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# The Path to a Successful Economic Transition in Egypt

What the United States Can Do to Help

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Sabina Dewan, James Hairston, and Jordan Bernhardt June 2012

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# Introduction and summary

The palpable optimism that permeated Egypt in the immediate aftermath of the revolution after the ouster of longtime autocrat Hosni Mubarak is starting to fade as more than a year later, the country continues to struggle with an unwieldy political transition and a stagnant economy.

With a new parliament and soon a new president, Egypt will have a government in place, but that alone will not be enough to promote lasting stability in the country. Stability depends on whether Egypt's economy can generate enough "just jobs"—complete with appropriate remuneration, good working conditions, and opportunities for average citizens to make a better life for themselves and their families—to give the nation's new democracy the underpinning it needs to thrive.

Egypt's economic transition has been slow and turbulent since the fall of Mubarak in February 2011. Egyptian tourism decreased by a third in 2011,<sup>1</sup> and foreign investors are still hesitant to spend.<sup>2</sup> Meanwhile, Egyptian consumers continue to be squeezed by high international food prices.<sup>3</sup> These developments exacerbate longstanding problems of unemployment, inefficient tax collection, and inefficient government subsidies.<sup>4</sup>

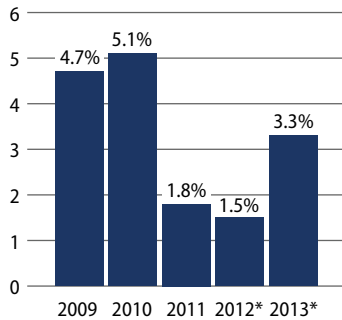
Egypt's overall unemployment rate stands at 10.4 percent, and official estimates suggest that the youth unemployment rate is 25 percent, but both these figures underestimate the actual scale of joblessness. These numbers don't capture the many people that show up in labor statistics as being employed when in reality they are underemployed, sharing low-productivity work, or are in other forms of irregular employment. Such individuals are not gainfully employed.<sup>5</sup>

Overseas remittances from Egyptians working abroad also play a big role in Egypt's economy—they accounted for 3 percent of GDP in 2010. But turmoil in other Arab Spring countries will affect remittances to Egypt, as migrant workers in Libya, for example, are forced to return home.<sup>6</sup> (see Figure 1 on the next page for an economic snapshot of the Egyptian economy)

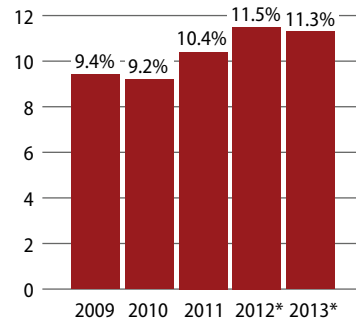
**FIGURE 1**  
**Egypt: Economic snapshot**

Key indicators

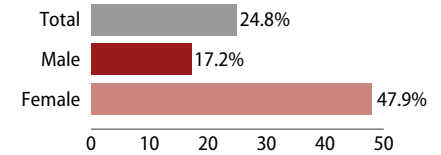
GDP growth



Unemployment



Youth unemployment (2007)



\*Projection

Sources: GDP:2009 and 2010 from World Bank World Development Indicators database; 2011, 2012, and 2013 from IMF's World Economic Outlook April 2012; unemployment: 2009 from World Bank World Development Indicators database; 2010 from IMF's World Economic Outlook April 2011; 2011, 2012, and 2013 from IMF's World Economic Outlook April 2012; youth unemployment: World Bank World Development Indicators database, 2007 is most recent available year.

As the new Egyptian government transitions into power it must deliver economic reforms that will create quality jobs for all Egyptians. This will not be an easy task, but it is a task that above all is up to the Egyptians themselves. As U.S. President Barack Obama said in May 2011, “It’s not America that put people into the streets of Tunis or Cairo. It was the people themselves who launched these movements, and it’s the people themselves that must ultimately determine their outcome.”<sup>7</sup>

Yes, Egyptians will ultimately be responsible for their own long, difficult, and inevitably messy transition, but the United States—one of Egypt’s biggest donors—has been a political and economic player in Egypt for decades. Its role in helping create an economic environment that is conducive to the creation of good jobs in Egypt is now more important than ever.

What’s at stake goes beyond the Egyptian people’s aspirations for a better life. How Egypt—the most populous country in the Arab world—deals with its turbulent transition will set the precedent for other nations, including Bahrain, Yemen, and Syria. This critical political and economic transition will affect the Arab-Israeli conflict and bears major strategic implications for the United States and the international community.

Yet because of the the uncertainty about Egypt’s political and economic future, the United States and the international community are unsure about how to engage with an Egypt in flux. The country’s scrambled transition involving the Supreme Council of the Armed Forces, the Muslim Brotherhood, and the mostly secularist revolutionaries who helped lead the revolution are engaged in a tug of war for power and legitimacy that leaves the United States unclear about whom to deal with.<sup>8</sup> The United States finds itself caught between the need to rebuild a diplomatic relationship with the country’s leaders, whoever they may ultimately be, and the desire to gently nudge Egypt toward greater democracy.<sup>9</sup>

This uncertainty becomes even more pronounced against the backdrop of popular anti-Americanism in Egypt. The Egyptian people have not forgotten America’s long relationship with the Mubarak regime.

The United States can and must reconfigure its relationship with Egypt’s new leaders and the Egyptian people at this critical juncture. Harnessing U.S. assistance, economic aid, and trade to help Egypt create jobs and put its economy back on track will help further both of these goals—promoting political and social stability while working to quell anti-American sentiment. Specifically, the United States must:

- Divert some of its military aid toward economic assistance
- Support public-sector reform to put people back to work in the short run
- Support private-sector development, especially small- and medium-sized enterprises, to create jobs in the medium-to-long term
- Rethink the U.S.-Egyptian trade relationship
- Help Egypt work toward creating a better educated, more skilled, and equal labor force
- Mobilize support and coordinate assistance with the international community to reduce waste and maximize effectiveness

This report explores how each of these steps can be initiated by the United States.

This report is based on research, interviews, and the findings of the Just Jobs Network<sup>10</sup> seminar, “Just Jobs for Growth and Stability,” held in Cairo in May 2011. This seminar brought together policy experts, government leaders, social entrepreneurs, and union representatives to discuss how to create an economic environment conducive to job creation and economic growth in Egypt after the Arab Spring. Continued research, analysis, and conversations with policymakers

and experts in Egypt and other Arab Spring countries have helped inform this report since the Network's initial seminar.

We believe our findings can lay the groundstones for a new economic relationship with the Egyptian government and its people that is fair and equitable, helping the nation solidify its democratic gains with jobs-based sustainable and inclusive economic growth.

## Key U.S. assistance programs for Egypt

### *State Department*

- **Middle East Incentive Fund:** a proposed \$770 million fund to promote economic and civic development in the Middle East and North Africa
- **Middle East Partnership Initiative:** a program that offers support to nongovernmental organizations and individuals in the region who are advocating reform

### *U.S. Agency for International Development*

- **Economic Support Fund:** a fund that promotes economic and social development

### *Overseas Private Investment Corporation*

- Investment insurance and reinsurance, debt and equity investments, and guarantees for private investment in Egypt

### *Treasury Department*

- **Deauville Partnership:** an international platform for assisting transitioning Middle East and North African countries; focus on debt relief and financing

### *Office of the United States Trade Representative*

- Egypt and the U.S. trade representative agreed to develop an action plan to boost Egypt's integration into the global economy in January 2012
- Egypt and the United States signed a bilateral investment treaty in 1986, which entered into force in 1992

### *Congress*

- **Egyptian-American Enterprise Fund Act:** would establish a private, nonprofit organization to promote economic development and anticorruption efforts in Egypt

# Divert some military aid toward economic assistance

The United States and the Egyptian military have formed a strong relationship over several decades on the basis of the 1979 Camp David agreement, which helped promote peace between Israel and its Arab neighbors, including Egypt. The United States has provided approximately \$1.3 billion in annual military aid to Egypt between 1987 and 2012.<sup>11</sup> Some experts believe that continued military aid has helped the Supreme Council of the Armed Forces exercise its executive power and maintain relative stability in Egypt since the revolution in 2011. (see Figure 2)

**FIGURE 2**  
**U.S. assistance to Egypt, 2011 to 2013**

Bilateral assistance between fiscal year 2011 and the Obama administration’s FY 2013 request (2012 dollars in millions)

Account	FY 2011 actual	FY 2012 estimate	FY 2013 request
Economic support fund	\$249.5	\$250	\$250
Foreign military financing	\$1,297.4	\$1,300	\$1,300
International military education and training	\$1.28	\$1.4	\$1.8
International narcotics control and law enforcement	\$1	\$0	\$7.89
Nonproliferation, antiterrorism, demining	\$4.6	\$5.6	\$5.6**
<b>Total</b>	<b>\$1,553.78</b>	<b>\$1,557</b>	<b>\$1565.29</b>

\*\*Country-specific data not yet available, estimated using 2012 figure  
Source: State Department FY 2013 Budget Justification

The continuation of military aid will be critical to enlist the Egyptian military in keeping strained Egyptian-Israeli relations from devolving into conflict. Though the exact details are not public, experts estimate that the Egyptian military’s economic interests—ranging from the production of small electronics to mineral



water and beachfront rentals—constitute roughly 30 percent of Egypt’s gross domestic product, the broadest measure of total economic activity.<sup>12</sup>

Getting Egypt’s economy back on track calls for gradually limiting the scope of the military’s economic activities that are inefficient and primarily serve the military’s own interests. This is a task for Egypt’s own government—and it will not be easy. But the United States can facilitate the process by diverting some of its military aid toward economic assistance that helps the nonmilitary-controlled sectors of the economy flourish while trimming the military’s share.

Diverting some U.S. military aid toward the economic assistance that leads to “just job” creation—good pay, good working conditions, and good benefits to help workers and their families pursue better lives—as the central goal will also help the United States strengthen its relationship with the Egyptian people. At a time when the various political forces in Egypt are still vying for power, the United States can send out a test balloon to see what the reaction might be to diverting, for example, one-fourth of its military aid to economic assistance instead.

In the quest for popular support and legitimacy with the Egyptian people, the Muslim Brotherhood would likely support a diversion of military aid toward economic assistance, and it would be hard for the military to openly oppose it. Shifting some of the military aid to economic assistance must be a gradual and incremental process, but it is a step that the United States should take.

# Support public-sector reform to put people back to work in the short run

After decades of jobless growth, poor working conditions, and a lack of economic mobility, Egypt's people—especially its youth—are eager to see the change they fought for in the 2011 revolution. Egypt's incoming government must deliver quality jobs quickly alongside setting in motion economic reforms to create good jobs over the medium term and long run.

Public-sector employment is the quickest way to create much-needed jobs in the short run. Egypt's government sector, with approximately 6 million employees, has been an important source of jobs, and the incoming government will look to the public sector to create jobs quickly. The United States could help Egypt's incoming government institute a strategic plan for managing its public-sector employment so that it is a more productive sector than it has been in the past.

Expanding public works programs to build roads, bridges, schools, and hospitals, and expanding government services to provide basic social insurance can pay dual dividends by creating jobs in the short run while improving economic growth in the medium-to-long term. In a working paper titled “Infrastructure and Economic Growth in Egypt,” experts at the World Bank “suggest that an increase in infrastructure expenditures from 5 percent to 6 percent of gross domestic product would raise the annual per capita growth rate of gross domestic product by about 0.5 percentage points in a decade's time and 1 percentage point by the third decade.”<sup>13</sup>

The public sector also is in a position to create employment matched to the capabilities and qualifications of the existing workforce in Egypt. Egypt's labor market not only faces a dearth of good employment opportunities but also a mismatch between the skills that people, especially Egypt's youth, possess and those demanded by its labor market. The new government can institute vocational education and training programs to match the needs of the labor market.

The provision of education, health care, and active programs such as worker training programs or job search assistance can themselves create jobs while helping the

labor market function more effectively. Public-sector hiring—especially for labor-intensive services and infrastructure projects—generates employment and also provides a visible sign of public benefits that reassures people that their government is working for them.

The United States and other donor governments have largely written off Egypt's public sector because of its inefficiencies in the past. Yet public-sector employment is an important instrument for short-term job creation. Egypt's government is going to expand its ranks, but the United States can provide technical assistance to manage this expansion better.

# Support private-sector development to create jobs in the medium-to-long term

As important as it is to consider the public sector as part of the solution to Egypt's immediate economic woes, there is no doubt that in the long run, an optimally functioning labor market requires private-sector job creation and a skilled workforce to fill those jobs. Yet years of crony capitalism have left the Egyptian people skeptical of market reform and private enterprise.<sup>14</sup>

Rebuilding the Egyptian people's trust and supporting the country's private-sector activity entails:

- Instituting more transparency and accountability in the Egyptian government's oversight of the private sector
- Bringing down bureaucratic barriers to doing business such as unclear government policies and tax laws, complex licensing processes, and cumbersome regulations<sup>15</sup>
- Providing better access to capital through insurance, loans, and guarantees
- Making investments in information communication, electricity, and transportation infrastructure

Small businesses are an essential part of Egypt's economy, responsible for diversifying economic activity and generating jobs. "Efforts to stimulate the economy should be focused on mobilizing support to small and medium-sized enterprises," said Magda Kandil, executive director of the Egyptian Center for Economic Studies, in a piece on Egypt's economic future.<sup>16</sup>

Yet a 2010 policy assessment by the Organisation for Economic and Co-operation Development revealed the following:

*Micro, small and medium-sized enterprises account for over 90 percent of active enterprises in Egypt and contribute to over 80 percent of GDP and 75 percent of total employment. Yet they remain at a clear disadvantage vis-à-vis larger businesses. Small- and medium-sized enterprises account for only 10 percent of*

*total capital accumulation in Egypt and, while 75 percent of [them] apply for banking loans, 92 percent of applications are rejected. The result is that loans to small- and medium-sized enterprise account for only 6 percent of the total loan portfolio of Egyptian banks.*<sup>17</sup>

Moreover, the official employment numbers obscure the high levels of informal employment in the Egyptian economy, a significant share of which is generated by small businesses and medium-sized companies. By some estimates, informal enterprises constitute nearly 82 percent of firms in the Egyptian economy, while informal employment constitutes nearly 40 percent of the total labor force in Egypt.<sup>18</sup> “Such a high level of informality distorts competition in the small- and medium-sized enterprise sector, and greatly reduces the effectiveness of government policies,” according to the Organisation for Economic Co-operation and Development study.<sup>19</sup> It also provides little protection to workers and reduces the government’s ability to collect taxes.

A number of U.S. government initiatives seek to provide better access to capital for Egypt’s private sector, especially its micro-, small-, and medium-sized enterprises. (see box on next page) These programs are important, but the focus of U.S. efforts to revitalize Egypt’s private sector should be on lending technical expertise to help Egypt’s government agencies restructure, build greater transparency and accountability in their institutions, and develop new policies and regulations to facilitate private activity in the country. There is precedent for this.

The U.S. Agency for International Development, for example, provided technical assistance to the Egyptian Customs Authority and was able to improve efficiency at the country’s ports over a four-year period.<sup>20</sup> The U.S. Treasury Department’s Office of Technical Assistance has a track record of supporting the development of strong financial sectors and public financial management in countries that require assistance. Similarly, the U.S. Department of Labor’s International Labor Affairs Bureau provides technical assistance to governments to improve the functioning of labor markets, which also helps private activity.

Effective public institutions will help create a better climate for the private sector to thrive. Government policies in Egypt for these types of businesses are currently managed across four agencies: the Social Fund for Development, the Ministry of Trade and Industry, the Ministry of Finance, and Ministry of Higher Education and Research.<sup>21</sup> The United States could help the Egyptian government streamline

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government processes at these four agencies for better coordination and management of Egypt's private sector going forward.

In addition to its own programs, the United States should help mobilize additional investment and press other nations such as those in the Persian Gulf and in Europe to deliver on their pledges to help reinvigorate Egypt's private sector to create more and better jobs.

## Examples of U.S. government small business initiatives

The U.S. Agency for International Development has a dedicated Egypt Small and Micro Enterprise Program that has supported small- and medium-sized enterprises in Egypt for more than 20 years. The program provides microloans and oversees the delivery of credit to low-income entrepreneurs. "[O]ver 65 percent of current borrowers are poor, female heads of households living in Egypt's disadvantaged areas. These women receive microloans to run small, often home-based businesses."<sup>22</sup>

In July 2011, in partnership with the U.S. Agency for International Development, the Overseas Private Investment Corporation approved \$250 million for small business lending in Egypt.<sup>23</sup> This indepen-

dent government agency's initiative provides guarantees for loans extended by local banks to Egyptian small- and medium-sized businesses and microfinance institutions.

These U.S. government programs are helpful. To date USAID's Small and Micro Enterprise Program has provided financing to more than 1.1 million Egyptian borrowers who would otherwise have difficulty accessing capital.<sup>24</sup> In the long run these programs can have a major impact on Egypt's economy, where an estimated 2.1 million small- and medium-sized enterprises do not have access to finance, according to a recent World Bank study.<sup>25</sup>

# Promote trade and investment the right way

Improving trade and investment also has the potential to create “just jobs” and lift Egypt’s economy—if done right.

Moving in this direction, U.S. Trade Representative Ron Kirk and Egyptian Minister for Industry and Foreign Trade Mahmoud Eisa in January agreed to develop an action plan for U.S. trade and investment in Egypt.<sup>26</sup> The U.S. government has also announced a regional Trade and Investment Partnership to promote trade and investment integration with the United States and set the stage for Middle East and North African countries to work towards a regional trade agreement.<sup>27</sup> This action plan seeks to enhance Egyptian use of U.S. preference programs and to expand the number and use of the Qualifying Industrial Zones—both of which expand duty free access to the United States.

Past liberalization initiatives in Egypt have fueled crony capitalism, poor labor conditions, and inequality. The U.S. administration’s new initiatives must be sensitive to these risks.<sup>28</sup> It has pledged to work with Egyptian, regional, and international stakeholders to make sure that everyone benefits from new trade and investment, and it must live up to its word. To do so, the U.S. administration must ensure that:

- The Egyptian government has the capacity to institute and enforce labor standards throughout the country but especially in qualifying industrial zones
- There are sufficient training programs and job search assistance programs for workers to transition to different sectors if they lose their jobs
- The gains from trade result in better living standards through safety nets and social programs for workers and their families

In the long run the United States could consider a free trade agreement with Egypt as an incentive for the Egyptian government to improve its own transparency and accountability, labor standards, and working conditions, as well as their enforcement. Any progress towards a free trade agreement must be contingent on the government’s proven record to achieve concrete benchmarks in these areas.

As standards of living in Egypt rise, it could potentially create a new and lucrative market for U.S. products and services. It may seem far-fetched at this stage to suggest that Egypt's economy could grow to be an important export market for the United States, but one need only look at Turkey's historical economic experience. Turkey's strong economic growth, improvements in infrastructure, growing import market, and the popularity of "Made in the USA" products, services, and technology have made it a \$10 billion market for American exporters, with 40 percent year-on-year growth in U.S. exports from 2009 to 2010. The U.S. Department of Commerce designated Turkey as a priority market under President Obama's National Export Initiative in 2010. Today, big American corporations, including Boeing Inc., Chevron Corp., Cummins Inc., General Electric Co., and Sikorsky Aircraft Corp., are among the more than 1,000 U.S. firms that have offices in Turkey.<sup>29</sup>

Egypt is the 33rd-largest export market for U.S. products and services and the fourth largest in the Middle East. Trade can be a source of good jobs and broad-based growth, but it must be done right.



# Work toward a better educated, more skilled, and equal labor force

Improving public-sector employment, creating jobs through the private sector, and expanding trade are all means of creating more jobs. Equally important is ensuring that there is a supply of female and male workers that have the skills to meet that demand, especially among the Egyptian youth. These workers must have the right to freedom of association and collective bargaining so that they can be a force in propelling Egypt's economy forward and in claiming their fair share of its prosperity.

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## The youth bulge

High population growth, increasing joblessness in densely populated urban areas, and a massive expansion of university education fuels a very frustrated class of young, educated, and unemployed Egyptians. A whopping two-thirds of Egyptians are under 30, and every year around 700,000 new graduates compete for 200,000 new jobs.<sup>30</sup> Young Egyptians with a college degree are 10 times more likely to be unemployed than those that only have a primary education.<sup>31</sup>

The Egyptian economy must create more jobs, but its workers must also have the skills to match the demands of its labor market. The U.S. government's offer to swap \$1 billion in Egypt's bilateral debt owed to the United States for investments in the country<sup>32</sup> should be applied toward creating better vocational education and training programs for Egypt's youth. But in addition, the United States should mobilize other creditor nations to follow suit.

Creating jobs in the private sector will take time, but meanwhile the United States can help the Egyptian government set up a system of vocational training and apprenticeships that will improve the employability of Egypt's youth as the private sector gains footing. Trainers for these programs can be deployed from countries such as India that are less expensive and will perhaps be better accepted into Egyptian institutions.<sup>33</sup>

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## Women

Reducing the gender gap in Egypt's labor market and education and skills-training systems are not just moral imperatives but are also critical to Egypt's long-term stability and growth. According to the most recent data available, 22.9 percent of Egyptian women in 2009 and 47.9 percent of women under 25 in 2007 were unemployed. The World Economic Forum's Global Gender Gap Index ranks Egypt as the 123rd-most unequal country in the world.<sup>34</sup>

Tools to help rectify gender imbalances in employment include promoting entrepreneurship and small business formation and development among women; improved (gender disaggregated) data collection on the labor market; gender-responsive budgeting; social safety nets targeted at women; and increased education and skill development.<sup>35</sup> The United States can help by providing technical assistance, by mobilizing financial and technical support from other donor countries and international institutions, and by helping set up partnerships with rapidly developing nations in Asia, Latin America, and Africa to address these sensitive issues.

Promoting entrepreneurship and small business formation among women in particular will be an important driver of quality employment for women in Egypt. A 2011 working paper by the Organisation of Economic Co-operation and Development on women's access to finance in the Middle East and North Africa region, including Egypt, identifies several structural issues that would need to be addressed to promote business formation:

- Lack of “pledgeable” personal collateral may limit women entrepreneurs' ability to access start-up loans.
- Microfinance often provides primary support to women's projects, but women entrepreneurs run into challenges when they want to expand and hit microfinance ceilings.
- Women entrepreneurs are more likely to have to run both a business and their families.<sup>36</sup>

Currently, the U.S. Agency for International Development runs several initiatives that support women and girls in Egypt.<sup>37</sup> Their programs provide everything from literacy training and educational scholarships to access to justice assistance and microfinance loans. The most successful of these programs should be scaled up. The United States can also work with Egyptian banks and financial institutions to

According to the most recent data available, 22.9 percent of Egyptian women in 2009 and 47.9 percent of women under 25 in 2007 were unemployed.

develop more investment products and services targeting women. They can also work to remove barriers to expansion and funding for successful women running small businesses initially funded by microloans.

Over the longer term the United States can help Egypt mobilize resources to provide financial and technical assistance to develop more comprehensive social protection systems and to improve the Egyptian education and skills-training system toward reducing gender imbalances in the labor market. In Brazil, for example, the *Bolsa Familia* social transfer program was shown to increase labor market participation of beneficiary women by 16 percent while reducing the probability of employed women leaving work by 8 percent.<sup>38</sup> Such a program can serve as an example when designing policies to overcome gaps in Egypt's labor market.

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### Freedom of association and collective bargaining

Fostering democratic reform, promoting stability, and preventing conflict in Egypt will require jobs but the jobs must be “just jobs.” Reinforcing the region's trade union movement is vital to this goal. Trade unions are essential social institutions that help broker the relationship between employers and employees. They mobilize workers to foster political participation and ensure that government policies are responsive to the needs of workers.<sup>39</sup>

Prior to the downfall of the authoritarian Mubarak, the government-controlled Egyptian Trade Union Federation was the sole trade union in the country. The right to form and join trade unions aside from this federation was heavily curtailed by the law. When the Mubarak regime came under attack during the revolution so did the Egyptian Trade Union Federation. The ensuing transition made way for a proliferation of independent trade unions and a new independent federation composed of newly mobilized trade unions that were not allowed to exist previously.

The United States can work with the international labor movement to stress the importance of trade unions, advocate for the right to freedom of association to be written into law as Egypt writes its new constitution, and help equip the independent unions with the tools and training they need to mobilize, represent, and coordinate their efforts to promote worker rights effectively. (see box on next page)

## Egypt is ripe for active and independent trade unions

Even though Egypt's administrative court disbanded the assembly charged with drafting the new constitution in April 2012—telling the parliament it must select people from outside of parliament to draft the constitution, and that they must represent the “political and social map” of Egypt—the provisional constitution adopted in March 2011 includes the following:<sup>40</sup>

### *Article 4*

Citizens have the right to form associations, unions, syndicates, and parties, according to the law. It is forbidden to form associations

whose activities are opposed to the order of society or secret or militaristic in nature. It is not permitted to directly engage in political activity or form political parties on the basis of religion, race or origin.

### *Article 16*

Citizens have the right of private assembly in peace without bearing arms without the need for prior notice. It is not permitted for security forces to attend these private meetings. Public meetings, processions and gatherings are permitted within the confines of the law.

# Mobilize support and coordinate assistance with the international community

U.S. assistance has an important role to play in helping rebuild Egypt's economy. But the scale of U.S. assistance and debt forgiveness isn't nearly enough to meet the needs of the Egyptian economy. What's more, the U.S.-Egyptian relationship is highly charged and complicated, making it difficult for U.S. government agencies (and civil society) to operate in Egypt, despite the best of intentions.

The United States can play a leading role in mobilizing and coordinating international support to help create "just jobs" in Egypt. Coordinating among international donors and multilateral institutions can go a long way toward maximizing employment gains in Egypt, avoiding wasteful and redundant spending, and preventing haphazard policy development.

At its May 2011 meeting, the Group of 8 developed nations established the Deauville Partnership. The partnership brings together the International Monetary Fund, the World Bank, and other multilateral development banks, U.N. development agencies, donor countries, and Middle East and North African countries transitioning to democracy. The Deauville Partnership serves as a platform through which the partners can coordinate their assistance efforts. It seeks to support countries' economic plans in:

- Governance, transparency, and accountability of economic activities
- Social and economic inclusion
- Economic modernization and job creation
- Private-sector led economic growth
- Regional and global integration<sup>41</sup>

In September 2011 Egypt presented its plan for creating economic growth and jobs to the partnership. As the chair of the Deauville Partnership in 2012, the United States can make sure that "just jobs" are at the center of the international community's response, and that the international community coordinates its response well.

In addition, the United States must work with the international community to broker partnerships wherever possible with the fast-developing nations of Asia, Latin America, and Africa to get Egypt's economy back on track. For instance, the United States and other international donors could help bring professionals from countries such as India to Egypt to help train Egyptian youth.

## Bilateral and multilateral aid programs for Egypt

There are a number of development assistance programs that the international community offers Egypt. Here is a selection of them.

### *European Neighborhood Program*

The European Neighborhood Program was created in 2004. The policy describes how the European Union wishes to work with its closest neighbors, including Egypt, to increase shared prosperity, stability, and security. In response to the Arab Spring, the European Commission called for an increase of €1.24 billion in funding for 2011–2013 on top of the €5.7 billion already allocated for that period. The commission also adopted programs under the new policy to promote democracy, growth, job creation, microfinance, and higher education.

The so-called SPRING program provides €350 million over 2011 and 2012 to Europe's southern neighbors. The Erasmus Mundus program will provide €66 million to create opportunities for student and academic staff exchanges. The Neighborhood Civil Society Facility will provide €22 million over 2011–2013 to support nonstate actors that promote reform and civic accountability.

The EU also acted to expand the mandates of the European Investment Bank and the European Bank for Reconstruction and Development to include select Middle Eastern and North African countries, including Egypt. The European Investment Bank will increase its lending by €1 billion from 2011 through 2013, bringing its total investment in the southern Mediterranean to €6 billion in total by 2013. The European Bank for Reconstruction and Development will be able to invest up to €2.5 billion per year to these countries under the new mandate.

### *U.K. Arab Partnership*

In February 2011 the United Kingdom established its Arab Partnership program to support democracy and economic progress in the Middle East and North Africa. The British government will commit £110 million over four years to the partnership. The partnership seeks to promote political participation, extend the rule of law, combat corruption, ensure freedom of expression, increase youth employability, and boost private-sector economic development. To date the partnership has supported 10 different projects in Egypt. The programs have tended to focus on democracy promotion and good governance.

The U.K. Arab Partnership's funding is split between a Foreign Office and Commonwealth Office-led Arab Partnership Participation Fund, which will receive £40 million, and a Department for International Development-led Arab Partnership Economic Facility, which will receive £70 million. The Arab Partnership Participation Fund will have responsibility for the good governance goals such as decreased corruption and the Arab Partnership Economic Facility will handle the economic growth goals such as youth employment and private-sector development.

### *French Development Agency*

The French Development Agency has been working in Egypt since 2004. Under the commitments of the Deauville Partnership, the French Development Agency will commit almost €1.1 billion from 2011–2013 to projects in applicable countries such as Egypt. The money will fund low-interest loans and support democratic transitions. French aid to Egypt will total €650 million by 2013. This direct

*Continued on next page*

aid will promote equitable and sustainable economic growth through budgetary support, training efforts, infrastructure projects, and other programs.

#### *Arab Monetary Fund*

The Arab Monetary Fund is a regional fund with similar mandates to the International Monetary Fund. The AMF extended \$470 million in loans to Egypt in late 2011. The loan supports reform efforts by the

government to develop modern financial management practices, improve efficiency and transparency, and fund Egypt's government deficit. The AMF, through its Economic Policy Institute, provides technical assistance to Egypt. It has offered 430 training courses, seminars, and workshops on economic policy, monetary policy, and banking. The AMF has also assisted in the development of a program to extend credit to small- and medium-sized businesses.

## Conclusion

Recalibrating the U.S. relationship with Egypt and its programs to focus on economic assistance with “just job” creation at the core will not be easy in light of Egypt’s complicated, drawn-out, and messy transition. But the cost of paralysis or maintaining the status quo because it is easier is also too high.

An Egyptian government must be in place for the United States and the international community to undertake many of the recommendations outlined in this report. But even after the Egyptian people establish a government, elect a president, and draft their constitution, stability will remain elusive until their economy is back on track—creating enough good jobs to allow Egyptians to create a better life for themselves and their families.

The United States must make Egypt’s economy the focus of its assistance to the country. Investing in Egypt’s economy and jobs will help drive the political reform that the United States would like to see emerge and will help rebuild the trust between America and the Egyptian people.



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## Acknowledgements

We are grateful to the Norwegian Ministry of Foreign Affairs for their ongoing support of the Just Jobs program. Our thanks to the members of the Just Jobs Network and to Pia Bungarten, Knut Panknin, and Sebastian Ehreiser of the Friedrich Ebert Foundation for their help with outreach in Washington, D.C.

We are especially grateful to all those who participated in the Just Jobs 2011 seminars in Cairo and Rome, including Norwegian Deputy Minister Gry Larsen, former Egyptian Finance Minister Samir Radwan, former European Union Trade Commissioner Lord Peter Mandelson, U.K. Shadow Deputy Prime Minister Harriet Harman, Special Advisor to European Union Presidencies and European Commission Maria Joao Rodrigues, CAP Senior Fellows Brian Katulis and Matt Browne, CAP Vice President for Economic Policy Michael Ettlinger, and the General Coordinator of the Center for Trade Union and Workers' Services Kamal Abbas. Our thanks to CAP Action President and CEO Tom Perriello, Executive Director of the Center for International Private Enterprise John Sullivan, and Mohsin Khan and Danya Greenfield at the Atlantic Council's Rafik Hariri Center for the Middle East for their input.

As always, we appreciate the support of CAP's Editorial and Art teams, especially Ed Paisley.

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