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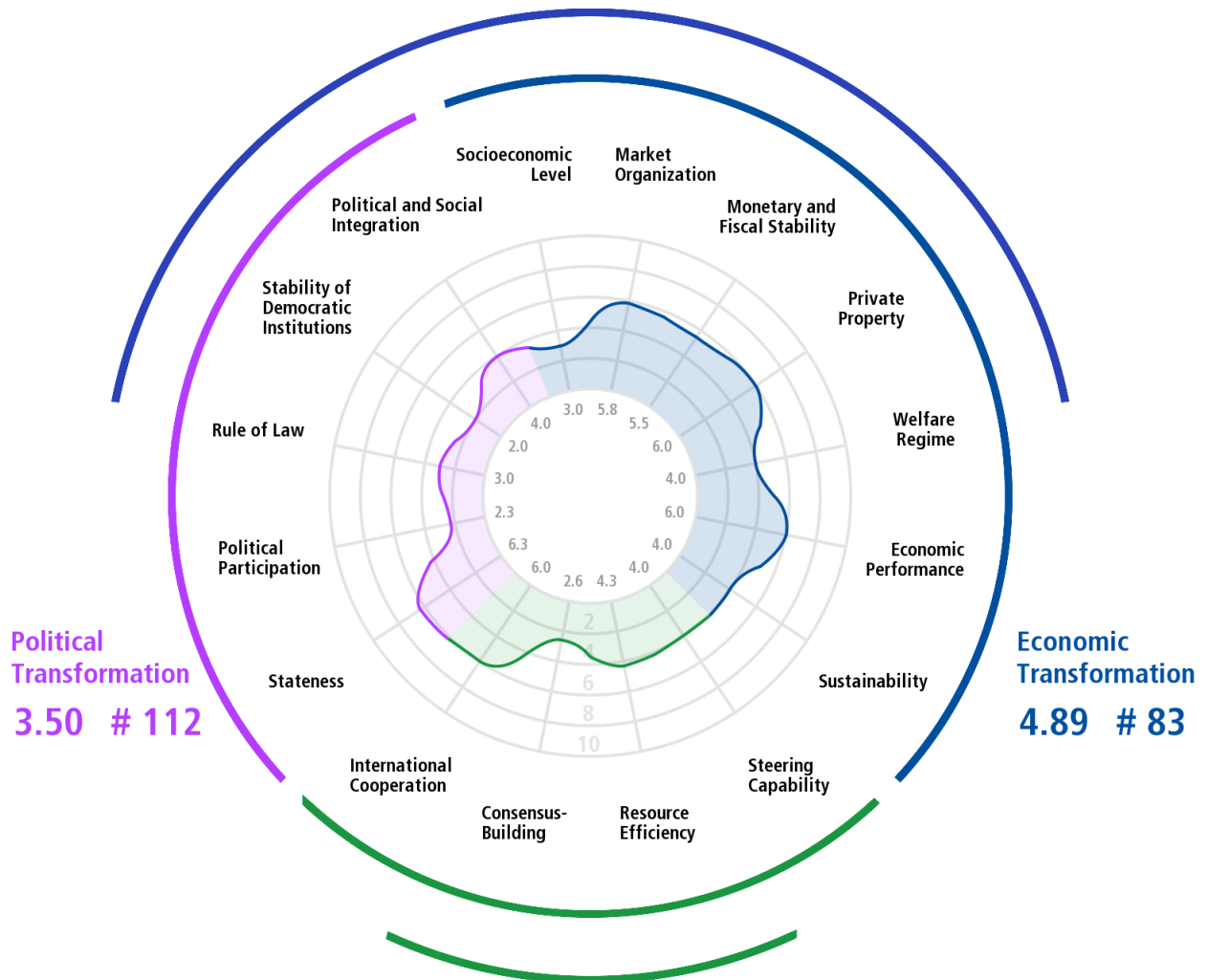
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Egypt

Status Index

4.20 # 104

on 1-10 scale out of 137



Political Transformation
3.50 # 112

Economic Transformation
4.89 # 83

Governance Index

3.86 # 103

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. 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>.

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Key Indicators

Population	M	98.4	HDI	0.700	GDP p.c., PPP \$	12390
Pop. growth ¹	% p.a.	2.0	HDI rank of 189	116	Gini Index	31.8
Life expectancy	years	71.7	UN Education Index	0.608	Poverty ³	% 16.1
Urban population	%	42.7	Gender inequality ²	0.450	Aid per capita \$	-1.2

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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 continued to rebuild the state in the way it deems it best to ensure its own survival. Thus, the rulers actively worked toward further manifestation of authoritarianism and state control. Abdel Fattah al-Sisi was reconfirmed as president in an unfair and unfree election in March 2018, and policy-making remained dominated by anti-democratic veto actors, with the military and intelligence agencies playing a particularly prominent role. Moreover, the regime strengthened its grip on supposedly independent bodies, ranging from the judiciary to anti-corruption agencies or labor unions and professional syndicates, and further centralized power in the president's office.

This approach resulted in alarming setbacks in the spheres of participation and civil and human rights. Several new restrictive laws and legal amendments were passed, the state of emergency reinstated, and civil society repressed in a way that even exceeded the oppression during the Mubarak era. The regime not only targeted political opponents, be they Islamist or liberal, but virtually anyone not complying with norms defined by the rulers, such as atheists or homosexuals. Also, the media remained under strict state control, with the internet and social media gaining increased attention during the period under review.

The security situation continued to be fragile, and terrorism cost an unprecedented number of lives in 2017. The northern part of the Sinai Peninsula remained the main hotspot and most attacks targeted police and military forces. Violence spread to other parts of the country as well, and civilians were repeatedly attacked, not least members of the Coptic community. The military, in cooperation with police and intelligence forces, responded with a large-scale military offensive, labeled Operation Sinai 2018. While this decreased the number of terrorist attacks and casualties, especially in mainland Egypt, sustainable security could not be established. In the long run, the focus on military solutions and repression, without being effectively supplemented by sustainable development strategies, may indeed lead instead to more radicalization.

In the economic sphere, contradictory developments occurred. On the one hand, the government took further steps to restructure the economy by proceeding with implementing an IMF-induced reform package. Among other things, it adopted a set of new laws aimed at attracting investment, introduced austerity measures to reduce state expenditures, and reformed the tax structure. Indeed, this resulted in promising macroeconomic data, illustrated by rising growth rates, a recovery of foreign currency reserves, and an increase in exports.

On the other hand, the reforms and the government's policies aimed at generating growth proved a heavy burden on both fiscal and monetary stability, as well as the population. The Egyptian pound depreciated, inflation rose steeply, debts reached worrisome levels, and the budget deficit remained high. Moreover, austerity measures, such as subsidy cuts and decreased spending on education and health, resulted in rising living costs for which sufficient compensations were not made. Poverty is spreading, and the youth unemployment rate remains high. Moreover, the regime was reluctant to contend with critical issues which would require far-reaching reforms, such as the military's economic empire and privileges, the monopolies some businessmen enjoy, or the active role of the state in the economy.

History and Characteristics of Transformation

After the 1952 revolution, the military regime based its rule on a secular-socialist ideology, a one-party-system, state-centered economic development, and an import-substitution strategy of industrialization and modernization, all of which were focused on welfare politics as well as political paternalism. Yet, this model's internal contradictions as well as the burdens of several wars (1948, 1956, 1967 and 1973) led to a severe economic crisis, characterized by high levels of foreign debt, a scarcity of investment capital and stagnating growth.

Against this background, then-President Anwar al-Sadat commenced his economic open-door policy in 1974, and Egypt embarked on a path of partial liberalization of its state-centered economy. However, this did not result in sustainable development but in a system of corrupt crony capitalism and further debt accumulation. Reaching a point of illiquidity in 1977, the government secured a stand-by arrangement with the IMF, which forced a reduction in state budgetary expenditures, especially an abandonment of subsidies for basic needs. The subsequent price hikes triggered the 1977 bread riots which, again, made the regime delay far-reaching reforms until the 1990s. In the context of this crisis, the government also started introducing multiparty pluralism. Yet, Sadat as well as his successor Hosni Mubarak, ensured the hegemony of the National Democratic Party (NDP). The nominally existing multiparty system has been nothing more than a democratic facade and offered no opportunity for changes in governance. Meanwhile, Islamic movements formed at the societal grassroots and gradually increased in popularity, especially by taking over social tasks from which the state had retreated.

While economic liberalization in the 1970s was originally intended to stabilize the economic basis of the authoritarian political system, it in fact began to erode this basis in the 1990s, when the

country slit into another severe economic crisis. As a result of the 1993 and 1996 debt negotiation rounds with the IMF, the government had to implement a substantial structural adjustment program for the first time in Egypt's history. Insufficiently balancing austerity measures and a lack of distributive justice, however, severely impaired living conditions. Growing labor and social protest were crushed by an increasingly authoritarian regime that justified its policies as anti-terrorism measures. Another wave of economic liberalization and privatization commenced in 2004 with the Nazif government and the background leadership of Gamal Mubarak. Their policies facilitated macroeconomic growth, but once again, large segments of society did not benefit, and their demands were neglected. 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 instability and a contradictory course. On the one hand, the Supreme Council of the Armed Forces (SCAF) 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. Consequently, the armed forces toppled Morsi on July 3, 2013, and General Abdel Fattah al-Sisi became president one year later. Since then, he has been copying the policies of the 1990s, disguised by his presentation of himself as the sole savior of national stability and unity. While any talk of democratization de facto came 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 2013 coup and the brutal crackdown on the Muslim Brotherhood polarized society. While clashes between protesters and security forces came to an end shortly thereafter, terrorist activities reached an unprecedented level during the period under review. Egypt has the ninth highest score in the Global Terrorism Index 2018, whereas it had been ranked 111 in 2004 and 47 in 2011. The 878 fatalities in 2017 exceeded the previous peak of 790 in 2015.

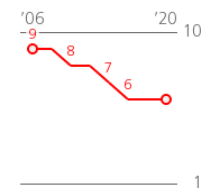
Wilayat Sina, called Ansar Beit al-Maqdis until it pledged allegiance to the Islamic State (IS) group in November 2014, has been the most active of these groups in recent years. It especially challenged the government's territorial control in the northern Sinai, where most of the attacks were taking place, mainly targeting police and military forces. Other parts of the country and civilians are increasingly affected as well. Attacks on churches in Alexandria and Tanta on April 9, 2017, and on pilgrims close to Minya on May 26, 2017, and November 2, 2018, explicitly targeted the Coptic community and killed at least 75 people. The assault on al-Radwa Mosque close to al-Arish on November 24, 2017, cost at least 305 lives.

On February 8, 2018, the military, in cooperation with police forces and intelligence agencies, launched Operation Sinai. The military offensive mainly focused on the northern Sinai, but included operations in the Nile Delta and the Western Desert as well. According to official statements, at least 450 suspected terrorists were killed during the operation, which was ongoing at the time of writing. While the number of fatal terrorist incidents decreased, the long-term implications remain unclear, not least due to the lack of transparency and the focus on military countermeasures.

Question
Score

Monopoly on the
use of force

6



In comparison to other Arab states, Egyptian society is homogenous. Amazighs, Bedouins and Nubians are the only ethnic minorities, comprising not more than a few hundred thousand each, and both the 90% Sunni Muslims and 10% (mainly Coptic) Christians accept the idea of a unified nation. The idea of removing religion from personal identification cards, debated for years, has been continuously discussed in parliament and the public throughout the assessment period, without a definite decision yet.

Moreover, very few citizens reside in remote areas, while 99% of the population lives in the Nile Delta, the Nile Valley, and Greater Cairo. Egypt's millenniums-old history as a unified entity within this geographic space is an item of national pride, and nationalism and patriotism are widespread.

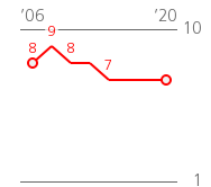
The 2014 constitution grants access to citizenship with equal rights and duties to anyone born to an Egyptian father or mother (Art. 6). In practice, however, many factors impact access to citizenship rights, such as social and geographical origin, religious affiliation, political opinion, gender, sexual orientation or ethnicity. For example, Nubians have been fighting for their right to return to their ancestral lands ever since they were removed before the filling of Lake Nasser. Recent signs, however, indicate that the land may instead be sold to investors, and 24 Nubian protesters were arrested for demanding their rights during a demonstration on 3 September 2017.

The 2014 constitution contains religious dogmas by claiming 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, which are almost exclusively based on religious dogma. Moreover, the regime and the media continue to combat and demonize atheism. At the end of 2017, the parliament's Committee on Religion even began to discuss a draft law to criminalize atheism altogether. Even though the law has not yet been adopted, many atheists have been detained on the basis of a strict blasphemy law.

Even though Egypt is divided into 27 governorates, partially further subdivided into regions, towns and villages, the administrative structure is highly centralized, with governors and subordinated executive organs being appointed by the president and serving under his discretion. Those executive organs are amended on the local level by elected councils, which are supposed to monitor executive performance but lack political power. Moreover, all local councils were dissolved in 2011, and new elections have not yet taken place because a new bill on local administration is still in process. As no details have been published, it is unclear in how far the new law

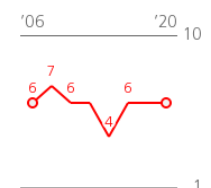
State identity

7



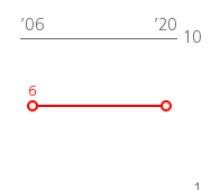
No interference of religious dogmas

6



Basic administration

6



will realize considerable decentralization and greater governance control. In April 2018, it was announced that elections would take place in 2019.

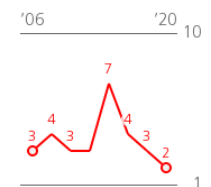
The state provides the administrative infrastructure for the rule of law, but law enforcement is very selective, not least due to widespread corruption. Tax collection efficiency remains low, despite recent attempts to increase the tax base. Moreover, bureaucracy is lacking both efficiency and resources to provide high-quality education and health services. Basic infrastructure, on the other hand, is available. According to the 2017 census, 96.3% of households have electricity and 90.4% access to drinking water. Yet, power and water cuts remain frequent in poorer areas and only 40.6% of households are connected to the sewage system.

2 | Political Participation

The presidential election in March 2018 was the only one during the period under review. According to official results, al-Sisi received 97% of valid votes with a 41% turnout. While the polling process during the election day was conducted properly, the environment in which the elections took place and the run-up made them a farce. Several potential candidates deemed it impossible to run and those who publicly announced their intentions were either imprisoned on charges of breaching military law, namely Sami Anan and Ahmed Konsowa, or pressured to withdraw, like Ahmed Shafiq, who disappeared shortly after his announcement, only to reappear and declare that he had changed his mind a few days later. The human rights lawyer Khaled Ali explained his withdrawal with concerns for his supporters, who had been intimidated. Eventually, only hours before the deadline for submitting applications to run for election, Moussa Mustafa Moussa, a widely unknown politician and declared supporter of al-Sisi, handed in his papers, probably encouraged by the regime in order to have a second candidate, but not an independent one. Because an insufficient level of fairness and freedom was widely expected, no serious international election observation took place. While local elections have repeatedly been postponed since the local councils were dissolved in 2011, parliamentary elections were held in October to November 2015. With the new electoral law having received strong criticism for favoring individuals loyal to the regime and the lack of a competitive party system, many opposition groups boycotted the elections. Voter turnout was only 28.3%, despite a spontaneous one-day election extension and massive threats against non-voters.

Free and fair elections

2



The legislative chamber consists of mainly regime supporters. Members who voice criticism may even be dismissed, as the case of Mohamed Anwar al-Sadat in February 2017 illustrates. Moreover, parliament's rights are restricted, while the president enjoys far-reaching competences and power to govern. Moreover, several non-elected actors play an important role in decision-making. Besides the judiciary and religious authorities, who are believed to wield considerable veto power, the intelligence agencies and the military interfere in politics whenever they deem necessary. They are pulling strings behind the scenes and have considerable power to shape policies and to place individuals in office or to remove them.

The constitution does not restrict association or assembly rights. However, it stipulates that they should be further regulated by law and, therewith, opens the door for the rulers to do so. Correspondingly, the regime has, for example, severely implemented a restrictive protest law passed in 2013 and detained hundreds of peaceful protesters during the period under review. It does not tolerate demonstrations critical of its policies or decisions. A new NGO law was passed by parliament in November 2016 and ratified by the president in May 2017. The law restricts the founding and work of NGOs, among others by establishing a monitoring authority, controlled by the General Intelligence Service, which can effectively shut down any organization, and imposing harsh restrictions on NGOs' fields of operation and their funding. Based on the new law, the regime shut down several organizations, froze assets and imposed travel bans on activists. Effectively, it only allows the work of organizations that support the regime. Surprisingly, al-Sisi suggested revising the law on November 4, 2018. Yet, it can hardly be expected that an amended law would allow civil society to operate freely. Moreover, al-Sisi reinstated the state of emergency on April 10, 2017, and has repeatedly renewed it since then. This further restricts association and assembly rights and facilitates the regime's authoritarian approach.

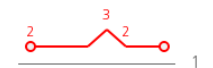
The 2014 constitution grants absolute freedom of belief (Art. 64), guarantees freedom of thought, opinion and expression (Art. 65), prohibits censorship, suspension or closure of media (Art. 71) and is committed to international human rights agreements ratified by Egypt (Art. 93). Even so, the freedom to practice religious rituals and establish places of worship is limited only to the followers of Abrahamic religions (Art. 64).

The media landscape comprises public and private outlets, both characterized by pro-regime reporting. They not only refrain from criticizing the ruling elite, but also discredit opposition figures and spread the regime's narratives. Dissenting voices are consequently silenced. According to the Committee to Protect Journalists, at least 25 journalists were in Egyptian prisons as of the end of 2018, which is the third highest number globally, 19 of them on charges of spreading false news. Egypt is ranked 161 out of 180 countries in the Press Freedom Index 2017 and 2018.

Effective power to govern

2

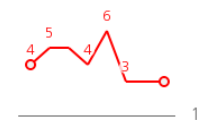
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Association / assembly rights

3

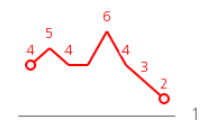
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Freedom of expression

2

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In addition to continued government control of newspapers and TV stations, the internet and social media were increasingly targeted during the period under review. Starting in June 2017, hundreds of websites were blocked, especially local and international news providers. Furthermore, a growing number of bloggers and social media users have been detained for comments, inter alia, criticizing the ruling elite, sharing atheist views or defending homosexuality. This practice was facilitated and provided with a legal basis by a new law regulating the press and media, which was ratified by al-Sisi in September 2018. Among other things, it gives the state the power to penalize journalists for publishing fake news and introduced a new supervising authority, which can effectively shut down websites, blogs and social media accounts.

3 | Rule of Law

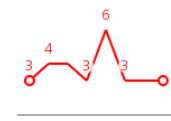
The 2014 constitution, in theory, reduced the power of the executive and strengthened the legislature. According to Art. 159, the parliament has the right to impeach the president in case she or he breaches the constitution or commits felony, and Art. 161 allows it to withdraw confidence from the president by a two-thirds majority. However, the parliament elected in 2015 is as weak as the previous ones, mainly due to a tailor-made election law that allowed for almost exclusively regime supporters to gain seats in the chamber. Their fate is highly dependent on the backing of the president and other major players, such as the security apparatus. Accordingly, the parliament only occasionally, and only in some selected issue areas, expressed criticism toward the executive. Its main role remains approval and implementation of government initiatives and supporting the president, but not monitoring or providing a balance of power with regard to the executive. At the end of 2018, rumors circulated that the constitution might be amended so that al-Sisi could stay in office after his second term ends in 2022. Also, his control over the judiciary could be expanded, further undermining the separation of powers.

Traditionally, the judiciary is acknowledged as a respected institution and has long enjoyed a degree of independence, with the 2014 constitution entailing further improvements. By and large, all judicial bodies administer their own affairs and have an independent budget. 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 opportunity for an appeal and, in addition, rules over the validity of membership in parliament. The State Council, again, 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. While all citizens are granted the right to appeal decisions handed down by civil courts, this is not applicable to military courts, which have jurisdiction over all crimes committed by military personnel and over civilians who have attacked the military or public facilities.

Separation of powers

3

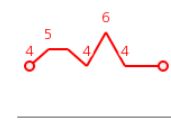
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Independent judiciary

4

'06 '20 10



Overall, judges show a high degree of professional consciousness and power of judgment. Yet, developments during the period under review indicate that the regime seeks to bring the judiciary under tighter government control. In April 2017, for example, al-Sisi ratified legal amendments ending the practice that senior members take over leadership of judicial bodies in case of succession. Instead, those bodies now have to submit a list with three candidates to the president, who then selects one on them. Based on this legislation, al-Sisi overrode the appointment of Yehia Dakroury as head of the State Council in June 2017, presumably because of Dakroury's history of annulling government decisions. Moreover, an increasing number of cases, deemed to concern national security, are tried in front of State Security Courts of Emergency, due to the state of emergency and the frequent application of the 2015 terrorism law. Those courts are composed of civilian and military judges, appointed by the president.

For decades, the rule of law has been undermined by extensive political corruption and a culture of nepotism and favoritism. Accordingly, the prosecution of office abuse is not consequent and rigorous, even though the president has repeatedly highlighted his intention to fight corruption and money laundering. Indeed, several individuals were charged during the period under review, including the head of the customs authority, the governors of Helwan and Menoufia, and officials from the ministry of finance. Yet, it appears as if primarily individuals who have lost the backing of the regime are prosecuted.

While President al-Sisi signed the African Union Convention on the Prevention and Combating of Corruption in June 2018, in October 2017 the government amended legislation on the Administrative Control Authority (ACA), which is responsible for dealing with all administrative and financial violations of state bodies and the public sector. Among other things, the new law transferred ACA's subordination to the president, who now also appoints its director. Traditionally, ACA's senior positions are filled with former military personnel, while army and police officers lead the investigation units. Consequently, ACA is under strict control of the regime, and can be used to punish and reward individuals. The possibility of scrutinizing potential misbehavior by members of the security forces is factually excluded, however.

Hisham Geneina, until 2016, director of the Central Auditing Organization (also called the Accountability State Authority, ASA, not to be confused with the aforementioned ACA), was given a five-year prison sentence in April 2018 for "insulting the military" because he publicly spoke out about the rampant corruption in Egypt when still in office. In January 2018, he was attacked in public by unknown assailants. Many believe these were thugs acting at the behest of the regime.

Prosecution of
office abuse

3

'06 '20 10

4 3

1

The 2014 constitution ensures equal rights to all citizens without discrimination. De facto, however, civil liberties are systematically repressed, and most Egyptians feel powerless against state authorities, such as the police or the bureaucracy. Women continue to struggle to be granted equal rights, just as citizens who, in one way or the other, do not comply with the image of the “normal Egyptian.” For example, the media started a smear campaign against homosexuals after a rainbow flag was raised at a concert in September 2017. Although homosexuality is not illegal, dozens were sentenced on charges of debauchery during the subsequent crackdown, and parliament even debated criminalizing homosexuality altogether.

Not surprisingly, citizens with divergent political preferences are especially targeted, as can be seen by an unprecedented number of 60,000 political prisoners, according to Human Rights Watch. Moreover, the practices of disproportionately long pretrial detentions, torture, forced disappearance, and extrajudicially executions are used excessively. Organizations and individuals supporting victims of such practices are under constant pressure. For example, the Nadeem Center, one of the most important institutions aiding torture victims, was shut down in February 2017.

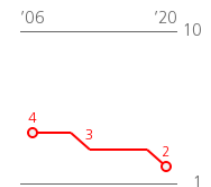
4 | Stability of Democratic Institutions

All political and administrative institutions in modern Egyptian history were part of authoritarian regimes. After the 2013 coup, the current regime began to rebuild the state in a way that best served its own survival. This included the reestablishment of the former institutional framework. The judiciary and public administration largely survived the turmoil of the post-2011 years, even though their design and staff underwent significant changes. On the national level, the parliamentary elections of 2015 completed the transition roadmap. Regional and local executive organs, such as governors and mayors, are appointed by the president. Popular local councils, on the other hand, were dissolved after 2011 and not yet elected again. Elections were announced for 2019. In design, most institutions are portrayed as democratic. Yet, almost all of them lack both input and output legitimacy and are ultimately part of or controlled by the authoritarian regime.

From the perspective of the president, 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 make sure to be out of those institutions’ reach and control, best exemplified by the military’s special status in the constitution. Governments, parliaments, and the public administration are expected to primarily serve the regime and not citizens. Accordingly, the rulers not only shaped the design of those state bodies in a way that best serves their interests but also control who takes office. This led to a broad lack of confidence in respective institutions, not only by the few remaining opposition forces or critical voices, such as human rights advocates and journalists, but also the general public, illustrated by repeatedly low voter turnouts in recent elections.

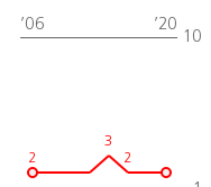
Civil rights

2



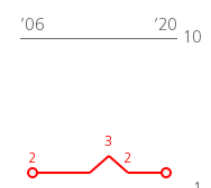
Performance of democratic institutions

2



Commitment to democratic institutions

2



5 | Political and Social Integration

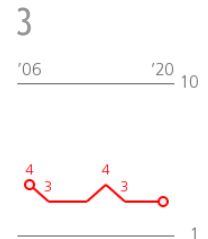
Officially, Egypt has had a multiparty system since 1977. In practice, however, pluralism was repressed and the NDP monopolized the political arena until 2011. In consequence, a party system has been developing practically from the ground up after the revolution and the dissolving of the NDP, with only very few parties, such as Wafd, with a long tradition. The spectrum of newly formed parties ranged from Islamic and conservative to liberal and leftist.

The developing party landscape was highly fragmented and unstable and transformed once again after the 2013 coup. The MB's Freedom and Justice Party, clearly the most professional and socially rooted of all parties, was dissolved. Most other parties that had been critical of the military were either silenced or brought under the regime's control. Yet, despite rumors and speculations in the summer of 2018, no new ruling party had been established at the time of writing. Instead, several smaller parties vie for the regime's favor, but did not manage to develop strong social roots. Accordingly, fragmentation and voter volatility remain high, and Egyptians in general lack confidence in political parties. Moreover, the election system introduced in 2014 favors independent candidates over party lists.

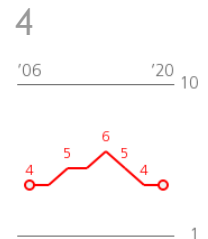
Decision makers are detached from society, and there is a clear hierarchy with regard to whose interests are deemed important. Some groups, such as the business elite and especially the military, are very powerful and have direct access to the decision makers, or are indeed part of the decision-making elite themselves. Concerns of the poor and lower social classes are mostly considered to be of secondary importance.

Since 2011, syndicates and unions have swung between state control and independence, but the trend was clearly toward the former during the period under review. For example, the parliament passed a new trade union law in December 2017, which, in theory, allowed for the creation of independent bodies. In reality, however, it set conditions which are almost impossible to meet and made apparent the monopoly of the state-affiliated Egyptian Trade Union Federation (ETUF). Moreover, union elections in mid-2018 resulted almost exclusively in the victory of regime supporters. The power struggle within the Syndicate of Journalists was decided in favor of state supporters, when Abdel Mohsen Salama was elected as its new head in March 2017. In consequence, most unions and syndicates do not voice their members' demands to the elite, but rather deliver the elite's messages to their members.

Party system



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. Moreover, the level of trust in political and administrative institutions is low, given the decades-long experience of authoritarian rule. Also, many associate their experiences with democracy after 2011 with instability, an economic downturn and price hikes. This, together with a long tradition of patriarchy in all aspects of life, spreads the belief that a strong man is necessary to lead the country. However, given the inability of the regime to deliver on socioeconomic issues, its supporters are becoming more passive.

Traditional patterns of interaction result in a high level of trust among the population and a strong sense of solidarity. Because of the state's inability to provide basic goods and support, social need for mutual self-help is high. However, solidarity and trust are increasingly limited to families and the closest social setting, due to socioeconomic malaise and the spread of poverty. Moreover, solidarity between social classes is low.

In the past, the state's passivity offered considerable opportunity for Islamic charities, which stepped in and provided education, food or health services. As the formation of voluntary and autonomous organizations has been severely restricted under the past and present authoritarian regimes, its agents operate in a gray zone between informal and formal organization. Religion also plays a role in the sense that giving charity and supporting each other is considered a key Muslim duty. Activism for environmental or cultural issues, by contrast, is only beginning to emerge, with awareness slowly increasing, especially among the upper-middle class.

Approval of democracy

n/a

'06 '20 10

n/a

Social capital

5

'06 '20 10



1

II. Economic Transformation

6 | Level of Socioeconomic Development

Egypt depends strongly on volatile sources of revenue, such as tourism, the Suez Canal or remittances from workers in oil-producing countries, which fluctuate with domestic developments and the global economic situation. This makes it difficult to overcome the most important socioeconomic barriers to transformation. Accordingly, Egypt's level of development is low, and the country ranks 115 out of 189 countries in the HDI 2018. The World Bank classifies Egypt as a lower-middle income country with a GNI per capita of \$3,010, which is clearly below the global average of \$10,366. In 2015, 27.8% of the population lived below the national poverty line, up from 21.6% in 2008. According to Heba al-Laithy, who is involved in an ongoing study to update the data, the number could have risen to 35% in 2017. Also, illiteracy remains

Question
Score

Socioeconomic
barriers

3

'06 '20 10



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at the high level of 25.8% as the 2017 census revealed, even though the trend is toward improvement.

Inequality is high, and significant parts of society are disadvantaged due to their political opinions, gender, place of residence or class affiliation, to name only some dimensions. Accordingly, Egypt's inequality adjusted HDI is 29.2% lower than its HDI, which is clearly above the global mean value of 20%. In the Gender Inequality Index 2017, Egypt ranked 101 out of 160 countries.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	332698.0	332927.8	235369.1	250895.5
GDP growth	%	4.4	4.3	4.2	5.3
Inflation (CPI)	%	10.4	13.8	29.5	-
Unemployment	%	13.1	12.4	11.8	11.4
Foreign direct investment	% of GDP	2.1	2.4	3.1	2.7
Export growth	%	0.0	-15.0	86.0	32.2
Import growth	%	1.0	-2.2	52.5	11.3
Current account balance	\$ M	-17243.3	-20493.9	-7939.7	-6293.2
Public debt	% of GDP	88.5	96.8	103.2	92.7
External debt	\$ M	49847.2	69173.1	84428.7	98704.9
Total debt service	\$ M	3779.1	6632.2	6684.6	7881.4
Net lending/borrowing	% of GDP	-10.7	-	-	-
Tax revenue	% of GDP	12.5	-	-	-
Government consumption	% of GDP	11.8	11.4	10.1	8.4
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.6	1.4	-	-
R&D expenditure	% of GDP	0.7	0.7	0.6	-
Military expenditure	% of GDP	1.7	1.7	1.4	1.2

Sources (as of December 2019): 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

In 2004, the newly appointed Nazif cabinet initiated an economic reform program, which was portrayed as a major step toward market-based competition. In fact, however, the process was nontransparent and led to further wealth accumulation within the elite due to corruption, clientelism, and cronyism. In the framework of the IMF deal in November 2016, another economic reform program began, so far with limited impact on competition.

Hence, Egypt was ranked 139 out of 180 countries in the Economic Freedom Index 2018, significantly worse than in 2011 (ranked at 96) and 2016 (ranked at 125). In the World Bank's Ease of Doing Business Index 2019, Egypt ranked at 120 out of 190 countries, which is a slight improvement in comparison to the last three years but worse than in 2015. Obstacles remain to both running and starting a business, even though the latter has improved in recent years. The report identified registering property, paying taxes, trading across borders and enforcing contracts as the main hurdles.

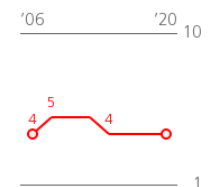
In consequence, the informal sector generates around 40% of GDP, as the government estimated in its Vision 2030, published in March 2016. With regard to employment, the percentage may very well be significantly higher, and some economists consider the informal sector to be the most booming, job-creating and market-oriented sphere of the Egyptian economy. The government is aware of this, and the Planning Ministry launched an economic census in January 2019, which shall survey the informal sector in particular.

A legal framework ensuring freedom of competition was established in 2005 and implemented the Egyptian Competition Authority (ECA) as the main watchdog. In 2011 and 2012, the law was amended and fines significantly increased. During the period under review, developments were ambiguous. On the one hand, the ECA, among others, filed a successful lawsuit against the Qatari beIN Media Group, which was penalized with two EGP 400 million fines in January and in March 2018, on charges of misusing its monopoly on broadcasting sport events. In September 2018, the ECA warned Uber and Careem, the two largest ride hailing companies in Egypt, against proceeding with a merger deal in order to prevent monopolization. In December 2018, the ECA accused Apple of unfair restrictions on local distributors, which would hinder competition and increase prices for consumers.

On the other hand, the ECA lacks independence, and implementation is highly selective. Clientelist networks by and large protect the influential Egyptian business elite from investigation. Consequently, key sectors, such as steel and cement production, basic food imports and telecommunications, remain dominated by monopolies and oligopolies, and the economy is divided into few large and many small and micro companies. The military's economic enterprise, which generates

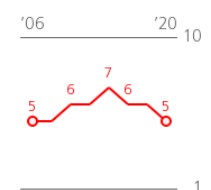
Market
organization

4



Competition policy

5



something between 10% and 40% of GDP, is entirely out of the ECA's reach. Moreover, the military enjoys several 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 ratified the WTO's Trade Facilitation Agreement in June 2017, an important step to further liberalize trade. Egypt is party to the Pan-Arab Free Trade Agreement (PAFTA), COMESA, and the Agadir Agreement, and has preferential trade agreements with Turkey, Mercosur, and the EU, by far Egypt's largest trade partner. In January 2019, Egypt and the Eurasian Economic Union held the first round of talks on establishing a free trade zone, and the AU's Continental Free Trade Area is expected to come into effect in 2019.

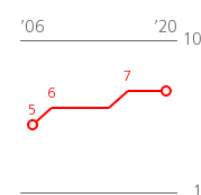
Egypt's simple, average applied most favored nation tariff rate was 19.1% in 2017, according to the latest WTO policy review, published in February 2018. This is higher than in 2012 (16.5%) and in 2016 (17.6%). Overall, the WTO assesses that "despite recent reforms, Egypt's tariff system remains somewhat complex, with a number of exemptions, reductions, and concessions." The import of a relatively large number of items is subject to complicated regulations, and new legislation from March 2017 placed further requirements on companies applying for import licenses. Moreover, the government tried to reduce the trade deficit during the period under review, among other things by placing restrictions on imports, such as increases in certain customs duties in January 2016 and again in September 2018. Correspondingly, Egypt's score in the Trade Freedom Index, one pillar of the Economic Freedom Index, was 70.9% in 2018 which is below the world average of 76.4% and below Egypt's score of 74.0% in 2012.

Egypt's banking system proved resistant to both the impact of the global financial crisis and extraordinary conditions of political unrest and economic crisis after 2011, not least because Egypt's level of integration with world financial markets is low and because the Central Bank of Egypt (CBE) follows conservative policies. The Nazif government initiated the modernization and privatization of the banking sector in 2004. Yet, out of the four state-owned commercial banks which used to dominate banking in Egypt, only the Bank of Alexandria has been privatized, in 2006. Full private-sector and foreign ownership is permitted in banking, and several international financial institutions operate in the areas of commercial and investment banking, mutual funds, insurance and securities trading. Since 2009, however, no new banking licenses were issued. The government follows a policy of consolidation of the existing banking system.

Several indicators demonstrate the relative stability of the banking sector. According to CBE data, Egypt's Capital Adequacy Ratio increased from 14.0% in 2016 to 15.6% in 2018, which is approximately the global mean value, and nonperforming loans reached an all-time low of 4.9% in 2018. This is higher than the 3.8% that exists on the global level, but a clear improvement compared to 7.2% in 2015 and 26.5% in 2005.

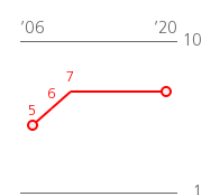
Liberalization of foreign trade

7



Banking system

7



8 | Monetary and fiscal stability

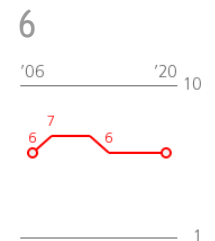
In the framework of the IMF loan agreement from late 2016, the government launched a structural adjustment program and far-reaching austerity policies. Among other things, it liberalized the exchange rate, cut energy subsidies, and reformed the tax structure. While those measures are widely deemed necessary for economic recovery, they proved to be a heavy burden on monetary stability. The government had to balance between keeping inflation under control, stabilizing the value of the Egyptian Pound, generating growth, and handling a growing budget deficit and shrinking foreign currency reserves.

With the flotation of the currency on 3 November 2016, the exchange rate of the Egyptian Pound to the U.S. dollar rose, practically overnight, from EGP 8.8 per dollar to EGP 15.8 per dollar, before it reached an all-time high of EGP19.7 in December 2016. Until mid-2017, it stabilized at slightly below 18.0. The real effective exchange rate (2010=100) fell sharply from 118 in 2015 to 73 in 2017, before it rose to 76 in 2018. Correspondingly, inflation rose from 14.0% in October 2016 to 33.0% in July 2017, before it fell to 11.4% in May 2018 but increased again to 17.7% in October 2018. To combat inflation and stabilize the exchange rate, the CBE raised the interest rate by seven percentage points to 18.75% (deposit rate) and 19.75% (lending rate) in November 2017. In March and April 2018, it lowered the rates to 16.75% and 17.75%, which is still almost double the figures of mid-2016. According to the constitution, the CBE is a fully independent body (Art. 215) but has to operate “within the framework of the state’s general political economic policy” (Art. 220). It is widely believed that the CBE’s decisions are often political and influenced by the government.

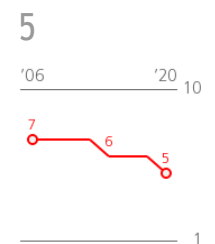
Egypt’s debts reached worrisome levels during the period under review. While gross domestic debt has gradually increased over the years to EGP 3.70 trillion in June 2018, foreign debt almost doubled from \$48 billion at the end of 2015 to \$93 billion in June 2018. Total public debt reached 101.2% of GDP in 2017.

Increasing debt has a dual effect on the state budget. On the one hand, borrowing is necessary to keep the deficit under control. Net lending/borrowing stood at -10.43% of GDP in 2017 and at -9.28% in 2018. These values are lower than in 2016 (-12.47%) but still much higher than the 2018 average among emerging markets of -3.9%, according to the IMF. Despite heavy borrowing, the budget deficit remained well above 10% of GDP from 2011 until 2017, before falling to 9.8% in FY 2017/2018, when the government also reached the first primary budget surplus in 15 years (EGP 44 billion). On the other hand, debt servicing costs have continuously increased from 21% of total government spending in FY 2010/2011 to 31% in FY 2017/2018. The other two main budgetary items, wages of state employees and subsidies, each

Monetary stability



Fiscal stability



dropped in the timespan from more than 25% to around 20% of the budget. Thus, the slight decrease in the budget deficit is mainly the result of spending cuts.

After 2011, virtually all major sources of foreign currency dried up, such as tourism revenues, FDI, or exports. As a consequence, reserves dropped from \$36.0 billion in December 2010 to \$13.4 billion in March 2013 and remained at low levels until the IMF deal was finalized and excessive external borrowing started. Together with measures to rationalize imports and rising remittances and tourism revenues, this resulted in a gradual increase to \$44.5 billion in November 2018, which equals approximately nine months of imports.

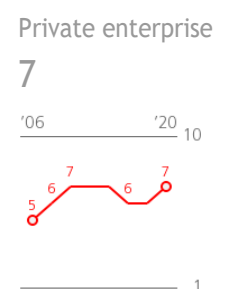
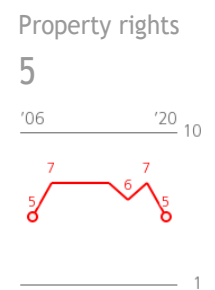
9 | Private Property

Egyptian law adequately defines and protects property rights, and the 2014 constitution stipulates that “the state protects ownership” (Art. 33). Though the legal framework is, thus, compliant with global standards, the legal code for property ownership is complex and creates delays in the judicial process. Egypt ranked 51 out of 140 countries with regard to the indicator “property rights” in the Ease of Doing Business Report 2019, which highlights 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 29.7 days and 5.6 procedures. In the Index of Economic Freedom’s subcomponent on property rights, Egypt’s value was 32.7% in 2018, clearly below the 51.7% on global scale.

During the period under review, property rights have been severely restricted for some segments of society. For example, the government seized assets supposedly belonging to members or supporters of the MB in September 2018, worth \$3.4 billion according to some reports. During maneuvers in the framework of Operation Sinai 2018, the military destroyed hundreds of houses of local residents. Thousands more have been driven out of their homes in attempts to bring informally inhabited land back under state control, a huge task given the fact “that approximately 90% of privately owned land in Egypt is unregistered,” according to a study of the Egyptian Center for Public Policy Studies (ECPPS), published in October 2017.

In 1994, then-President Mubarak revealed plans to privatize around 300 state-run companies. However, only about half of them were actually transferred into private ownership before the process came to a standstill in 2011. Moreover, the process lacked transparency, was infected by corruption and was not governed by market principles. In consequence, it mainly contributed to the emergence of a powerful business elite with close ties to the regime.

Overall, private enterprises contribute not more than 60% to GDP and are concentrated in services, particularly in trade, banking, insurance, tourism, communication and education. Several productive sectors largely remained in the



public domain, such as medicine, food and energy. The enormous military-industrial complex, again, is primarily involved in infrastructure and construction projects, but also produces all kinds of consumer goods and broadened its portfolio in recent years.

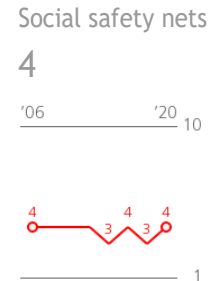
According to the Vision 2030, the private sector's share of GDP will be increased to 75% by 2030. Indeed, starting a business has become easier, according to recent Doing Business reports, and new legislation will encourage more private investment. For example, the new Investment Law from May 2017 offers financial rebates and significant tax breaks. Moreover, it enhances legal protection of private enterprises, among other things by ruling out nationalization, making an explicit court order a prerequisite for any form of seizure, and allowing expropriation only in cases of public interest and against fair market value compensation. The Industrial Licensing Law, also ratified in May 2017, in turn, aims at simplifying and speeding up the licensing process, and the Bankruptcy Law of February 2018 relaxes restrictions on businesses and individuals facing bankruptcy. Moreover, the government announced in March 2018 that it will restart the privatization by offering minority shares in 23 public companies over the next five years.

10 | Welfare Regime

The economic downturn affects all segments of society, and recent austerity measures put additional pressure on lower income members in particular. Among other things, the government reduced spending on education from 3.1% to 2.6% of GDP in FY 2017/2018, and spending on health from 1.4% to 1.3%, both clearly below the 6% and 4% enshrined in the constitution. Also, the nominal 4.7% increase in public wages in FY 2017/18 was, in fact, a 28% decrease in real terms, due to high inflation.

Subsidies have long been a heavy burden on the state budget, but have not been well targeted. By generally subsidizing fuel and energy, the government funded the upper classes inappropriately. The poor, however, were most affected by gradual decreases in welfare subsidies during the period under review. While food subsidies have not yet been cut, the distribution system was reformed, inter alia, by expanding cash transfers. Moreover, the government introduced the Takaful and Karama programs in 2015, which support around 10% of society, especially households with children, the elderly and people with disabilities.

Yet, those measures do not compensate for the rising cost of living. 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, and policies need to be restructured from the ground up. In consequence, private safety nets remain key for many Egyptians, and grassroots charity organizations, often with an Islamic identity, have served for decades 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. For example, the probability of finishing primary education is almost 100% for children coming from the richest income quintile, while it is only 64% for children from the poorest quintile, according to a study by Assaad and Krafft from 2015. CAPMAS estimates that 56.7% of inhabitants in upper Egypt and only 19.7% in lower Egypt live below the poverty line. The illiteracy rate is 18.2% in urban areas and 31.2% in rural regions.

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, female participation in the labor market is 22.2% compared to 73.7% for men, and the GNI per male capita is \$16,489 (PPP, 2011), while it is only \$4,081 per female capita. The gender gap in education, by contrast, has been closing, and no significant differences exist in enrollment or dropout rates today. This will gradually decrease existing differences, such as illiteracy rates, which are 30.8% for women and 21.2% men, according to the 2017 census.

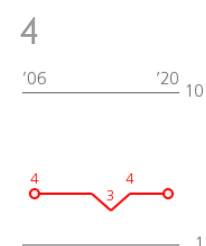
11 | Economic Performance

Following the 2011 revolution, GDP growth dropped from 5.1% in 2010 to 1.8% in 2011, but started to slowly recover after the 2013 coup, further boosted by the recent economic reform package. In consequence, the IMF expects growth rates to increase from 4.1% in 2017 to 5.2% in 2018 and 5.5% in 2019. Growth is primarily based on public investments, increasing exports, and recovering tourism revenues, which rose from \$3.8 billion in 2016 to \$7.6 billion in 2017 but are still significantly less than the \$12.5 billion of 2010. Similarly positive are the per-capita-GDP data, which have constantly risen from \$8,327 in 2007 to \$11,583 in 2017.

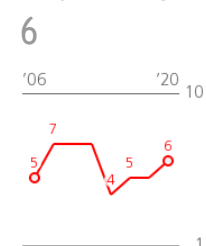
Net FDI inflow gradually increased from -\$0.5 billion in 2011 to \$8.1 billion in 2016, but fell to \$7.4 billion in 2017, remaining significantly below the \$11.6 billion recorded in 2007.

Yet, the overall encouraging macroeconomic recovery does not reach ordinary citizens, a remarkable analogy to the period preceding the 2011 uprisings. Growth is not sufficient to absorb the 800,000 young Egyptians entering the labor market every year, and the youth unemployment rate has remained at over 35% since 2012. Investment is mainly flowing into capital- but not labor-intensive sectors, such as oil and gas which attracts around 60% of FDI. GDP per capita (PPP) has remained constant at slightly above \$9,800 from 2010 until 2014, before it started to gradually increase to \$10,550 in 2017. Inflation remained high, with 23.5% in 2017 and 20.9% in 2018.

Equal opportunity



Output strength



12 | Sustainability

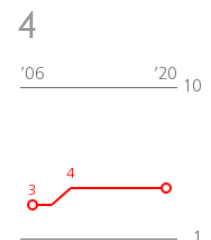
Given the region's low share in global CO₂ emissions, Egyptian representatives perceive the country more as a victim than a cause of global pollution, particularly considering the risk that climate change and rising sea levels pose for its coastal areas. Yet, Egypt is among the countries with the fastest CO₂ emission growth worldwide, even though it signed the Paris Climate Agreement and, thus, dedicated itself to limit per capita emissions. Environmental protection is also addressed in the 2014 constitution as a national duty and challenges the state to take respective measures.

However, implementation is weak and measures are hardly enforced. Environmental protection is subordinated to generating economic growth, exemplified by the sidelining of environmental consideration in mega-projects, such as the extension of the Suez Canal or the construction of the new capital. Moreover, 90% of energy production is based on fossil fuel use. According to the Vision 2030, the government aims at reducing the share to 27% but, instead of primarily promoting renewable energies, pushes the construction of Egypt's first nuclear power plant and, in 2014, introduced coal as a source for both electricity production and energy in heavy industries.

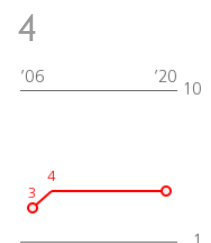
According to the 2017 census, 28.8 million or 30.2% of all Egyptians over four years of age were enrolled in some kind of education institution in 2016, reflecting the enormous progress made with regard to enrollment and dropout rates in the last 30 years. In 2017, enrollment rates were 97% at the primary, 82% at the secondary and 35% at the tertiary level, and school attendance averages at 13.1 years, according to UNICEF. Accordingly, Egypt's score in the UN Education Index was 0.604 in 2017, which is clearly above the average of 0.447. Of pre-tertiary students, 82% attend public schools, 8% private schools and 10% schools under the Al-Azhar education system. At the tertiary level, 75% go to public universities, 5% to private universities, and 20% to other higher education institutions. In principle, education at public schools and universities is free of charge. Yet, the quality of education is very poor, due, inter alia, to outdated equipment, crowded classrooms, a frontal style of teaching, and poor training for teachers. Consequently, Egypt ranked 133 out of 137 countries regarding quality of primary education and 130 with regard to quality of higher education in the Global Competitiveness Report 2018.

The government acknowledges these challenges and outlined a reform program in April 2018, and al-Sisi declared 2019 to be "the year of education." With regard to spending, however, education has not been a priority. While the 2014 constitution determines that at least 4% of GDP has to be spent on pre-tertiary and 2% on higher education, the actual combined value was 3.1% in FY 2016/2017 and 2.6% in FY 2017/2018.

Environmental policy



Education policy / R&D



According to UNESCO data, spending on R&D was 0.6% of GDP in 2017, which is clearly below the global average of 1.7% and also below the 1.0% target mentioned in the constitution. Especially private-sector investment in R&D is very low and accounts for only 6% of total investment. The number of researchers per one million inhabitants was 1,368. Despite the lack of funding, Egypt scored 12.3 and ranked 53rd in the R&D subindex of the Global Innovation Index 2018.

Governance

I. Level of Difficulty

Both Egypt's natural and social conditions constrain the political leadership's governance capacity. With 650m³ per person, water reserves meet the UN definition of scarcity and are estimated to reach absolute scarcity (below 500m³) by 2025. Egypt's dependence on Nile water has led to tensions with southern neighbors, and especially conflict with Ethiopia has intensified during the period under review. Moreover, 95% of the Egyptian landmass is desert, and arable land is scarce, which makes it challenging to produce sufficient food, further complicated by a very dry and hot climate. The vast desert regions are also difficult to control, not least in the fight against terrorism.

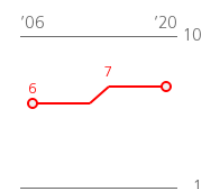
Resource scarcity is intensified by fast population growth. According to the 2017 census, the population almost doubled in the last 30 years and stands at around 95 million. If the growth rate of 2.5% annually remains, more than 130 million people will live in the country by 2030. This has led to an enormous youth population, with 60% being below the age of 30. Previous governments delayed policies focusing on providing education, jobs and housing for those young Egyptians at anything other than a basic level and neglected the demands of the poorer segments of society. Instead, they helped the elite enrich itself, polarizing society economically between extreme wealth and poverty. Moreover, traditional interpretations of gender relations have been supported by state polices for decades, producing additional gender cleavages.

Egypt is characterized by a fairly strong tradition of civil society activities. 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 early civil society organizations were subordinated to the single-party system of the 1950s and 1960s, slight tendencies toward liberalization started in the 1970s, when civil society organizations spread and intensified their work especially in the fields of human, civil and women's rights, as well as social care.

In the 2000s, several movements gained ground, which later played important roles in organizing the 2011 uprising, such as the Kifaya movement established in 2004, the April 6 movement established in 2008, and the We are all Khalid Said movement, founded in 2010.

Structural constraints

7



Civil society traditions

5



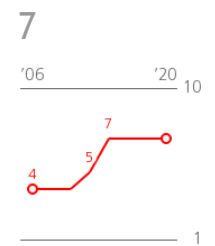
At the same time, civic engagement has never been truly free and independent. The state has always closely monitored and, to a varying degree, restricted activities. During the period under review, the regime clearly attempted to bring organizations under greater state control. It closed a large number of NGOs, infiltrated syndicates, clamped down on independent unions and adopted a new legal framework, introducing new restrictions and simplifying state control.

Until the fall of Mubarak, the degree of violent conflict had been low, and public debates on political and controversial social issues were practically absent, mainly due to the authoritarian regime's strong grip on power and repressive instruments. Yet, several cleavages had been bubbling below the surface for years, such as civil-military, secular-religious, labor-capital, class, gender or intra-generational relations, and many of them came to the forefront after 2011.

The first transitional phase before June 2012 saw a period of intensive confrontation along the civil-military cleavage in particular, with thousands arrested, wounded or dead. With the election of Mohamed Morsi, tensions shifted toward secular-religious cleavages. The final escalation stage was reached after the overthrow of Morsi in July 2013, when clashes between Islamists and proponents of the new military government cost hundreds of lives. The Raba'a clashes on August 14, 2013, left an especially deep mark on society.

By relying on an unprecedented level of repression, the regime largely prevents mass mobilization along those cleavages for the time being. Its thoroughgoing policies, however, do not mitigate but deepen differences regarding essentially all dividing lines. Moreover, the escalation of secular-religious tensions contributed to an increased militant Islamist insurgency and security raids by the military. During the period under review, terrorist attacks have reached all parts of the country and Coptic Christians were repeatedly targeted, increasing tensions between Muslims and Christians.

Conflict intensity



II. Governance Performance

14 | Steering Capability

As the regime's primary goal has always been its own survival, short-term considerations focusing on consolidating its grip to power, inter alia, by stabilizing state institutions or securing foreign financial aid, dominated policy-making after the 2013 coup. A long-term strategic vision was absent until the most immediate threats to the regime's survival had largely been brought under control by excessive repression.

The main document outlining the regime's medium- to long-term plans is the Vision 2030, published in March 2016, which is largely evidence-based and includes a remarkably critical analysis of grievances, as well as concrete suggestions for improvement. Yet, the vision remains very selective, with strengthening economic output on the macro-level being the clear priority. Listed measures to improve distributive justice or support poorer segments of society, in turn, are insufficient, and strengthening democracy or political participation is completely neglected. Moreover, the set targets often seem unrealistic, and implementation of only few of the specified projects had begun at the time of writing.

Beyond pushing the economic reform agenda in the framework of the IMF loan and generating growth, fighting jihadi militants remained the second priority, illustrated by the large-scale Operation Sinai 2018. Overall, the regime largely remained committed to those priorities. Yet, this mainly benefits the elite, and does not strengthen democracy or political and economic participation.

The balance sheet with regard to implementing the two main overall priorities, fighting terrorism and generating economic growth, is mixed. Harsh actions against the militant Islamist current did not succeed in establishing sustainable security, even though Operation Sinai 2018 temporarily led to a reduced number of terrorist attacks and casualties, especially in mainland Egypt. 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 does also target non-Islamist dissenting voices, growing polarization is likely along many other cleavages as well.

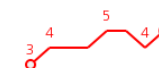
Some important steps have been taken with regard to restructuring the economy toward a market-oriented system. For example, the government adopted a set of new laws, such as investment, industrial licensing and bankruptcy laws, and austerity measures, such as subsidy cuts, which help balance the state budget. Floating the

Question
Score

Prioritization

5

'06 '20 10



1

Implementation

4

'06 '20 10



1

Egyptian pound again increased the availability of foreign currency. Yet, the regime remains reluctant to touch other critical issues which would require even more far-reaching reforms, such as the military's economic empire and privileges, the monopolies of some businessmen, or the active role of the state in the economy.

Moreover, the regime's focus on mega-projects has not thus far paid off. For example, Suez Canal revenues did not increase after the digging of a second lane, which cost \$8 billion, and conglomerates from China and the Emirates have backed off from investing in the new administrative capital. Last but not least, measures to protect the poor from the structural adjustment program's negative side effects are insufficient.

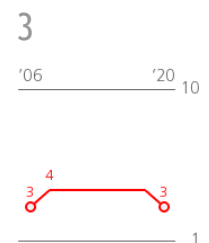
At the beginning of his reign, al-Sisi succeeded in creating a new wave of nationalism and personality cult not seen in decades. While he introduced a somewhat fresh and communicative style, he has not shown any interest in discussing his decisions or accepting alternative approaches. During the period under review, a form of authoritarianism has solidified, which in many ways is even more relentless than it was under Mubarak. Repression and exclusion continue and there are no signs of political opening.

Also, the regime once again intends to generate economic growth by state-planned mega-projects, which are announced without any prior public discourse, while distributive justice is lacking. International cooperation and consultancies are only occasionally approved, for example, in the form of EU twinning projects. In its attempt to control discourse, the regime goes labels any form of critical analysis as external interference, rumors or fake news, and academic freedom is severely restricted. In October 2018, for example, the economist Abdul Khalik Farouk was detained after he critically analyzed the government's economic policies in his latest book. The routines of policy-making are rigid and the bureaucracy is inflexible, not least due to hierarchical structures. All this contributes to a broad perception in society that exclusiveness, a lack of transparency, corruption and nepotism continue to dominate policy-making.

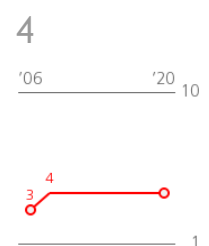
15 | Resource Efficiency

Egypt suffers from a decades-long insufficient use of human, financial and organizational resources, favoring loyalty over merits and patriarchal dominance over equality between sexes, generations and social classes. Constant recruitment without actual need have dramatically inflated the state apparatus, which consists of some seven million employees, around 25% of Egypt's total work force. Not more than two or three million are necessary, according to some estimates. This results in redundancies and underemployment, as well as low efficiency in both providing public services and completing regulatory procedures. Despite the government's continual promises of enhancing education and health services in particular – 2019

Policy learning



Efficient use of assets



has been labeled “year of education” – public services were not improved during the period under review.

Despite heavy borrowing, which made debts increase to worrisome levels, the budget deficit remained at high levels, around 10% during the period under review. Almost three-quarters of expenditures are spent on state employees, subsidies, and debt services. 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. Moreover, subsidy system reforms ignore principles of social justice, and programs supposed to limit the burdens of austerity measures, such as Karama or Takaful, are not sufficient to do so.

Instead, the government spends large sums on mega-projects, which are frequently implemented inefficiently, as the unnecessarily rushed expansion of the Suez Canal exemplified. Moreover, budget planning and implementation are not transparent. This is not only true for the military and its enormous economic enterprise, which remains beyond public control, but also for the Tahya Masr (Long Live Egypt) fund, inaugurated in July 2016, which largely bypasses auditing and oversight. Finally, the administration remains reluctant to engage in reform and is centralized, without far-reaching financial or organizational autonomy for local policy-making structures.

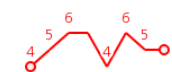
Overall, state policies are designed in a way such that they either directly serve the primary objective of enforcing regime survival and stability or at least do not conflict with it. This mainly comprises fighting Islamists and other oppositionist voices and generating macroeconomic growth. Enhancing individual freedoms, democratic reforms, social welfare and justice, by contrast, are often considered to be of secondary importance or counterproductive and, consequently, neglected by the government. Also, the interests of some influential actors are clearly favored over the demands and needs of the lower classes, people living in rural areas or 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, or conflicting and counterproductive policies. Moreover, different parts of the government frequently compete for competencies and the leadership’s approval, instead of effectively supporting and complementing each other.

Policy coordination

5

'06 '20 10



1

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, inter alia, many administrative acts, for avoiding trouble with the police or for simply being granted access to specific public spaces. At a higher (political) level, a harmful and largely uncontrolled culture of corruption has developed since the beginning of the policy of economic liberalization and privatization. Even though the number is difficult to verify, Hisham Geneina, former head of the Accountability State Authority (ASA), stated in June 2016 that Egypt loses around EGP 600 billion annually due to corruption. This culture is rooted in private capital's dependence on state officials' decisions, and in the discrepancies between the income of private businesspeople and state officials. The public's inability to hold their 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, which are either state-owned or tend to focus on scandals rather than on facts.

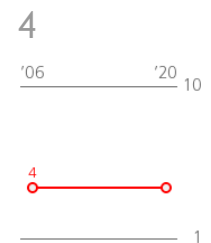
Institutional arrangements to implement an anti-corruption policy exist and have improved in recent years. The main body is the Administrative Control Authority (ACA), which is well equipped but lacks independence, further manifested by a new law in October 2017. The regime mainly uses the ACA as a political instrument to punish individuals who have lost its backing. Accordingly, implementation of corruption polices remained selective during the period under review, and both prosecution and judicial judgments still seem to be influenced by political elites' networks, which are hard to overcome in a short period of time.

16 | Consensus-Building

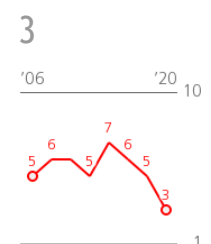
In the aftermath of the 2011 revolution, a large number of newly founded parties and individuals were, broadly speaking, willing to participate in a democratic political process. Until the beginning of 2019, however, most of them were either silenced or brought under state control. In consequence, today's main political actors share the primary objectives of stabilizing the country, consolidating its authoritarian system and securing regime survival. To that end, they regard democratic reforms as rather counterproductive and the partial political openness of the 2000s as a mistake, which enabled the 2011 revolution. In January 2018, al-Sisi openly vowed to prevent a repeat of the uprising and to take decisive measures against anyone trying to disrupt the status quo.

With regard to market economy, the picture is less clear. While there is consensus that generating economic growth must be a key priority, the extent of liberalization and economic reforms is contested. In the framework of the IMF loan, the government introduced some measures to strengthen market mechanisms, and the business elite hopes for a larger role of the private sector but, at the same time, wants to be protected by the state and keep its monopolies. The military further expanded its role in the economy and is anything but willing to give up priority or allow for

Anti-corruption policy



Consensus on goals



more competition. Also, the state itself remains a major player, both as a regulator and a competitor, with its large public enterprises.

Regarding democratization, virtually no truly reform-oriented political actors have any influence in the current government. Also, only very few opposition figures still publicly advocate political openness. Instead, policy-making is dominated by anti-democratic veto actors, with the military and the security apparatus playing a prominent role in particular, which largely act out of 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, significantly declined in comparison to the late Mubarak years.

In the name of stability and economic recovery, the regime subordinates any talk of political openness, but relies 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 any discourse on reforms. Institutions which are supposed to have a supervising function, such as the parliament or the judiciary, are politicized and largely loyal to the rulers.

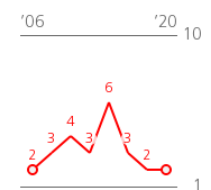
The Egyptian nation shares a millennium-old history and is comparatively homogenous with regard to ethnicities, religion, language and culture. Yet, contemporary society is deeply divided along several cleavages. During the period under review, the secularist-Islamist divide remained the most apparent. The regime's policies have not dismantled, but rather further fueled the division, for example, by labeling any Islamist a terrorist and applying a populist us-against-them approach. In the frame of this division, violence between Christians and Muslims began to intensify, inter alia, as exemplified by the attacks on churches in Alexandria and Tanta in April 2017, and the assaults on pilgrims in Minya in May 2017 and November 2018.

In the process of rebuilding the state and manifesting its rule, the regime seeks to reestablish a common identity and actively spreads nationalism and patriotism. It follows a clear idea regarding how society should be structured, with patriarchy and distinct morals and traditions as the backbone. Thus, it excludes anyone who differs from the propagated ideal or disagrees with this conception. Moreover, al-Sisi never delivered on his promise to reach out to the whole society, but has favored some segments over others. This approach further made manifest additional cleavages, such as civil-military, social class, geographic, generational, or gender divisions.

In the political system, these rifts are hardly represented, as the regime brought almost all political parties into line. The main Islamist opposition, FJP, was forbidden, and possible liberal alternatives coopted. In the 2018 presidential elections, liberal candidates, such as the lawyer Khaled Ali, were intimidated and effectively prevented from running.

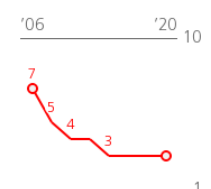
Anti-democratic actors

2



Cleavage / conflict management

3



While al-Sisi repeatedly called on all social forces to participate in discussing ways to solve the country's numerous challenges, implementation is widely absent. Instead, the state's grip on civil society remains rigid, further manifested by a number of restrictive laws, such as the anti-terrorism law of 2015, the protest law of 2013, and the NGO law of 2017, as well as the reintroduction of the state of emergency in April 2017.

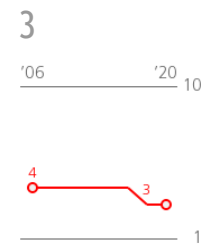
Restrictions are most severe regarding political activities that include some form of critical engagement with the regime's performance or human rights in general. Work on social and cultural issues is increasingly monitored and regulated as well. Labor unions remain under state control, despite new legislation from December 2017 which, in theory, allowed for the creation of independent bodies, but effectively manifested the dominance of the state-affiliated ETUF. This was further cemented by the almost exclusive victory of figures loyal to the regime in union elections in mid-2018. Also, most influential syndicates are under state control, such as the journalists' and doctors' syndicate.

Civil society's input is very limited at all stages of policy formulation, and organizations and individuals truly independent from the state hardly play any role at all. The agenda is set exclusively from above. Decisions are made behind closed doors and implementation rests with the large bureaucracy. In rare cases, state-controlled bodies participate in policy formulation. For example, the journalist syndicate was involved in drafting new legislation on digital journalism in 2018.

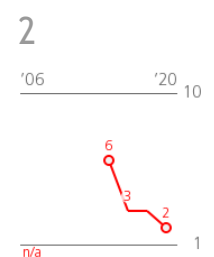
The government does not address or investigate most acts of injustice, neither those that happened in 2011 and 2012, when more than 850 people were killed and thousands tortured, detained and sexually assaulted, nor the massacres of Morsi supporters in summer 2013, which took up to 1,000 lives. Instead, the regime manipulates memories by constantly accusing its opponents of being terrorists that threaten the stability of the state and, thus, frequently turns victims into perpetrators. Moreover, repression of Islamists and the revolutionary youth alike continues, and the number of political prisoners reached some 60,000 in 2018 according to Human Rights Watch. Their fate remains widely unaddressed. Instead of reaching out to them or providing compensation, Al-Sisi repeatedly denied that Egypt has any political prisoners and insisted that torture was not used.

At the same time, leading politicians and officials of the former Mubarak regime, including Mubarak himself, his interior minister, his sons and many others have been acquitted of almost all accusations. Especially rare is prosecution of military and security personnel. If it occurs at all, only few low-ranking individuals are charged in exceptional cases while high-ranking personnel are shielded from any 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.

Civil society participation



Reconciliation



17 | International Cooperation

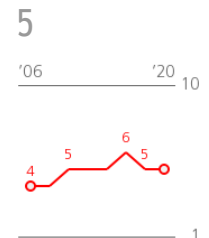
The regime has to balance its foreign policies between the wish for more self-determination and the need for external support, for example, in the forms of financial assistance, imports and knowledge and technology transfers. To that end, the government improved its bargaining position by diversifying Egypt's foreign relations and strengthening cooperation with China, Russia and the Gulf States in particular. As a result, it largely succeeded in not having to accept financial, technical and personal support under conditions contradictory to its own preferences. The EU-Egypt Partnership Priorities, adopted in July 2017, for example, clearly reflect Cairo's focus areas as defined in the Vision 2030.

Due to the urgent need to balance the state budget and the wish to implement mega-projects, the regime particularly aims to secure financial assistance and attract FDI. Support and cooperation are almost exclusively sought out in the fields of economy and infrastructure, especially if they include financing mechanisms. The construction of a nuclear power plant by Russian ROSATOM is a case in point because Russia provided a loan covering 85% of the cost. Remarkably, education is another field in which international input is increasingly integrated. For example, the Ministry of Education cooperated with Japan to set up Japanese schools in the school year 2018/2019, and the German company Siemens supports vocational education and training. Cooperation involving any form of political reforms, by contrast, is rejected, and the new NGO law further restricts collaboration at the civil society level by subordinating all national and international NGO activities under political and financial government control.

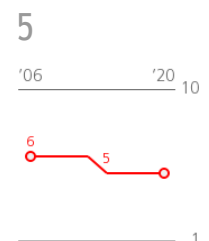
In recent years, the international community's attention has gradually shifted from human rights and democratization to security issues, migration and Egypt's economic performance. While international NGOs continue to condemn the regime's horrific human rights record, multilateral and intergovernmental organizations, as well as foreign governments, often refrain from harsh criticism. Instead, they not only accept al-Sisi as the legitimate president, but regard the regime as a stability anchor in the region and an important partner in the fight against terrorism and migration. While Egypt's membership in the AU, for example, was suspended for one year after the 2013 coup, the country took over the AU presidency in January 2019. Moreover, Egypt was elected as a non-permanent member in the UN Security Council (2016 – 2017) and, somewhat ironically, has held a seat in the UN Human Rights Council since 2016.

With regard to confidence in Egypt's economy, the successful conclusion of the IMF loan in November 2016 was arguably a gamechanger. Since then, other financial institutions, such as the European Bank for Reconstruction and Development or the European Investment Bank, in addition to other states, have significantly been

Effective use of support



Credibility



expanding their activities in the country, and the World Bank repeatedly praised Egypt's economic performance and reforms. Even so, the trust of investors has not been fully restored yet, and FDI did not increase as much as the government had hoped.

Egypt has relatively well-established economic relations with neighboring regions, has an association agreement with the EU, and is, inter alia, a member of GAFTA, COMESA and the Agadir Agreement. While the EU remains Egypt's largest trade partner by far, MENA states have become increasingly important and received 44% of all Egyptian merchandise exports in 2017. Cairo hosts the League of Arab States with Egyptian Secretary-General Nabil El-Arabi and is an active member in the Organization of the Islamic Conference (OIC). However, neither of these organizations have much regional or international clout. Further integration, especially politically, seems unrealistic for the time being as the region is divided, inter alia, between Iranian and Saudi Arabian camps and between supporters and opponents of Islamist movements. Pursuant to these dividing lines, Cairo joined its main regional partners, Saudi Arabia and the United Arab Emirates, in a large-scale blockade against Qatar in June 2017.

Beyond this, the government increasingly pays attention to the African continent and took over the AU presidency in January 2019, with the pronounced aim to lead inner-African integration and cooperation. Relations with Israel appear closer than ever, exemplified by the conclusion of a \$15 billion gas deal in February 2018 and military cooperation in the framework of Operation Sinai 2018, which al-Sisi confirmed in an interview in January 2019. Even though relations with Sudan remain difficult, especially due to disputes over territory and Nile River water, 2018 yielded promising signs, not least al-Sisi's two visits to Sudan and the launch of a supreme committee to promote bilateral relations. In Libya, again, Egypt strengthened its role as a supporter of General Haftar.

Regional
cooperation



Strategic Outlook

Overall, Egypt witnessed more setbacks than progress during the period under review. While developments with regard to the country's economic transformation were inconsistent, the regime showed no interest in democratization, but instead consolidated authoritarianism and strict state control. In order to initiate Egypt's political and deepen its economic openness, the Egyptian leadership should work on the following strategic priorities:

- Undertake institutional reforms: The leadership should establish better checks and balances by reducing the power concentration with the president, strengthening the legislature and holding free and fair parliamentary elections, and making the judiciary more independent than it is at present. Moreover, the political system should be decentralized and regions granted more autonomy. Finally, the military and the security apparatus must be placed under civilian oversight.
- Start a reconciliation process and reduce cleavages: The leadership should abandon its uncompromising and repressive approach and promote reconciliation and investigate acts of injustice. Moreover, it should stop favoring some segments of society over others, and actively promote equal opportunity.
- Allow for political participation: The leadership should support a more inclusive political system, first of all, by revising restrictive legislation, such as the NGO law and the protest law. Instead, civil society engagement at all levels of policy-making should be encouraged, an independent party landscape allowed to develop, and public discourse promoted.
- Balance security policies: The leadership should not subordinate individual liberties to its strict security policies. Moreover, a more balanced approach must be applied in the fight against terrorism, and be based not exclusively on military countermeasures, but include a focus on socioeconomic development and opportunities for political participation.
- Make the economy more sustainable: The leadership should refocus its approach away from capital-intensive and toward labor-intensive sectors. This would not only generate more job opportunities, but also strengthen production capacities and exports. Moreover, attempts to formalize the informal economy and increase tax collection capacities must be undertaken.
- Balance the side effects of economic reforms: The leadership should increase its efforts to counter growing poverty and injustice by effectively mitigating rising living costs. The subsidy system must be better targeted at the needy and effective support programs launched.

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

- Acknowledge limited influence, but not sideline democratization: The international community, and Western states in particular, have to accept that they cannot shape domestic developments. However, human rights and political liberalization must not be disregarded. Even if strict conditionality hardly works, Western governments should refrain from actively supporting the regime and providing it with a propaganda platform.
- Support the population but not the regime: The international community should clearly define and monitor assistance. Any aid directly benefiting the regime, for example, through direct budget support must be avoided.
- Do not focus on macroeconomic data: The international community should be sensitive to tensions between neoliberal economic reforms and possible effects on social development. It should not push the government to generate growth and implement structural reforms and austerity measures by all means, but instead encourage effective mitigation of rising living costs and support the population.