairs). ECES obtained such approval to receive and invest the Endowment Fund in September 2002.

Following the appointment of the asset managers and the custodian, and after securing the approval of the Board of Directors, the Endowment Fund was transferred to the asset managers as of 19 February 2003 and invested in time deposits and certificates of deposit.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

### 10 ENDOWMENT FUND INTEREST - *continued*

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

	<b>Phoenix Kato Asset Management Co.</b>	<b>HC Securities &amp; Investment Co.</b>	<b>2007 Total</b>	<b>2006 Total</b>
	<b>L.E.</b>	<b>L.E.</b>	<b>L.E.</b>	<b>L.E.</b>
Balance at the beginning of the year	2,810,468	1,893,878	4,704,346	3,709,092
Accrued interest during the year	3,109,767	1,718,749	4,828,516	5,111,630
Cash transferred to the ECES	(2,880,000)	(1,920,000)	(4,800,000)	(4,000,000)
Annual fees	(70,714)	(46,630)	(117,344)	(116,376)
Balance at the end of the year	<u>2,969,521</u>	<u>1,645,997</u>	<u>4,615,518</u>	<u>4,704,346</u>

### 11 MEMBER SUBSCRIPTIONS/CONTRIBUTIONS

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

- Each new member, submitted to the association, pays an entry fee of LE 25,000.
- In accordance with ECES bylaws the annual subscription fee is LE 5,000.
- ECES members contribute, sometimes, in financing some activities and events (i.e., conferences and seminars).

	<b>2007 L.E.</b>	<b>2006 L.E.</b>
Member subscriptions	160,000	70,000
Member contributions	-	304,019
	<u>160,000</u>	<u>374,019</u>

### 12 OTHER REVENUE

Other revenue represents the net change in the market value of CIB Osoul certificates.

### 13 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 2007

### 14 OPERATIONAL AND ADMINISTRATIVE COSTS

	<b>2007</b>	<b>2006</b>
	<b>L.E.</b>	<b>L.E.</b>
Technical assistance	346,164	375,954
Roundtable and conferences	264,585	222,376
Publications	264,247	238,647
Maintenance and insurance	259,292	155,615
Endowment asset managers fees (Note 10)	117,344	116,376
Auto, insurance and fuel	101,265	84,997
Office supplies	89,576	87,262
International travel and per diem	81,734	106,480
Data and subscriptions	62,588	57,167
Telephone and fax	33,852	32,331
Professional fees	27,500	25,000
Entertainment	27,482	12,125
Rent	25,795	29,235
Water and electricity	11,206	12,449
Courier, postage and shipment	5,979	12,726
Local travel	5,153	2,869
Bank charges	2,696	3,679
Legal fees	-	480
Miscellaneous	24,033	34,522
	<u>1,750,491</u>	<u>1,610,290</u>

### 15 TAXATION

ECES is exempted from income taxes in accordance with Article 71(2) of Law No. 157 of 1981 as amended by Law No. 187 of 1993. 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 timely basis.

- **Withholding tax**

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