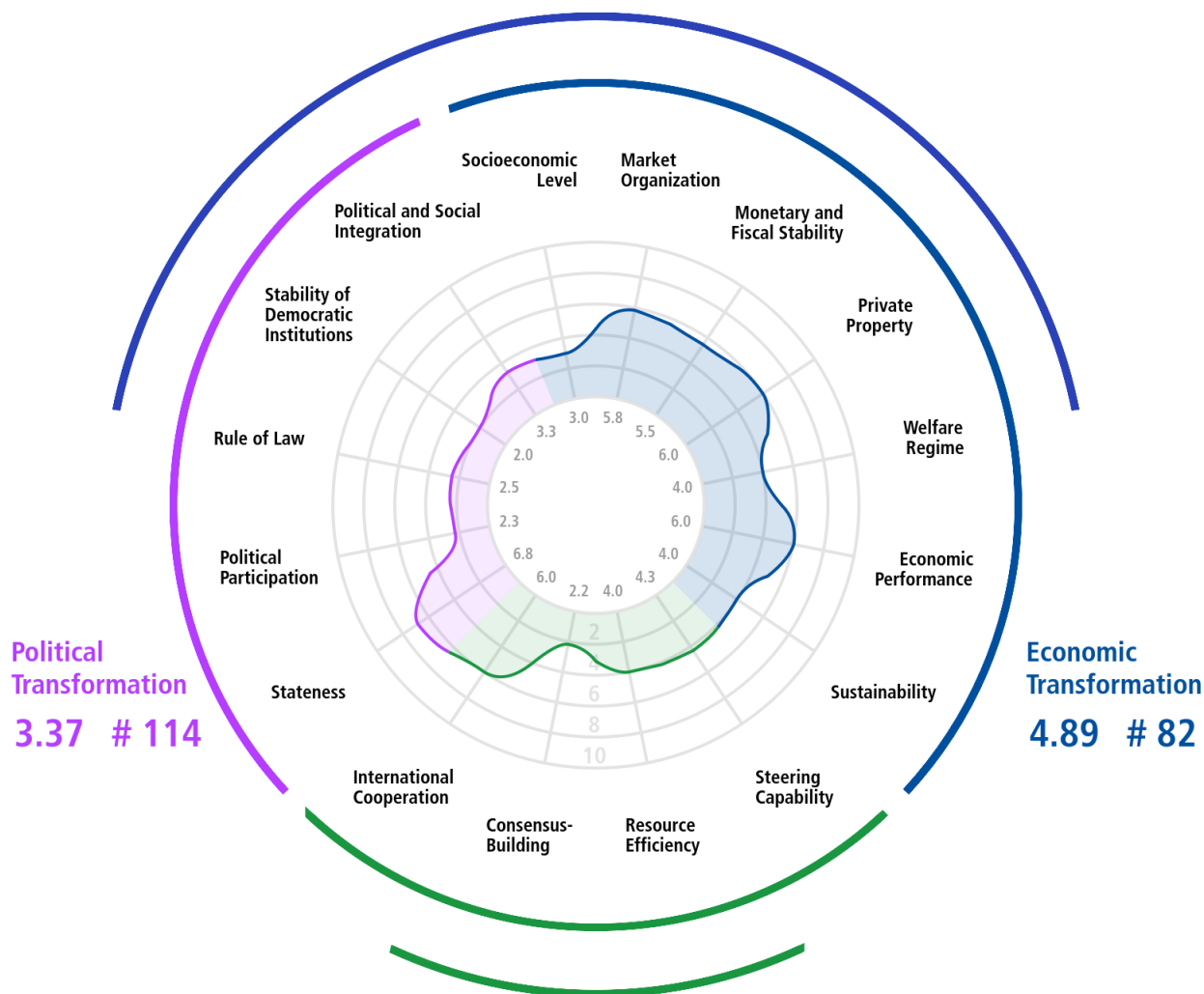


Egypt

Status Index

4.13 # 103

on 1-10 scale out of 137



Political Transformation
3.37 # 114

Economic Transformation
4.89 # 82

Governance Index

3.77 # 108

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Egypt. Gütersloh: Bertelsmann Stiftung, 2022.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	102.3	HDI	0.707	GDP p.c., PPP \$	12608
Pop. growth ¹	% p.a.	1.9	HDI rank of 189	116	Gini Index	31.5
Life expectancy	years	72.0	UN Education Index	0.618	Poverty ³	% 28.9
Urban population	%	42.8	Gender inequality ²	0.449	Aid per capita \$	17.3

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review, the regime's policies continued to be guided by its wish to secure its own survival, and the rulers actively worked toward further expanding conditions of authoritarianism and state control. Policymaking remained dominated by anti-democratic actors, with the military and intelligence agencies playing a particularly prominent role. Elections for both legislative chambers were held in 2020. They were neither free nor fair, and resulted in the victory of almost exclusively regime supporters. The new parliament is largely a rubber-stamp institution without the competencies and/or willingness to monitor the executive. Constitutional amendments in April 2019 curbed the independence of the judiciary, while further centralizing power in the president's office and effectively placing the military above the constitution. The amendments also paved the way for President Abdel Fattah al-Sisi to stay in power until 2030.

The regime's thoroughgoing approach once again resulted in alarming setbacks in the spheres of participation and civil and human rights. Civil society was harshly repressed, and the regime not only targeted political opponents but virtually anyone not complying with norms defined by the rulers, such as atheists, transgender persons, homosexuals or citizens who simply shared the "wrong" content on social media. Egypt has some 60,000 political prisoners, and the practices of forced disappearance, torture and extrajudicial killings are widespread. Not least during the course of the pandemic, harsh prison conditions and disproportionately long pretrial detention times were criticized by rights organizations. In addition, the media remained under strict state control.

In the economic sphere, the government continued to implement the reform package initiated under the framework of the IMF loan issue in November 2016. This led, especially before the outbreak of COVID-19, to an overall promising macroeconomic recovery. Economic output was strengthened, and both fiscal and monetary stability were enhanced. However, the regime remained reluctant to contend with critical issues such as the military's economic empire and privileges, the monopolies enjoyed by some businessmen, the active role of the state in the economy, or the large informal sector.

The regime clearly prioritized the interests of the elite, and the benefits of growth therefore did not reach the ordinary citizen. There was little sign of distributive justice, fair competition, equal economic participation rights or rigorous anti-corruption policies. Moreover, austerity measures, such as subsidy cuts and reduced spending on education and health, continued, and the repercussions of the COVID-19 pandemic were particularly damaging for lower income segments and vulnerable groups such as day laborers in the informal sector. Social welfare measures were insufficient to ease the burden on the population, so that the overall level of development remained low.

Egypt was severely impacted by COVID-19, both in respect to infections and deaths, as well as with regard to the pandemic's economic repercussions. The government's decisions on countermeasures were largely taken without transparency and without the participation of interest groups. Instead, the regime tightly controlled the public discourse on COVID-19, and several journalists and doctors who were critical of the government's response were intimidated or even detained. The economic support packages implemented mainly sought to shield large businesses, while the interests of SMEs and regular citizens were given less consideration.

History and Characteristics of Transformation

After the 1952 revolution, the military regime based its rule on a secular-socialist ideology, state-centered economic development and industrialization, a one-party-system, and the repression of all forms of opposition. Furthermore, then-President Gamal Abdel Nasser introduced a populist welfare state, enabling the regime to legitimize its rule by resorting to an implicit social contract: It promised to satisfy citizens' basic needs in exchange for their obedience. Yet, these policies' internal contradictions as well as the burdens of several wars with Israel led to a severe economic crisis, characterized by high levels of foreign debt and stagnating growth.

Against this background, in 1974, Nasser's successor Anwar al-Sadat led Egypt on a path of partial liberalization of its state-centered economy and approached the West. However, rather than sustainable development, this resulted in a system of corrupt crony capitalism. Reaching a point of illiquidity in 1977, the government secured a stand-by arrangement with the IMF, which, among other things, forced an abandonment of subsidies for basic needs. The subsequent price hikes triggered the 1977 bread riots, which led the regime to delay far-reaching reforms until the 1990s. The partial economic opening in the 1970s was not accompanied by political liberalization. While multiparty pluralism was nominally introduced, Sadat and his successor Hosni Mubarak ensured the hegemony of the National Democratic Party (NDP). The multiparty system was merely a democratic facade, and repression and authoritarianism continued.

In the 1990s, Egypt slid into another severe economic crisis. As a result of debt negotiation rounds with the IMF, the government had to implement a substantial structural adjustment program for the first time in Egypt's history. However, insufficiently balanced austerity

measures and a lack of distributive justice severely impaired living conditions. While the private business elite accumulated wealth, growing labor and social protests were harshly crushed. Another wave of economic liberalization and privatization commenced in 2004 with the Nazif government and the background leadership of Hosni Mubarak's son Gamal. Their policies facilitated macroeconomic growth, but once again, large segments of society did not benefit. In addition, the slight political opening that took place during this period quickly ended after the elections in 2005. In consequence, dissatisfaction grew, and the regime faced an intensifying workers' protest movement that coincided with a growing civil rights movement, ultimately leading to the 2011 revolution.

The period following the revolution was characterized by a contradictory course. On the one hand, the Supreme Council of the Armed Forces (SCAF), which had taken over control, continued to crack down on protesters and violent clashes resulted in hundreds of deaths. On the other hand, the political scene was reinvigorated, best exemplified by the parliamentary and presidential elections in 2012, in which candidates from across the entire political spectrum participated. After the victory of the Muslim Brotherhood (MB) and Mohamed Morsi, the Islamist movement suddenly controlled both the executive and the legislature, after having been suppressed for decades. However, the MB did not regard democracy as a goal in itself but rather as a tool to replace the military regime with an equally authoritarian Islamist one. The armed forces toppled Morsi on July 3, 2013, and General Abdel Fattah al-Sisi became president one year later. Since then, his regime has applied an unprecedentedly authoritarian and repressive style of governance, controlling not only the political but also the economic, social and religious spheres. This has been disguised by presenting al-Sisi as the sole savior of national stability and unity. While any talk of democratization de facto has come to an end, a new round of economic reforms began with the conclusion of a \$12 billion loan agreement with the IMF in November 2016.

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

Transformation Status

I. Political Transformation

1 | Stateness

The Egyptian branch of the Islamic State (IS), Wilayat Sina (WS), has conducted hundreds of terrorist attacks in recent years, seriously challenging the government's territorial control in the northern Sinai in particular, and perhaps amounting even to a full-fledged insurgency. The Western Desert, and especially the border area to Libya, has been a second hotspot for terrorist activities, with the cross-border movement of radicals and weapons complicating the situation.

Since the announcement of Operation Sinai in February 2018, the military, in cooperation with police forces and intelligence agencies, has launched several large-scale counter-offensives. This weakened WS, and the number of terrorist attacks and victims decreased to 48 and 100 in 2019 (down from 169 attacks and 655 deaths in 2017). Only a few large-scale terrorist attacks targeted civilians during the period under review, such as a car bombing in Cairo on August 5, 2019, which killed at least 20 people. However, the long-term implications of the regime's harsh militarized approach remain unclear, as it has done little to tackle the root causes of terrorism.

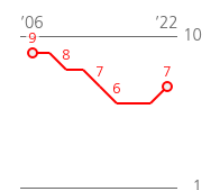
Moreover, obtaining accurate information on developments in Sinai in particular is impossible, as the regime does not allow observers to enter the area, and tightly controls the narrative on its anti-terrorism fight.

The Egyptian society is largely homogenous. Both the roughly 90% Sunni Muslims and 10% (mainly Coptic) Christians accept the idea of a unified nation and identify as Arab Egyptians. Amazigh (mainly around Siwa, close to the Libyan border), Bedouins (mainly on the Sinai Peninsula and in the Eastern and Western Desert) and Nubians (mainly south of Aswan, close to the Sudanese border) are the only ethnic minorities, numbering not more than a few hundred thousand each. Moreover, few citizens reside in remote areas, while 98% of the country's population lives in the Nile Delta, the Nile Valley and Greater Cairo. Not least due to Egypt's millenniums-old history, nationalism and patriotism are widespread.

Question
Score

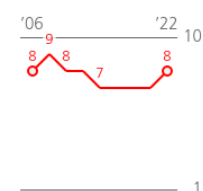
Monopoly on the
use of force

7



State identity

8



The 2014 constitution grants access to citizenship with equal rights to anyone born to an Egyptian father or mother (Art. 6). In practice, however, many factors impact access to full citizenship rights, such as social and geographical origin, political opinion, gender, sexual orientation, or ethnicity. For example, the 2014 constitution enshrines the right of Nubians to return to their ancestral lands until 2024 (Art. 236), from which they were removed before the filling of Lake Nasser. However, while a few thousand Nubians provided with compensation in January 2020, the government has not taken any substantial measures regarding their return.

The 2014 constitution contains religious dogmas, identifying Islam as the state religion and Shariah as the source of legislation (Art. 2), and denying non-Abrahamic religious or atheist identities a right of existence (Art. 64). Society is religiously conservative, a fact that the regime considers in formulating its policies and legislation, despite constantly highlighting its secular character. For example, Christians and Muslims are subject to different personal status laws that are almost exclusively based on religious dogmas. During the period under review, a reform of the personal status laws was discussed heatedly, but parliament has not rendered a decision.

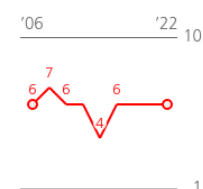
The regime also uses religious rhetoric to justify its policies and has increased its control over the religious sphere in the last years. In July 2020, parliament provisionally approved a draft law that foresees a transfer of control over Dar al-Iftaa – Egypt’s leading body issuing fatwas – from al-Azhar to the Ministry of Justice. Following critique by al-Azhar, the draft was sent back to a parliamentary committee, and no final vote had taken place as of the time of writing. The regime combats and demonizes atheism, and many atheists have been detained on the basis of a strict blasphemy law.

Egypt is divided into 27 governorates, which are partially further subdivided into regions, towns and villages. Yet the administrative structure is highly centralized, with governors and executive organs appointed by the president and serving under his discretion. Elected local councils were dissolved in 2011, with new elections to be held only once a new bill regulating local councils was in place. The government submitted a draft law on the issues to parliament in 2016, but it had not been placed on the agenda for plenary discussion before December 2019. With parliamentary elections scheduled for 2020, the debate was postponed once again.

Most basic infrastructure is available. According to the latest census from 2017, 90.4% of households have access to drinking water, and 96.3% have electricity. The World Bank has listed 99% of households as being connected to improved water sources, and 95% as having access to improved sanitation systems (2015). The state also provides the administrative infrastructure for the rule of law, but law enforcement is very selective, not least due to widespread corruption. Despite recent attempts to increase the tax base, collection efficiency remains low, and the World

No interference of religious dogmas

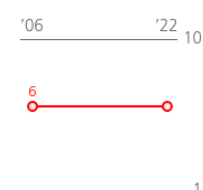
6



1

Basic administration

6



1

Bank emphasized the “sluggish tax-revenue mobilization” in a report in December 2020. Moreover, the bureaucracy lacks both the efficiency and resources to provide high-quality education and health services.

The COVID-19 pandemic placed an additional burden on the health system, and doctors and nurses complained about the lack of equipment and tough work conditions. Other basic infrastructure was not disrupted on a permanent basis by the pandemic.

2 | Political Participation

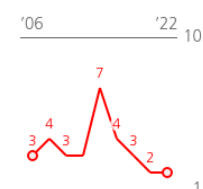
The mainly consultative upper house of parliament, formerly called Shura Council, was dissolved in the 2014 constitution, but constitutional amendments in April 2019 led to its reestablishment, now called the Senate. Elections were held in August 2020, but the voter turnout rate was only 14.2%. The Nation’s Future Party (NFP), which has close ties to security agencies and enthusiastically supports the regime, won 147 of the 200 contested seats, and the president appointed another 100 members. Elections for the House of Representatives, Egypt’s lower house and main legislative body, were held in November and December 2020 (voter turnout: 28.8%). A total of 284 members were elected as individual candidates and another 284 members via a closed-list system, and 28 additional members were appointed by the president. The NFP secured 315 seats (53%), followed by the pro-regime Republican People’s Party (RPP) with 50 seats (8%).

Neither of the elections were free or fair. Dozens of members of opposition parties have been arrested in recent years. In June 2019, for example, security forces detained at least eight prominent government critics who were in talks to form an alliance, the Coalition of Hope, to jointly run in elections. They were charged with “plotting against the state.” Moreover, legal regulations set high hurdles for independent individuals seeking office, and media outlets have been highly supportive of pro-regime figures. Numerous irregularities were reported on voting days, including the distribution of food packages and cash.

The last presidential elections were held in March 2018. They too were neither free nor fair, and President al-Sisi was re-elected with 97% of the valid votes. The next presidential elections will be held in 2024. Local elections have been repeatedly postponed since the dissolution of all local councils in 2011.

Free and fair elections

2



Both legislative chambers consist of mainly regime supporters, and parliament's rights are restricted, while the president enjoys far-reaching competences and power to govern. Moreover, non-elected actors play an important role in decision-making. Most importantly, the military and the security apparatus largely control the political sphere, having considerable power to shape policies and to place individuals in office or to remove them. The National Security Agency (NSA), Egypt's domestic intelligence service, for example, was highly involved in the creation of electoral lists for the parliamentary elections in 2020.

The military's mandate was (again) significantly expanded through constitutional amendments in April 2019, and now includes vague tasks such as protecting democracy, the civilian nature of the state and the constitution itself. Thereby, the military is effectively placed above the constitution, being granted the constitutional right to intervene in politics and even perpetrate a military coup. Furthermore, religious authorities such as al-Azhar wield considerable veto power in all matters related to religion, which this body has often used to protect its independence and influence lawmaking.

The constitution does not restrict association or assembly rights, but it allows the rulers to do so through repressive legislation. Correspondingly, the regime has implemented a severely restrictive protest law passed in 2013, and does not tolerate demonstrations critical of its policies. On September 20, 2019, several hundred Egyptians protested against al-Sisi, in the only demonstrations of any significant size during the period under review. In the weeks that followed, security forces arrested several thousand individuals, including not only protesters but also human rights lawyers, political oppositionists and journalists.

In July 2019, parliament passed an amended version of the 2017 NGO law, but the government ratified the associated bylaws only in November 2020. Amendments include some improvements, such as canceling jail sentences and reducing the (formal) influence of security agencies. However, the law still severely restricts the work of NGOs, in part by imposing harsh restrictions on their allowed fields of operation. Effectively, the regime only allows the work of organizations that support the regime, whereas many critical organizations have been shut down in recent years. Moreover, al-Sisi reinstated the state of emergency in April 2017, and has repeatedly renewed it since then, further restricting association and assembly rights.

Effective power to govern

2

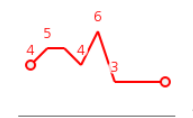
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Association / assembly rights

3

'06 '22 10



The 2014 constitution grants freedom of thought, opinion and expression (Art. 65), and prohibits the censorship, suspension or closure of media organizations (Art. 71). In practice, however, those freedoms are severely restricted. According to the Committee to Protect Journalists (CPJ), at least 27 journalists were imprisoned at the end of 2020, which is the third-highest number globally. Egypt was ranked 166th out of 180 countries in the Reporters Without Borders' Press Freedom Index 2020.

The media landscape includes both public and private outlets, both characterized by pro-regime reporting. They refrain from criticizing the ruling elite, while instead discrediting opposition figures and disseminating the regime's narratives. The very few remaining dissenting voices are frequently subject to intimidation. In December 2019, security forces cracked down on Mada Masr, one of the last remaining independent outlets, raiding its office and (temporarily) arresting several staffers.

Restrictions were further increased during the course of the COVID-19 pandemic. In March 2020, the correspondent for The Guardian was forced to leave Egypt after reporting on a scientific study suggesting that the actual number of infections may have been much higher than the official numbers. In April 2020, the Supreme Council for Media Regulation blocked dozens of social media accounts and news websites, claiming that they had spread false information about COVID-19. This added to the more than 500 websites that had been blocked since mid-2017.

Restrictions are not limited to journalists. During the period under review, hundreds of bloggers and social media users have been detained for comments criticizing the ruling elite, sharing atheist views or defending homosexuality, among other issues. In spring 2020, at least nine young women were detained for content they shared on the TikTok video platform and were subsequently charged with "violating family values and principles" and "violating public morals."

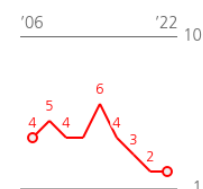
3 | Rule of Law

In theory, the 2014 constitution reduced the power of the executive and strengthened the legislature. However, the parliament elected in 2020 is as weak as the one elected in 2015. Members are almost exclusively regime supporters, whose fate is highly dependent on the backing of the president, the military and the security apparatus. Accordingly, the parliament only very occasionally expresses criticism of the government. Its main role is to approve and implement the executive's initiatives, not to monitor or provide a balance of power. In April 2019, constitutional amendments expanded the president's control over the judiciary, and paved the way for al-Sisi to remain in office until 2030.

The dominance of the executive was reflected during the COVID-19 pandemic, as the country's responses were largely designed by the cabinet, with very limited oversight from parliament or the judiciary. In the context of the pandemic, the

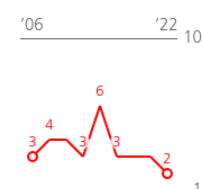
Freedom of
expression

2



Separation of
powers

2



emergency law, under which the president had declared the state of emergency in April 2017, was amended on May 8, 2020. It now grants the president even more powers, for example to ban private or public gatherings, close educational institutions, place restrictions on economic activities, and give military prosecutors the authority to investigate crimes.

The judiciary system contains three major strands. The common court system deals with basic civil and criminal matters. It is spearheaded by the Court of Cassation, which is the final venue for appeal, and additionally rules on the validity of membership in parliament. The State Council has sole competence to settle administrative disputes, with the Supreme Administrative Court being the highest instance. Finally, the Supreme Constitutional Court has exclusive competence to rule on the constitutionality of laws and to interpret legislative texts.

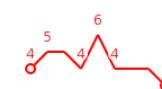
The judiciary has long enjoyed a degree of independence, with the 2014 constitution entailing further improvements. Since then, however, the regime has gradually brought the judiciary under tighter government control. The April 2019 constitutional amendments grant the president the authority to appoint the prosecutor general (Art. 189) and the heads of the main judicial bodies (Art. 185 and Art. 193), ending the traditional practice in which the most senior members have assumed the leadership at moments of succession. A Supreme Council for Judicial Bodies and Entities, chaired by the president, was enshrined in the constitution (Art. 185), inter alia administering promotions and transfers. The 2019 amendments also eliminated the constitutional principle under which parliament has granted an independent budget to each judicial authority (Art. 185). Recruitment happens under conditions of strict security, with the General Intelligence Directorate and the Administrative Prosecution Agency screening candidates on the basis of political convictions.

An increasing number of cases deemed to have national security implications have been tried in front of state security courts of emergency, due to the ongoing state of emergency and the frequent application of the 2015 terrorism law. These courts are composed of both civilian and military judges, appointed by the president. This comes in addition to military courts, which have jurisdiction over all crimes committed by military personnel and over civilians who have attacked either the military or public facilities, a charge that is increasingly used in to justify shunting cases to these courts.

Independent
judiciary

3

'06 '22 10



1

For decades, the rule of law has been undermined by extensive corruption and a culture of nepotism and favoritism. Al-Sisi has repeatedly highlighted his intention to end this practice. Egypt's first national strategy to fight corruption, which covered the period 2014 – 2018, was followed up by a second stage covering the years from 2019 until 2022, and several individuals were indeed charged during the period under review.

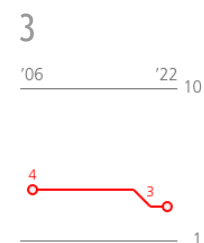
However, the prosecution of office abuse is neither consistent nor rigorous, and it appears as though those prosecuted are primarily individuals who have lost the backing of the regime. The Administrative Control Authority (ACA), which is responsible for dealing with all administrative and financial violations of state bodies and the public sector, is subordinated to the president. Traditionally, the ACA's senior positions are filled with former military personnel, while army and police officers lead the investigation units. Consequently, the ACA is controlled by the regime, and can be used to punish or reward individuals. Moreover, it does not have the power to scrutinize potential misbehavior by members of the military.

The 2014 constitution in theory grants equal rights to all citizens without discrimination (Art. 9). In reality, however, civil liberties are systematically repressed. Women continue to struggle to be granted equal rights, as do citizens who in one way or the other do not comply with the image of the “normal Egyptian,” such as homosexuals, transgender persons, atheists, Shi'ite Muslims or Bahai. In March 2019, for example, a young transgender woman was detained and discriminated against during her four months of detention in an all-male prison. In February 2020, a blogger was sentenced to three years in prison for administering the Facebook group “Egyptian Atheists.”

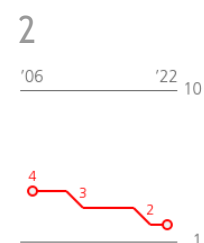
Citizens with divergent political preferences are especially targeted, and Egypt has some 60,000 political prisoners. Moreover, disproportionately long pretrial detentions, forced disappearances and torture are common. Organizations documenting these practices have come under constant pressure. In November 2020, security forces cracked down on the Egyptian Initiative for Personal Rights (EIPR), temporarily arresting three senior staff members and charging them with “joining a terrorist organization” and “spreading false news.”

Positive trends have been reported in the fight against female genital mutilation (FGM), which has long been a notorious problem in Egypt. According to the Egyptian health ministry, 70% of girls aged between 15 and 19 had undergone some form of genital mutilation as of 2015 (compared to 97% in 1985). A National Committee for Eliminating FGM was established in May 2019, and a number of awareness campaigns were organized, not least with the support of al-Azhar and the Coptic Church, which both officially stressed that FGM had no connection to religious belief.

Prosecution of office abuse



Civil rights



4 | Stability of Democratic Institutions

All political and administrative institutions in modern Egyptian history have been part of authoritarian regimes. After the 2013 coup, the current regime began to reestablish the institutional framework, aiming to secure its own survival. The judiciary and public administration largely survived the turmoil of the post-2011 years, even though their design and staff underwent significant changes, and they were placed under stricter presidential control. The second parliamentary elections took place in late 2020, but parliament continues to serve as a rubber-stamp institution. Regional and local executive organs are appointed by the president. Local councils were dissolved after 2011, and no new elections have been held. Overall, most institutions are portrayed as democratic, but lack both input and output legitimacy, and are either part of or controlled by the authoritarian regime.

From the perspective of the military and the security apparatus, democratic institutions do not exist to monitor and supervise, but rather to wield the regime's power. Therefore, they have made sure to exempt themselves from these institutions' reach and control, best exemplified by the military's special status, which was further strengthened in the constitutional amendments of April 2019. Governments, parliaments and the public administration are primarily expected to serve the regime, not the citizenry. Accordingly, the rulers have not only shaped the design of these state bodies, but also control who takes office. This has led to a broad lack of confidence in the existing institutions both among the few remaining opposition forces and the general public. This was illustrated by the low voter turnout levels in the 2020 elections.

5 | Political and Social Integration

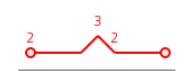
Officially, Egypt has had a multiparty system since 1977. In practice, however, the NDP monopolized the political arena during the Mubarak era. After the 2011 revolution, the NDP was dissolved, and a highly fragmented party system developed, with the Muslim Brotherhood's (MB) Freedom and Justice Party (FJP) clearly being the most professional and socially rooted party. After the 2013 coup, the MB was dissolved, and all parties that had been critical of the new regime were gradually silenced or brought under the regime's control. In consequence, the 2020 elections were contested almost solely by pro-regime parties. While united in their support of the regime, they do differ in some policy areas, such as the economy or the welfare state.

Today's party landscape includes some parties with long traditions, such as the (New) Wafd Party, which was the main nationalist party in the fight against colonialism, or the Nasserist Party, which upholds the idea of Arab socialism. These

Performance of democratic institutions

2

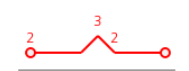
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Commitment to democratic institutions

2

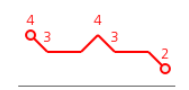
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Party system

2

'06 '22 10



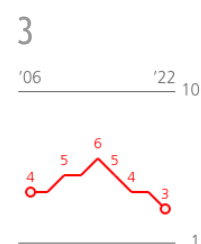
still have a loyal electoral base, although it is certainly dwindling over time. Other parties were founded after 2011, such as the liberal Free Egyptians Party, the Salafi al-Nour Party and the center-left Social Democratic Party. They also have some core voters but have not managed to establish a large sustainable voter base. In recent years, they have been increasingly sidelined by parties founded by civilians loyal to the regime, often with close ties to or even receiving direct instruction from the military or the security apparatus. The Nation's Future Party (NFP), founded in 2014, is the most prominent and important of these. Other examples include the Republican People's Party and the Homeland Defenders Party.

No new ruling party was established after the 2013 coup. Instead, several smaller parties and independent candidates vied for the regime's favor. Starting in 2019, the NFP, which has close ties to the security apparatus and the military, began to dominate the party landscape. It directed the formation of party lists before the 2020 elections, and now holds more than 50% of the seats in both legislative chambers. Even though party leaders have emphasized that the NFP has no intentions of becoming the new NDP, the NFP is on the way to establishing itself as the main pro-regime party.

There is a clear hierarchy with regard to whose interests are deemed important. Some groups, such as the military, the security apparatus and the business elite, are very powerful, whereas the concerns of the lower social classes are largely ignored. This was reflected in infrastructure and housing projects carried out during the period under review, for example. The development of informal settlements in Cairo have largely been planned and carried out without the participation of inhabitants, who were removed in order to make space for investors.

Syndicates and unions enjoyed some independence in the aftermath of the 2011 revolution but have in recent years been brought back under state control. The state-affiliated Egyptian Trade Union Federation (ETUF), whose leadership consists almost exclusively of regime supporters, still has a monopoly in the union landscape. Most of the influential professional syndicates are also headed by state supporters. In consequence, unions and syndicates do not voice their members' demands to the elite, but rather deliver the elite's messages to their members. If a syndicate were to criticize the government, it risks facing a severe backlash. During the COVID-19 pandemic, for example, the doctors' syndicate criticized work conditions in the health sector, which resulted in the arrest of several of its members who were accused of spreading false news.

Interest groups



For many Egyptians, democracy is not a goal in itself. Achieving justice and welfare are priorities, whereas the political system is deemed less important. Yet according to the latest Arab Barometer Survey from 2019, 70% of Egyptians believe that a democratic system is the best available option (while acknowledging that it is not flawless). Moreover, the level of trust in political institutions is low, given the decades-long experience of authoritarian rule. In addition, many associate their experiences with democracy after 2011 with instability, an economic downturn and price hikes. This, together with a long tradition of patriarchy, has bolstered the belief that a strong man is necessary to lead the country.

Because of the state's inability to provide basic goods and support, the society has a great need of mutual aid. Yet due to the prevailing socioeconomic malaise and the spread of poverty, support and trust are increasingly practiced only within families and people's closest social circles. Solidarity between social classes, by contrast, is low, despite some ad hoc assistance, for example in the form of charitable donations.

The state's passivity has offered considerable opportunity for religious institutions, both Islamic and Christian, to step in particularly through their charities to provide education, food and health services. These religious charity institutions played an important role in supporting the population during the COVID-19 pandemic. In addition, individual initiatives have also provided help to those most affected by the pandemic. For example, the private Mersal Foundation paid for beds in private hospitals to support people in need.

Activism on environmental or cultural issues, by contrast, is only beginning to emerge, with awareness slowly increasing, especially among the urban upper-middle class.

II. Economic Transformation

6 | Level of Socioeconomic Development

Egypt depends on volatile sources of revenue such as tourism and remittances from workers in oil-producing countries, and mismanagement, nepotism and corruption are widespread. This makes it difficult to overcome the most important socioeconomic barriers to transformation. Accordingly, Egypt's level of development is low to medium, and it ranks 116th out of 189 countries in the Human Development Index 2019 (HDI). The World Bank classifies Egypt as a lower-middle income country with a GNI per capita (PPP) of \$11,810, which is clearly below the global average of \$17,591.

For 2017, the World Bank indicated that 28.7% of the population was living of less than \$3.20 per day, while the Gini index reached 31.5. In early 2020, 29.7% of the population was living below the national poverty line. According to CAPMAS,

Approval of democracy

n/a

'06 '22 10

n/a 1

Social capital

5

'06 '22 10



1

Question Score

Socioeconomic barriers

3

'06 '22 10



1

Egypt's main statistical agency, this number has likely risen in the course of the pandemic, in part because tourism ground to a halt, and particularly vulnerable groups, such as low-paid informal workers, have lost much of their income.

This may further increase inequality, which is already substantial. Significant portions of society are disadvantaged due to their political opinions, gender, place of residence or class affiliation, to cite only a few relevant dimensions. Accordingly, Egypt's inequality-adjusted HDI score is 29.7% lower than its main HDI score, which is clearly above the global mean value of 20.4%. In the Gender Inequality Index 2019, Egypt was ranked 108th out of 162 countries.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	235733.7	249713.0	303080.9	363069.2
GDP growth	%	4.2	5.3	5.6	3.6
Inflation (CPI)	%	29.5	14.4	9.2	5.0
Unemployment	%	11.7	9.8	9.7	10.5
Foreign direct investment	% of GDP	3.1	3.3	3.0	-
Export growth	%	86.0	31.6	-2.2	-21.7
Import growth	%	52.5	10.6	-8.9	-17.9
Current account balance	\$ M	-7939.7	-7698.2	-10221.9	-14236.0
Public debt	% of GDP	103.0	92.5	84.2	89.8
External debt	\$ M	84722.5	100186.1	115079.6	131579.7
Total debt service	\$ M	6695.4	7907.5	8798.4	11978.5
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.1	8.4	7.7	8.0
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.7	1.4	-	-
R&D expenditure	% of GDP	0.7	0.7	-	-
Military expenditure	% of GDP	1.4	1.2	1.2	1.2

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

IMF-induced reforms in 2016 mainly aimed at improving Egypt's fiscal stability. Thus, they primarily contained austerity measures, such as a cut in subsidies, as well as tax reforms and a liberalization of the exchange rate. Like the IMF-induced reforms in 2004, the 2016 reform package did little to address deeper structural issues. Thus, it did not lead to improved market-based competition, but instead provoked further wealth accumulation within the business elite due to corruption, clientelism and cronyism.

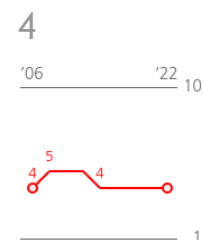
Consequently, Egypt was ranked 142nd out of 180 countries in the Index of Economic Freedom 2020, significantly worse than in 2011 (ranked at 96th place) or 2016 (ranked at 125th place). In the World Bank's Ease of Doing Business Index 2020, Egypt was ranked at 114th out of 190 countries. The report indicates that it takes 12.5 days and 5.5 procedures to start a business, and the costs are estimated to be 20.3% of Egypt's average income per capita. Obstacles remain to both running and starting a business, even though the latter process has improved in recent years. The report identifies registering property, paying taxes, trading across borders and enforcing contracts as the main hurdles.

The informal sector generates between 40% and 50% of GDP. With regard to employment, an estimated 63% of all Egypt's labor is informal, and it accounts for almost 50% of all non-agricultural employment. Some economists consider the informal sector to be the most booming, job-creating and market-oriented sphere of the Egyptian economy.

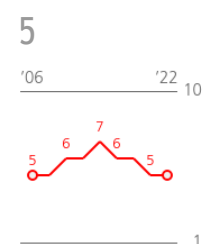
A legal framework ensuring freedom of competition was established in 2005 and implemented with the Egyptian Competition Authority (ECA) serving as the main watchdog. Since that time, the ECA has curbed monopolistic practices in some cases, for example in January 2021, when it froze the planned acquisition of the Alameda Healthcare Group by the Cleopatra Hospitals Group. The ECA's most spectacular case during the period under review was ride-hailing company Uber's acquisition of its main competitor Careem in March 2019. For months, the ECA expressed its concerns, but eventually gave its conditional approval in January 2020.

The ECA lacks both influence and independence. It does not by itself have the authority to stop mergers or impose fines – it can only file a lawsuit, and a court eventually decides. Moreover, implementation is highly selective, and clientelist networks protect the business elite from investigation. The IMF loan from June 2020 was bundled with demands that the competition law be amended and that the ECA be granted a stronger role. It remains to be seen whether and how far these reforms will increase competition.

Market
organization



Competition policy



For now, key sectors such as steel and cement production, basic food imports, and telecommunications remain dominated by oligopolies, and the economy is divided between a few large and many small companies. The military's economic enterprise is entirely out of the ECA's reach. Moreover, the military enjoys a number of privileges such as control over a tremendous land mass, tax exemptions and cheap labor in the form of conscripts, which make it difficult for private sector actors to compete.

Egypt has been a member of WTO since 1995, and is party to the Agadir Agreement, the Common Market for Eastern and Southern Africa (COMESA) and the Pan Arab Free Trade Area (PAFTA). It has preferential trade agreements with the European Union, which is Egypt's largest trade partner by far, as well as Mercosur and Turkey. On May 30, 2019, the African Continental Free Trade Area (AfCFTA) went into force, but implementation was postponed to 2021 due to COVID-19. Egypt and the Eurasian Economic Union (EAEU) have been in negotiation on the establishment of a free trade zone since November 2018 – thus far without result.

Egypt's score on the Trade Freedom Index 2020, one pillar of the Index of Economic Freedom, was 70.2%, which is below the country's score of 74.0% in 2012. Egypt's simple, average most-favored-nation tariff rate was 19.0% in 2019, which is higher than in 2012 (16.5%) or 2016 (17.6%). Egypt's complex tariff system includes numerous concessions, exemptions and reductions, and the import of a relatively large number of items is subject to complicated regulations and restrictions.

According to a World Bank report from December 2020, Egypt's export potential "is largely impeded by a wide range of non-tariff barriers. This includes the cumbersome customs clearance process, poor connectivity and logistics, and limited domestic competition." In order to shield the export sector from the pandemic's repercussions, export subsidies were increased by 16.7% in the state budget for fiscal year 2020/21.

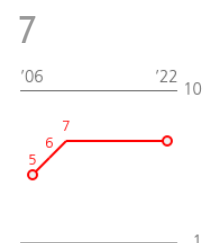
The Nazif government initiated a modernization and privatization of the banking sector in 2004, but out of the four state-owned commercial banks, only the Bank of Alexandria has been privatized (in 2006). However, full private sector and foreign ownership is permitted, and several international financial institutions operate in the areas of commercial and investment banking, mutual funds, insurance, and securities trading. However, no new banking licenses have been issued since 2009, and the government has instead pursued a policy of consolidation.

The banking system has by and large proved resistant to the various crises of the last 15 years, including the global financial crisis in 2008 – 2009, the economic crisis following the 2011 revolution, and the COVID-19 pandemic. That said, the banking sector was surely affected by the pandemic, and is facing a number of

Liberalization of foreign trade



Banking system



challenges, such as the outflow of capital and investment, a shortage in foreign-currency inflows, and customer difficulties in repaying loans. Nevertheless, as of the time of writing, no public or private bank had yet found itself in serious trouble.

The banking sector's resilience can mainly be explained by Egypt's low level of integration with world financial markets, along with the Central Bank of Egypt's (CBE) conservative policies. Several indicators demonstrate the banking sector's relative stability. According to CBE data, Egypt's ratio of capital base to risk-weighted assets increased from 14.0% in 2016 to 20.1% in June 2020, and the nonperforming loan share reached an all-time low of 3.9% in June 2020, which is a clear improvement compared to 7.2% in 2015 and 26.5% in 2005.

8 | Monetary and fiscal stability

As part of the policy framework associated with the 2016 IMF loan, the government liberalized the exchange rate, cut energy subsidies and reformed the tax structure. While those measures were widely deemed necessary for economic recovery, they proved a heavy burden for monetary stability. During the period under review, most indicators in this area stabilized, but currency volatility remains high.

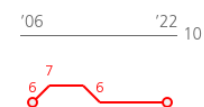
With the flotation of the currency on November 3, 2016, the exchange rate between the Egyptian pound (EGP) and the U.S. dollar rose from EGP 8.8 per dollar to 15.8, reaching an all-time high of 19.7 in December 2016. It stabilized at slightly below 18.0 in mid-2017, and stood at 17.6 in early 2019. The exchange rate then declined to 15.5 in February 2020, before rising to 16.2 in June 2020, and falling again to 15.7 in December 2020.

The overall inflation rate rose from 14.0% in October 2016 to 33.0% in July 2017. Thereafter, it gradually decreased to 14.4% in February 2019 (the highest value during the period under review) and to 3.1% in October 2019 (the lowest value during the period under review). Throughout 2020, the inflation rate ranged between 3.4% (in August) and 7.2% (in February).

To combat inflation and stabilize the exchange rate, the central bank raised interest rates to 18.75% (deposit rate) and 19.75% (lending rate) in November 2017. With an economic recovery taking root, the bank subsequently lowered interest rates seven times during the period under review, from 16.75% and 17.75% in February 2019 to 8.25% and 9.25% in November 2020. According to the constitution, the central bank is a fully independent body (Art. 215), but it is widely believed that its decisions are often political and influenced by the government.

Monetary stability

6



1

Egypt's debt stock gradually increased from 73.7% of GDP in 2010 to 92.3% of GDP in 2016, and then skyrocketed to 108.0% of GDP in 2017. In 2019, it then fell to 90.2%, which was exclusively due to decreasing domestically held debt. Foreign debt continued to rise – from a total of \$48 billion at the end of 2015 to \$106 billion in early 2019 and \$123 billion in mid-2020. Against the backdrop of the COVID-19 pandemic, the government took on additional (foreign) loans. For example, the IMF granted one loan of over \$2.7 billion in May 2020 (through the Rapid Financing Instrument) and another of over \$5.2 billion in June 2020 (through the Stand-By Arrangement), and a bank consortium led by the United Arab Emirates loaned Egypt \$2 billion in September 2020. The country also issued \$5 billion in Eurobonds in May 2020.

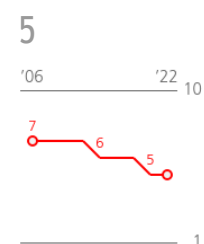
Heavy borrowing has been necessary to fund continued budget deficits. The deficit was well above 10% of GDP from 2011 until 2017, before falling to 8.1% in FY 2018/19. The planned reduction to 7.2% in FY 2019/20 did not materialize due to the pandemic, and the deficit rose to 8.2% instead. Egypt's current account balance stood at a deficit of \$10.2 billion in 2019. Debt servicing costs have increased continuously from 21% of government expenditure in FY 2010/11 to a remarkable 38% in FY 2020/21.

With all major sources of foreign currency having dried up after the 2011 revolution, foreign reserves dropped from \$36.0 billion in December 2010 to \$13.4 billion in March 2013. They started to rise again only in late 2016, when the IMF deal was finalized, excessive external borrowing started, and remittances and tourism revenues rose again. This resulted in a gradual increase to around \$45 billion in early 2018, equaling eight months of imports. Reserves remained at this level until January 2020, but the pandemic led to a drop to \$36.0 billion in May 2020. In the second half of 2020, reserves recovered somewhat, reaching \$40.1 billion in December 2020.

9 | Private Property

The 2014 constitution and Egyptian law adequately define and protect property rights. Yet the legal code for property ownership is complex and creates delays in the judicial process. Egypt ranked 130th out of 190 countries with regard to the indicator “registering property” in the World Bank's Ease of Doing Business Report 2020, which notes that registering property requires 76 days and nine procedures. This is significantly more than the 60 days and eight procedures stated in the 2017 report, and substantially above the regional average of 26.6 days and 5.4 procedures. In the Heritage Foundation's Index of Economic Freedom's subcomponent on property rights, Egypt's value was 48.5% in 2020, clearly below global average of 57.3%.

Fiscal stability



Property rights



During the period under review, property rights were restricted for some segments of society. For example, the military destroyed hundreds of local residents' houses during anti-terrorism operations in North Sinai. In addition, the government intensified its attempt to bring informally inhabited land back under state control. Thousands of people have been driven out of their homes under this campaign, often without sufficient compensation. As Prime Minister Mustafa Madbully declared in September 2020, around 50% of all buildings in urban areas are unregistered. The government has sought to settle disputes with building owners by introducing the Building Violation Reconciliation Law in April 2019. By the end of 2020, 2.6 million reconciliation requests had been submitted.

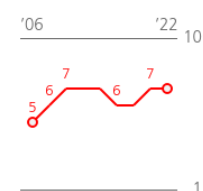
In 1994, then-President Mubarak revealed plans to privatize around 300 state-run companies. However, only about half of these had been transferred into private ownership before the program came to a standstill in 2011. Moreover, the process lacked transparency, and was infected by corruption. In March 2018, the government announced it would restart the program by offering minority shares in 23 public companies over the next five years. At the time of writing, however, only 4.5% of shares in Eastern Tobacco had been released to the market in a March 2019 initial public offering (IPO), and in March 2020, the government postponed the partial privatization of Banque du Caire amidst tumbling global markets. In December 2020, the government announced that stakes in 10 military-owned companies would be sold to private investors – with sales of two of them, Safi and Wataneya, taking place during the first half of 2021.

Overall, private enterprises contributed 69% to GDP in FY 2019/20, which represents only a slight increase from 65% in FY 2003/04. These companies are concentrated in the services sector, particularly in trade, banking, insurance, tourism, communications and education. Several productive sectors such as medicine, food and energy have largely remained in the public domain. The military-industrial complex is primarily involved in infrastructure and construction projects, but also produces all kinds of consumer goods, and has significantly broadened its portfolio in recent years.

The government has repeatedly pledged to support private sector development. Indeed, starting a business has become easier, and new legislation seeking to encourage more private investment was introduced in recent years – for example, new laws regulating investments, industrial licensing and bankruptcy. However, in a report from December 2020, the World Bank identifies the lack of transparency surrounding state-owned and military-owned enterprises, as well as the privileges granted to them, as major factors hindering private sector development.

Private enterprise

7



10 | Welfare Regime

Austerity measures introduced under the framework of the 2016 IMF loan put additional pressure on low-income population segments in particular. The government has reduced spending on education and health, as well as subsidies for fuel and energy. Social-spending cuts can still be observed in the budget for FY 2020/21, which even reduces allocations for food subsidies, once thought to be untouchable.

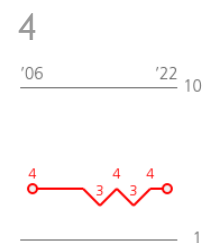
In order to support the lower classes during the period of austerity measures, the government introduced two means-tested cash transfer programs in 2015, called Takaful and Karama. Benefits from these programs have gone to some 3 million households (around 10% of society), especially those with children, elderly and people with disabilities. In the course of the COVID-19 pandemic, both programs were expanded by (slightly) increasing the number of recipients by some 160,000 (taken together), and by increasing benefit levels. The government also introduced additional support projects. For example, informal workers who lost their jobs due to the pandemic were provided with cash payments of EGP 500 five separate times between April 2020 and January 2021. Some 1.3 million Egyptians, or less than 10% of all informal workers, enrolled in the first round; however, this figure increased to 2.6 million in the fourth round in December 2020.

These measures have not been sufficient to compensate for rising living costs. With an only mildly progressive tax system and weak labor rights, and with at least 50% of the labor force working in the informal sector, any social safety net has only a marginal effect. In consequence, private safety nets remain crucial for many Egyptians, and grassroots charity organizations, often of Islamic identity, have for decades served as a substitute for the absent public social security system.

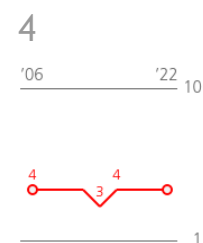
According to the 2014 constitution, the state is the guardian of equal opportunity for all. In reality, however, an individual's chances are largely defined by her or his background, and social mobility is low. In 2017, for example, the CAPMAS statistical agency estimated that 56.7% of inhabitants in upper Egypt but only 19.7% in lower Egypt lived below the poverty line. At the same time, the illiteracy rate was 17.7% in urban areas, but 32.2% in rural areas. Even though almost all children have access to basic education (in 2019, the gross enrollment rate at the primary level was 106.4%, while the secondary rate was 89.5%, and the tertiary rate was 35.2%), access to high-quality education is reserved to the elite.

Traditional gender roles, which are broadly accepted in society and reflected in state policies, lead to persistent inequalities between genders, constraining women's opportunities to seek a role in public life or generate an income. Accordingly, the rate of labor-market participation among women was 21.9% in 2020 compared to 70.9% for men, and the GNI per capita among men was \$18,039 (PPP, 2017), while

Social safety nets



Equal opportunity



it was only \$4,753 among women. The gender gap in education, by contrast, has been closing, and no significant differences exist in enrollment or dropout rates today (the ratio of female to male enrollment is 1.0). This will gradually erode other differences, such as in illiteracy rates, which were 30.8% for women and 21.2% for men in the 2017 census.

11 | Economic Performance

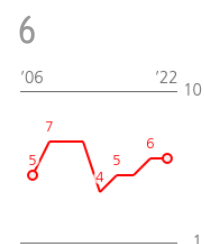
Egypt's economy slipped into deep crisis after the 2011 revolution but has slowly recovered since that time. The GDP growth rate increased from 1.8% in 2011 to 5.6% in 2019. In 2019, total GDP was \$303 billion. During the period under review, the inflation rate ranged between 3.1% (in October 2019) and 14.4% (in February 2019), well under the 33.0% reached in July 2017.

Before the outbreak of COVID-19, growth was primarily based on public investment in the fields of infrastructure and construction, the discovery of large gas fields, rising remittance levels and a shrinking trade deficit. Tourism revenues had also recovered, rising from \$3.8 billion in 2016 to \$12.6 billion in 2019. Net FDI inflow increased from -\$0.5 billion in 2011 to \$9.1 billion in 2019. Gross capital formation rose from 13.6% of GDP in 2014 to 17.7% in 2019.

Even though tourism revenues, FDI and exports plummeted in the course of the pandemic, the IMF projects that Egypt's GDP will grow by 2.8% in FY 2020/21. Hence, the pandemic slowed the overall encouraging macroeconomic recovery, but seemingly did not end it.

However, this growth is doing little to benefit ordinary citizens. GDP per capita (PPP) increased only slightly from \$11,221 in 2013 to \$12,251 in 2019. The current level of growth is also insufficient to absorb the 800,000 young Egyptians entering the labor market every year. Investment is mainly flowing into capital-intensive rather than labor-intensive sectors; for instance, the oil and gas sector attracted 74.3% of FDI in FY 2018/19. Thus, the official unemployment rate was 10.8% in 2019 and 10.1% in 2020. Moreover, growth has heavily depended on public investment, burdening the state budget. In 2019, the current account balance showed a deficit of \$10.3 billion, and public debt amounted to 83.3% of GDP.

Output strength



12 | Sustainability

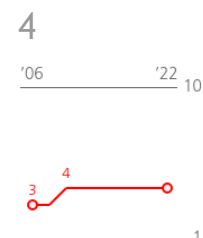
The government portrays Egypt as more of a victim than a cause of global pollution, particularly considering the risk that rising sea levels pose for its coastal areas. Yet Egypt is among the countries with the fastest CO₂ emissions growth rates worldwide, even though it signed the Paris Climate Agreement and environmental protection is cited as a national duty in the 2014 constitution. However, implementation is weak, and environmental protection is subordinated to the generation of economic growth, a fact illustrated by the sidelining of environmental considerations in most state-orchestrated mega-projects.

Almost 90% of energy production is still based on fossil fuels. According to the Vision 2030 plan, launched in March 2016, the government wants to reduce the share to 27%, but progress has thus far been limited. A new Renewable Energy Law came into effect in 2014, which seeks to attract investment and introduced feed-in tariffs. While some projects have been launched since then, such as a huge solar park in Benban, the overall investment rate in this area remains low. The government has advanced the construction of Egypt's first nuclear power plant and introduced coal as a source for electricity production and energy in heavy industries in 2014.

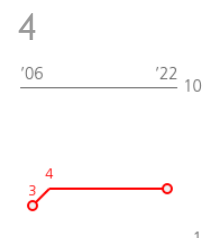
In the last 30 years, Egypt made enormous progress with regard to enrollment and dropout rates. In 2019, the enrollment rate was 106% at the primary level, 88% at the secondary level and 35% at the tertiary level. Accordingly, the literacy rate increased from 55.6% in 1996 to 71.2% in 2017. Egypt's score in the U.N. Education Index gradually increased from 0.389 in 1990 to 0.618 in 2019, which is above the Arab states' average of 0.579. However, while these quantitative numbers have certainly improved, the quality of education has deteriorated dramatically, due to outdated equipment, crowded classrooms, a frontal style of teaching and poor training for teachers.

The government generally acknowledges these challenges. It announced comprehensive (though non-specific) reform plans in 2018 and declared 2019 to be "the year of education." However, the situation has not improved, not least because spending on education remains very low. The 2014 constitution mandates that at least 4% of GDP has to be spent on pre-tertiary and 2% on higher education. Nominally, spending on both combined has increased significantly, from 2.3% of GDP in FY 2018/19 to 5.3% in FY 2020/21. However, the nominal rise is solely due to reclassifications and a widening of definitions within the draft budget. For example, much of this money has been devoted to erecting a pompous international university campus in Egypt's new administrative capital. If the formerly used categorization was applied, spending on education would still be only 2.3% of GDP in FY 2020/21.

Environmental policy



Education policy / R&D



Spending on R&D amounted to 0.6% of GDP in 2019, which is clearly below the global average of 2.3%, and also below the 1.0% target mentioned in the constitution. Private sector R&D investment in particular is very low, accounting for only 6% of total investment. Egypt has 675 researchers per million inhabitants (the world average is 1,200) and was ranked 55th in the R&D subindex of the Global Innovation Index 2020.

Governance

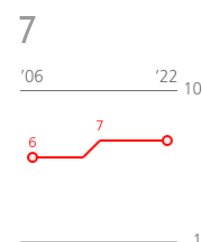
I. Level of Difficulty

Both Egypt's social and natural conditions constrain the political leadership's governance capacity. Egypt's population grows at a rate of 2% annually and reached 100 million in February 2020 (up from 48.2 million in 1986 and 72.8 million in 2006). This has led to an enormous youth population, with 61% of the country's citizens being below the age of 30. This in turn places huge stress on the education and health systems as well as the labor market. Population growth is also straining natural resources to their limits. With less than 600 m³ per person, water reserves meet the U.N. definition of scarcity (below 1,000 m³) and are estimated to reach a condition of absolute scarcity (below 500 m³) by 2025. Fully 95% of the Egyptian landmass is desert, which makes it challenging to produce sufficient food. The vast desert regions are also difficult to control, not least in the fight against terrorism.

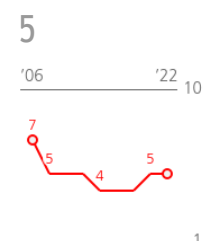
Adding to these structural constraints, the COVID-19 pandemic hit Egypt's society and economy hard. By the end of 2020, Egypt had officially recorded 111,451 infections and 7,576 deaths. The real numbers are surely much higher, as the official numbers only consider tests performed in public hospitals. Moreover, test capacities are very low and only patients with very severe symptoms are tested. According to the doctor's syndicate, for example, 260 doctors died due to COVID-19 in 2020, but more than 200 of these deaths have not been officially recognized as resulting from the pandemic. A number of economic sectors such as tourism suffered from the pandemic's repercussions. Also, exports, FDI and remittances decreased.

Egypt is characterized by a fairly strong tradition of civil society activity. Independent labor movements developed in the late 19th century, and professional syndicates played an important role in the first half of the 20th century. Liberal women's and anti-colonial protest movements also gained strength at this time. While civic engagement was largely repressed in the 1950s and 1960s, slight tendencies toward liberalization appeared in the 1970s, when civil society organizations intensified their work especially in the fields of human, civil and women's rights, as well as social care. In the 2000s, several (youth) movements gained ground, which later played important roles in organizing the 2011 uprising.

Structural constraints



Civil society traditions



At the same time, civic engagement has never been free and independent. The state has always closely monitored and, to varying degrees, restricted activities. In recent years, the regime closed many NGOs, infiltrated syndicates and clamped down on independent unions. A new NGO law from 2017 further extended state control. Despite some cosmetic changes and amendments introduced in 2019 and 2020 – for example, jail sentences were canceled – it grants state authorities far-reaching rights to control NGOs. The CIVICUS Monitor classifies civic space in Egypt as closed.

Until the fall of Mubarak, violent conflict was rare (with the exception of Muslim-Christian tensions), and public debates on controversial political and social issues were practically absent, mainly due to the authoritarian regime's repressive instruments. Yet numerous cleavages had been bubbling below the surface for years, along civil-military, secular-religious, Muslim-Christian, labor-capital, class, gender and intra-generational lines.

All of these came to the forefront after 2011, albeit to varying degrees. During and (shortly) after the Morsi presidency, secular-religious cleavages in particular deeply split society. In that context, sectarian tensions increased as well, and in recent years, several cases of violence against Christians and Shia Muslims have been reported.

Since the military coup, the regime has largely prevented mass mobilization along those cleavages by relying on an unprecedented level of repression, and by controlling the public discourse. However, rather than mitigating disputes, its thoroughgoing policies have deepened differences across essentially all dividing lines, clearly favoring specific sides in each division. Moreover, the escalation of secular-religious tensions has strengthened a militant Islamist insurgency and led to increased security raids by the military.

II. Governance Performance

14 | Steering Capability

The regime's primary goal has always been its own survival. Therefore, short-term considerations focusing on consolidating its grip to power, such as dismantling the Muslim Brotherhood, regaining control over state institutions and securing foreign financial aid, have dominated policymaking since the 2013 coup. Only after the most immediate threats to the regime's survival had been brought largely under control through excessive repression did the regime begin to draw up a long-term vision, which nevertheless remains guided by the aim of securing regime survival.

The main document outlining the regime's intentions is the Vision 2030 plan, published in March 2016, which is largely evidence-based and includes a remarkably critical analysis of grievances, as well as concrete suggestions for

Conflict intensity

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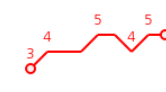
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Question
Score

Prioritization

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improvement. Yet this plan remains very selective, with the clear priority being to strengthen economic output on the macro level. The few measures intended to improve distributive justice or support poorer segments of society are insufficient, and no effort is made to expand political participation. Moreover, only a few of the specified projects had begun implementation at the time of writing. Fighting jihadi militants remains another priority of the regime, reflected by the large-scale military operations carried out during the period under review.

In the course of the pandemic, the regime remained committed to its prioritization of macroeconomic development. For example, the government seemingly gave in to the demand of the business elite to ease lockdown measures, and its \$6.3 billion stimulus package announced in March 2020 mainly provided support for large businesses. While \$3.1 billion were allocated to tourism companies and \$1.3 billion to the stock market, much less support was given to SMEs and informal workers.

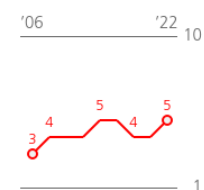
The balance sheet with regard to implementing the regime's main priorities is mixed. Before the outbreak of COVID-19, the government took measures to reduce Egypt's debt level, the budget deficit and inflation rates, while increasing foreign-currency reserves. Yet, the regime remained reluctant to address the most critical issues that hinder economic development, such as the military's economic empire and privileges, the monopolies held by some businessmen, the active role of the state in the economy, and the scale of the informal sector. The pandemic slowed the economic recovery, and some measures were postponed, such as the privatization of public enterprises.

The regime's focus on mega-projects has only partially paid off. For example, Suez Canal revenues did not increase after the digging of a second lane, which cost \$8 billion, and several (foreign) conglomerates have backed off from investing in the new administrative capital. While mega-projects provide the military with the opportunity to strengthen its economic performance and allow the elite to accumulate wealth, their value for the population is limited. Also, measures to protect the poor from the structural adjustment program's side effects and the pandemic's repercussions have been insufficient.

Harsh actions against militant Islamists did not establish sustainable conditions of security, even though military operations led to a reduced number of terrorist attacks during the period under review. In the long run, the focus on military solutions and repression, without being effectively supplemented by sustainable development strategies, may lead to more radicalization instead. As the regime's ruthless approach also targets non-Islamist dissidents, growing polarization is likely along many other cleavages as well.

Implementation

5



Since the beginning of his tenure, al-Sisi has shown no interest in discussing his decisions or accepting alternative approaches, and the state's relentless authoritarianism has solidified. There are no signs of political opening. Repression and exclusion continue, and the government's policies are still not monitored or evaluated. The routines of policymaking remain rigid and nontransparent, and the bureaucracy is inflexible and hierarchically structured. If projects are monitored and evaluated, it happens only internally and without the inclusion of independent reviewers; critical findings are almost never published. Likewise, international cooperation and consultancies are only occasionally and hesitantly approved, for example, in the form of EU twinning projects. The World Bank and the IMF have certain ties with the Egyptian government given the loans they have facilitated, but even here, the official rhetoric is often rejectionist and shows little appreciation.

In its attempt to control the public discourse, the regime labels any form of critical analysis as external interference, rumor or fake news. Academic freedom is severely restricted, and the regime shows no interest in the recommendations of researchers who do not fully support its policies. Even the questioning of official COVID-19 figures has been considered to be treason, and several doctors have been penalized for criticizing the government's countermeasures as inadequate.

The regime once again intends to generate economic growth by state-orchestrated mega-projects, which are announced without any prior public discourse and without considering environmental impacts. Those mega-projects mainly benefit the elite, while distributive justice is lacking. Moreover, the regime continues to fight terrorism by exclusively military means, marginalize some segments of society and favor some groups over others, all of which fuels existing cleavages and dissatisfaction.

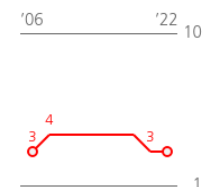
15 | Resource Efficiency

For decades, Egypt has made insufficient use of human, financial and organizational resources, favoring loyalty over competences and merits, and favoring patriarchal dominance over equality between the sexes, generations and social classes. Successive governments have used public sector employment to counter unemployment and buy loyalty. This has dramatically inflated the state apparatus, which consists of some seven million employees (25% of Egypt's total work force). No more than three million are necessary, according to estimates. This results in redundancies and underemployment, and ultimately in low efficiency both in providing public services and completing regulatory procedures.

During the period under review, the budget deficit and the public debt ratio were reduced, but both remain at high levels. The COVID-19 pandemic will most likely result in renewed increases in years to come. Almost three-quarters of the government's expenditures are spent on state employees, subsidies and debt service.

Policy learning

3

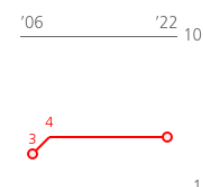


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Efficient use of assets

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The government has taken measures to reduce spending on the former two, but a steady rise in debt service costs has eaten up the funds this has saved. Programs supposed to limit the burdens of austerity measures and the pandemic's economic repercussions are not sufficient to do so.

Budget planning and implementation are not transparent. This is especially true for the military and its enormous economic enterprise, which remains beyond public control. The Tahya Masr (Long Live Egypt) fund, inaugurated in 2016, and the Sovereign Fund of Egypt, inaugurated in late 2019, are new bodies that also largely bypass auditing and oversight. Finally, the administration remains reluctant to engage in reform, and is centralized, without far-reaching financial or organizational autonomy for local policymaking structures.

Overall, state policies are designed in a way such that they either directly serve the primary objective of regime survival, or at least do not conflict with it. This mainly includes efforts to silence oppositionist voices across the political spectrum, fight Islamist militants and generate macroeconomic growth. Measures that would enhance individual freedoms, democratic reforms, social welfare and justice, by contrast, are considered to be of secondary importance or even counterproductive. The interests of some influential actors are clearly favored over the demands and needs of the lower classes, people living in rural areas and marginalized groups. Accordingly, the trade-offs between many policies are not balanced.

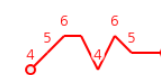
Due to its centralized, hierarchical and bureaucratic coordination style, the leadership determines the major policy guidelines and distributes competencies and tasks. Horizontal communication between different departments of the state administration is weak, which in many cases leads to a lack of coordination and inefficiency, redundancies, and conflicting and counterproductive policies. Moreover, different parts of the government frequently compete for competencies instead of effectively supporting and complementing each other. In recent years, however, the leadership succeeded in reducing the competition between different parts of the regime, mainly by increasing its own control over all state and non-state bodies.

Corruption thoroughly pervades all areas of any Egyptian's life. At a low level, presents and small amounts of money are expected in return for most administrative acts or for avoiding trouble with the police, for example. At a higher (political) level, a harmful and largely uncontrolled culture of corruption has developed since the beginning of economic liberalization and privatization in the 1970s and is rooted in private capital's dependence on state officials' decisions. The public's inability to hold officials responsible is reinforced by insufficient auditing of state spending, largely nontransparent procedures for public procurement and citizens' limited access to information through the media, the latter of which are uncritical of the regime and tend to focus on scandals rather than on facts.

Policy
coordination

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Anti-corruption
policy

3

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Institutional arrangements to implement an anti-corruption policy exist and have improved in recent years. For example, new legislation in 2017 strengthened the ACA, Egypt's main anti-corruption body, in part by improving its equipment and professionalizing training. However, the ACA still lacks independence. The regime mainly uses the ACA as a political instrument to punish individuals who have lost its backing. Accordingly, implementation of anti-corruption polices remained selective during the period under review, and both prosecution and judicial judgments still seem to be influenced by economic and political elites' networks.

16 | Consensus-Building

In the aftermath of the 2011 revolution, a large number of newly founded parties and individuals from across the political spectrum were, broadly speaking, willing to participate in a democratic political process. In the years following the 2013 coup, however, almost all of them were either silenced or brought under state control. In consequence, today's main political actors – parties and individuals, as well as the military and other politicized state bodies – share the primary objectives of consolidating the authoritarian system and securing regime survival. To that end, they regard democratic reforms as rather counterproductive, and see the partial political openness of the 2000s as a mistake that enabled the 2011 revolution.

With regard to market economy, the picture is less clear. While there is consensus that generating economic growth must be a key priority, the proper extent of liberalization and economic reforms is contested. In recent years, the government introduced some measures to strengthen market mechanisms, and the business elite hopes for a larger role for the private sector, but at the same time wants to be protected by the state and keep its monopolies. The military has expanded its role in the economy and is unwilling to give up privileges. The state itself also remains a major player, both as a regulator and a competitor with its large public enterprises.

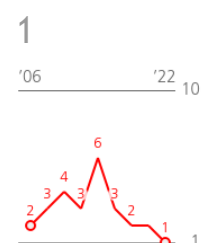
Regarding democratization, no truly reform-oriented political actors have any influence in the current government. Most opposition figures have been silenced, even on social media, where governmental control has been massively extended. Instead, policymaking is dominated by anti-democratic veto actors, with the military and the security apparatus playing a particularly prominent role, largely functioning outside any constitutional or public oversight. The political influence of the private business elite, which to some extent sympathizes with economic and (political) liberalism – at least as long as its own interests are not at stake – has declined in comparison to the late Mubarak years.

In the name of stability and economic recovery, the regime represses any talk of political openness, instead relying on authoritarian practices and deep state structures. It legitimizes rigid policies by referring to the fight against terrorism, which not only greatly restricts individual liberties but also constrains any discourse on reforms. Institutions which are supposed to have a supervisory function, such as the parliament or the judiciary, are politicized and largely loyal to the rulers.

Consensus on goals



Anti-democratic actors



The Egyptian nation shares a millennium-old history and is comparatively homogenous with regard to ethnicities, religion, language and culture. Yet, contemporary society is deeply divided along several other cleavages. During the period under review, the secularist-Islamist divide played a less prominent role than in the years before and after the military coup in 2013 (but it surely still exists and may break to the surface again at some point). Instead, class divisions have become more and more apparent. Against the backdrop of the economic crisis, which was further exacerbated by the COVID-19 pandemic, poverty has spread and the middle class has been hollowing out, with these trends driven by the regime's austerity measures and the dismantling of the welfare state. The elite, on the other hand, has continued to enrich itself. In consequence, the split between rich and poor has deepened further.

In the process of manifesting its rule after the 2013 coup, the regime has sought to reestablish a common Egyptian identity. It has promoted the spread of nationalism and patriotism and has followed a clear idea regarding how society should be structured, with patriarchy and distinct morals and traditions as the backbone. Thereby, it excludes anyone who differs from or disagrees with the propagated ideals, as reflected in the numerous detentions on grounds of morality, sexuality or religious belief during the period under review. Moreover, al-Sisi never delivered on his promise to reach out to the whole society but has clearly favored some segments over others. This approach further made various cleavages manifest, for instance along civil-military, social class, geographic, generational and gender lines.

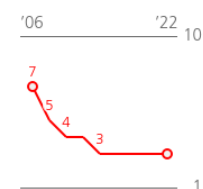
These rifts have little reflection in the political system, as the regime brought almost all political parties into line. The main Islamist party, the FJP, was forbidden right after the 2013 coup, and possible liberal alternatives were gradually coopted, intimidated and/or banned in the years that followed. In consequence, anti-regime forces were effectively prevented from running for office in the 2020 elections.

While al-Sisi has repeatedly called on all social forces to help solving the country's numerous challenges, civil society participation is in reality unwanted and broadly absent. The state's grip on civil society has remained tight since the 2013 coup, facilitated by a number of restrictive new laws, as well as the reintroduction of the state of emergency in April 2017. This emergency status was repeatedly renewed during the period under review. Restrictions are most severe regarding political activities that include some form of critical engagement with the regime's performance or human rights. However, work on social and cultural issues is monitored and regulated as well.

Labor unions, professional syndicates, the media and religious authorities are by and large under state control. Civil society's input is very limited at all stages of policy formulation, and organizations and individuals independent of the state play hardly any role at all. The agenda is set from above, decisions are made behind

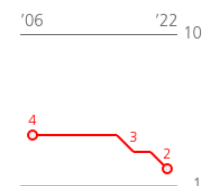
Cleavage /
conflict
management

3



Civil society
participation

2



closed doors, and implementation rests with the large bureaucracy. In rare cases, state-controlled bodies participate in policy formulation or influence lawmaking.

Civil society actors also had little role in the drafting of responsive measures to combat COVID-19 and the pandemic's repercussions. For example, the doctors' syndicate was largely excluded from designing countermeasures. Instead, it repeatedly criticized the government's performance and the lack of protective gear for medical staff in particular, but the critique was harshly rebuffed by the government.

The government does not address or investigate most acts of past injustice perpetrated by state actors, such as the military, intelligence agencies or police forces – neither those that happened during and after the 2011 revolution, nor the massacres of Morsi supporters in summer 2013, which took at least 1,000 lives. Moreover, the forced disappearance and unjust imprisonment of tens of thousands of Egyptians on political grounds since 2013, the large number of extrajudicial killings in the name of fighting terrorism, and the frequent usage of torture and harsh prison conditions are all shielded from critique and remain unaddressed. Instead of reaching out to the victims of those practices and providing compensation, the regime denies all accusations and manipulates memories by constantly accusing its opponents of being terrorists that threaten the nation, effectively turning victims into perpetrators.

Leading figures of the former Mubarak regime, including Mubarak himself, his sons, his interior minister and many others, have been acquitted of almost all accusations. Especially rare is prosecution of military and security personnel. In December 2020, for example, the Egyptian prosecution inconclusively closed its investigation into the murder of Italian PhD student Giulio Regeni, who was found dead with signs of torture in Cairo in February 2016. Italian authorities, by contrast, charged four individuals belonging to the Egyptian security apparatus with kidnapping, torturing and murdering Regeni, a move that was harshly condemned by Egyptian officials.

Members of the military and the security apparatus are legally protected against civil prosecution. Article 204 of the 2014 constitution states that only military courts have the authority to prosecute military and intelligence service personnel, and new legislation from July 2018 effectively grants senior officers immunity for crimes they may have committed in the aftermath of the 2013 coup.

Reconciliation

2



17 | International Cooperation

Egypt's foreign policies are guided by the regime's wish to secure its own survival, and thus by primarily short-term considerations. Overall, the regime tries to utilize external partnerships to obtain what it needs to counter threats to its survival (e.g., financial assistance, weapons, investments and economic cooperation), while avoiding external demands that could undermine regime survival (e.g., conditions that would force it to ease repression and include oppositionists in the political process, or requests for economic reforms that would weaken the role of the military or other regime actors).

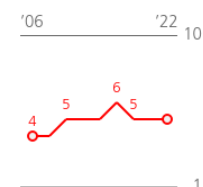
To that end, the regime has improved its bargaining position by portraying itself as a regional anchor of stability, and by diversifying Egypt's foreign relations and strengthening cooperation with China, Russia, Saudi Arabia and the United Arab Emirates in particular. As a result, it has largely succeeded in evading any loan or aid conditions that contradict its own preferences, as can be seen in the deepening of the largely unconditional economic and security cooperation with several European states during the period under review. In late 2020, however, the U.S. Congress signed off on its annual \$1.3 billion in military aid, but for the first time in history, made the disbursement of \$75 million conditional on the release of political prisoners.

Support and cooperation are mainly sought out in the fields of security, as well as in the economy, energy, infrastructure and education sectors. International input is accepted in some specific cooperation and investment projects, such as the construction of a nuclear power plant by Russia's ROSATOM, the purchase of weaponry and subsequent training, and the introduction of Japanese educational approaches in some Egyptian schools. However, these tend to be limited cases. Collaboration at the civil society level is severely restricted, as all national and international NGO activities are effectively under government control.

The Egyptian regime is only partly a credible and reliable partner for the international community. With regard to economic issues, the regime by and large fulfills its commitments as enshrined in international treaties and agreements. For example, Egypt eliminated all custom tariffs on automobiles from the EU in 2019, as envisioned in the EU-Egypt Association Agreement signed in 2004. With regard to confidence in Egypt's economy more generally, the successful conclusion of the IMF loan in 2016, and especially the Egyptian government's commitment to swiftly implement all agreed economic reforms, was a game changer. Since then, other financial institutions such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), in addition to other states, have significantly expanded their activities in the country. In the course of the COVID-19 pandemic, the IMF provided Egypt with two additional loans and declared its full trust in Egypt's economic reforms and recovery.

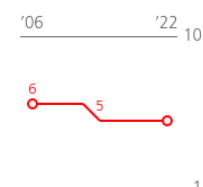
Effective use of support

5



Credibility

5



With respect to security, Egypt's commitment to its peace treaty with Israel has always been praised by the Western world in particular. With regard to its commitment to human rights and individual liberties, on the other hand, the picture is much bleaker. Even though Egypt has signed several U.N. and regional human rights conventions, the country's human rights record has significantly worsened since 2013. Egypt is a signatory to the Convention on the Elimination of All Forms of Discrimination against Women, but the government does very little to effectively implement gender equality. It is a signatory to the U.N. Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, but rights organizations have reported on numerous cases of torture, inhuman prison conditions, forceful disappearances and extrajudicial killings.

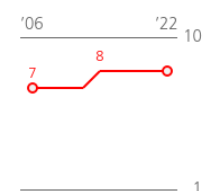
Egypt has relatively well-established economic relations with neighboring regions. The European Union, with which Egypt has an association agreement, remains Egypt's main source of FDI and its largest trade partner by far. MENA states' importance as economic partners has increased in recent years, and Egypt is a member of the Agadir Agreement and the Greater Arab Free Trade Area (GAFTA). The government has also paid increasing attention to the African continent, not least in the context of Egypt's presidency of the African Union (AU) in 2019. Egypt is a member of COMESA, and the AfCFTA was launched on January 1, 2021. Notably, in the course of the pandemic, Egypt sent COVID-19 relief material to 30 African states, some Arab states and Italy, as well as to China and the United States.

Cairo hosts the League of Arab States (LAS), and an Egyptian, Ahmed Aboul Gheit, serves as the body's secretary-general. However, the LAS has little regional or international clout, and further (political) integration seems unrealistic for the time being, as the MENA region is divided, inter alia, between Iranian and Saudi Arabian camps, and between supporters and opponents of Islamist movements. Egypt, Kuwait, the UAE and Saudi Arabia cut diplomatic relations with Qatar and initiated a large-scale blockade in June 2017, but all five signed an agreement to end the rift in January 2021.

Relations with all three direct neighbors remain somewhat ambiguous. Relations with Israel appear closer than ever, exemplified by military cooperation on the Sinai, as well as the beginning of gas imports in January 2020 (as part of a \$15 billion gas deal from February 2018). Relations with Sudan have improved significantly since early 2020, mainly against the backdrop of increased coordination regarding the Grand Ethiopian Renaissance Dam (GERD). The two countries have linked their electricity grids, discussed cross-border transportation networks and deepened security cooperation, for example. In Libya, Egypt has increasingly sought to act as a mediator, for example by launching a diplomatic initiative (the Cairo Declaration) in June 2020 and by hosting Libyan military unification talks in September 2020.

Regional
cooperation

8



1

Strategic Outlook

Overall, developments with regard to Egypt's economic transformation were inconsistent during the period under review, and the COVID-19 pandemic will impede the continuation of macroeconomic recovery, while adding to the socioeconomic malaise of large segments of society. In the political sphere, the regime shows no interest in fostering democratization, but has instead consolidated authoritarianism. To initiate Egypt's political openness and deepen its economic openness, the Egyptian leadership should therefore work on the following strategic priorities:

- **Reduce cleavages, injustice and inequality:** The leadership should abandon its uncompromising and repressive approach, investigate acts of injustice, and release all political prisoners. It should stop favoring some segments of society over others, and instead promote equal opportunity. In that context, the leadership should also increase spending on and ensure equal access to education and health care.
- **Introduce an inclusive political system:** The leadership should allow for political participation. It should, *inter alia*, revise restrictive legislation, allow an independent party landscape to develop, encourage independent civil society activities, and promote free speech and public discourse.
- **Undertake institutional reforms:** The leadership should establish better checks and balances by reducing the degree to which power is concentrated around the president, strengthening the legislature and making the judiciary more independent. Moreover, the political system should be decentralized, and local elections be held as soon as possible. The military and the security apparatus should be placed under civilian oversight.
- **Make the economy more sustainable:** The leadership should refocus its approach away from capital-intensive and toward labor-intensive sectors. It should also tackle the main obstacles to sustainable economic development, such as the strong (and nontransparent) role of the state and the military, or the monopolistic practices of the business elite, all of which undermine competition and thus private sector development. Moreover, attempts to formalize the informal economy and increase tax collection capacities should be undertaken.
- **Stop dismantling the welfare state:** The leadership should better balance the side effects of austerity measures, and ease the burden imposed by the pandemic on low-income segments and vulnerable groups. It should increase its efforts to counter growing poverty and injustice by effectively mitigating rising living costs. The subsidy system should be better targeted and effective support programs launched.

The international community can support the process by focusing on the following strategic priorities:

- Do not sideline democratization: Western states have to accept that they cannot shape domestic developments, and that strict conditionality does not work well. However, this should not mean that human rights and political liberalization are disregarded. Instead of exporting weapons and praising the regime as an anchor of stability, and thereby providing a propaganda platform, Western governments should continuously point to Egypt's human rights record and call for improvements.
- Do not solely focus on macroeconomic recovery: The international community should be sensitive to tensions between neoliberal economic reforms and possible effects on the country's social development. It should not push the government to generate growth and implement structural reforms and austerity measures by whatever means necessary but should instead encourage effective mitigation of rising living costs and support the population.