ECONOMIC RESEARCH FORUM

منتدى البحوث الاقتصادية

2014

working paper series

GOVERNANCE REFORMS TO ACHIEVE SOCIAL JUSTICE AND INCLUSIVE GROWTH IN EGYPT: BUILDING INCLUSIVE ECONOMIC INSTITUTIONS

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Working Paper No. 873

20 YEARS SINCE 1993

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November 2014

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First published in 2014 by
The Economic Research Forum (ERF)
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Abstract

The development literature has focused mostly on the relationship between governance and growth, and most studies show a positive correlation between different governance indicators, particularly those relating to the security of property rights and government effectiveness, and growth. However, the direction of causality is not always clear. Good governance facilitates growth, but it is also true that growing countries with higher incomes demand better governance. That is, governance is also endogenous to growth. Nevertheless there is a growing consensus among development experts that institutions, and hence governance, are important to the creation of inclusive markets that support growth and equality of opportunity. In their best-selling book Acemoglu and Robinson argue that it is political institutions that determine what kind of economic institutions develop in a country. Hence, a country's economic development is driven by its politics. More open political systems that provide voice for their citizens and allow them to hold governments accountable naturally lead to inclusive economic institutions. This paper presents a case study of Egypt. It focusses on the issues of social justice and inclusive growth rather than economic growth per se. It reaches two broad conclusions. First, achieving inclusive growth and social justice in Egypt requires expanding the middle class and raising its standard of living, providing greater opportunities for youth, and improving livelihoods of small family farmers (especially in Upper Egypt). Second, a policy of inclusive growth and social justice needs to be supported by the development of more inclusive economic institutions. This could imply adopting an "inclusive planning model", providing more space and incentives for CSOs to act as advocates for the poor and vulnerable and to provide much needed economic services, and to encourage and strengthen farmer organizations and cooperatives while protecting their political and operational independence.

JEL Classifications: O1, G3

Keywords: Governance reform, Social justice, Development, Egypt

ملخص

ركزت أدبيات التنمية الغالبة على العلاقة بين الحكم والنمو، وتظهر معظم الدراسات وجود ارتباط إيجابي بين مؤشرات الحكم المختلفة، وخاصة تلك المتعلقة بأمن حقوق الملكية، وفعالية الحكومة، والنمو. ومع ذلك، فإن اتجاه السببية ليست واضحة دائما. الحكم الرشيد يسهل النمو، ولكن من الصحيح أيضا أن البلدان ذات الدخل المتزايد تشهد ارتفاع الطلب على الحوكمة. هذا فالحكم هو أيضا عامل أساسى للنمو. ومع ذلك، هناك إجماع متزايد بين خبراء التنمية أن المؤسسات، وبالتالي الحكم، هى عامل مهم لخلق أسواق شاملة لدعم النمو وتكافؤ الفرص. وفي كتابهم الأفضل مبيعا يجادل كل من أسيموغلو وروبنسون أن المؤسسات السياسية هى التي تحدد نوع المؤسسات الاقتصادية التى تتطور في بلد ما. وبالتالي، فهى الدافع وراء التنمية الاقتصادية في البلاد من خلال سياستها. فالننظم السياسية الأكثر انفتاحا والتي توفر صوت لمواطنيها والسماح لهم مساءلة الحكومات تؤدي بطبيعة الحال إلى تتطور المؤسسات الاقتصادية الشاملة. تقدم هذه الورقة دراسة حالة مصر. يتم التركيز على قضايا العدالة الاجتماعية والنمو الشامل بدلا من النمو الاقتصادي في حد ذاته. وتصل إلى استنتاجين هامين. أولا، تحقيق النمو الشامل والعدالة الاجتماعية في مصر يتطلب توسيع الطبقة الوسطى ورفع مستوى المعيشة، وتوفير فرص أكبر للشباب، وتحسين سبل العيش لصغار المزارعين (وخاصة في صعيد مصر). ثانيا، سياسة النمو الشامل والعدالة الاجتماعية يجب أن تكون معتمدة من قبل تطوير المؤسسات الاقتصادية لتكون أكثر شمولا. وهذا يمكن أن يعني تبني "نموذج التخطيط الشامل"، وتوفير مساحة أكبر وحوافز لمنظمات المجتمع المدني للعمل كدعاة للفقراء والضعفاء وتقديم الخدمات الاقتصادية التي تشتد الحاجة إليها، وتشجيع وتقوية منظمات المزارعين والتعاونيات مع توفير حماية لاستقلالهم السياسى والتنفيذى.

1. Introduction

The Egyptian revolution of January 2011 had economic as well as political objectives. On the economic side the demands were for better living standards (more bread) and greater social justice. The economic demands are yet to be met. In fact, economic conditions deteriorated following the revolution, contributing to a sense of disillusionment and frustration among Egyptians, especially youth. Survey results for 2012 from the Pew Center's Global Attitudes Project indicated that more than 70 percent of Egyptians were unhappy with economic conditions. This was probably one of the factors behind the June 30 mass protests and the subsequent fall of the Morsi administration.

Egypt's economic policies over the last two decades have failed to achieve social justice. This is manifested by: (1) a stagnating middle class; (2) youth exclusion and unemployment; and (3) and very high rural-urban and inter-regional inequalities. This paper argues that achieving social justice and inclusive growth in Egypt would require governance and institutional reforms to make economic institutions more inclusive, and presents some suggestions for key elements of such a reform.

The paper is divided into eight sections. After this introduction, the second section presents the analytical framework linking governance and institutional arrangements to economic growth and equity. The third section reviews economic performance in the decade before January 2011. The fourth, fifth and sixth sections describe the problems of the stagnation of the middle class, youth exclusion and regional inequality. The seventh section tries to show how institutional reforms could help resolve some of those problems, and the eighth section concludes.

2. Governance, Institutions and Economic Performance

According to Keefer (2004) "Governance is the extent to which the institutions and processes of government give government decision makers an incentive to be responsive to citizens." That is, according to this definition, good governance is about putting in place institutions and processes that ensure that economic decisions reflect the citizens' will. This view of what is good governance seems to be also the one adopted by UNDP. Its website states that "more countries than ever before are working to build democratic governance. Their challenge is to develop institutions and processes that are more responsive to the needs of ordinary citizens, including the poor, and that promote development."[1] UNDP's definition of good governance goes beyond that presented by Keefer, because it specifically mentions "democratic" governance, and it specifies that institutions need to be responsive to "ordinary" citizens including "the poor".

The "World-Wide Governance Indicators" research project develops systematic measures of governance. It looks at six groups of governance indicators, covering: voice and accountability, political stability, government effectiveness, control of corruption, regulatory quality, and rule of law.[2] This reflects the breadth of the concept of governance and the general view that a system of good governance should give more voice to citizens, hold governments accountable, lead to more effective bureaucracies, lower corruption, improve the regulatory framework and respect the rule of law.

In a 2003 report on governance in the MENA region the World Bank stressed the importance of two core values: inclusiveness and accountability. It defines inclusiveness as guaranteeing certain basic rights to all citizens, including the right to participate in the governance process on an equal basis. Accountability is defined as making decision makers answerable to the people for their decisions. There can be no accountability without inclusiveness, because

[1] www.undp.org/governance.
[2] See Kaufmann et al. (2008).

public officials cannot be made fully answerable if a group of citizens, usually the poor, are excluded from the governance process and cannot make their voices heard.

The development literature has focused mostly on the relationship between governance and growth.[3] Most studies show a positive correlation between different governance indicators, particularly those relating to the security of property rights and government effectiveness, and growth. However, the direction of causality is not always clear. Good governance facilitates growth, but it is also true that growing countries with higher incomes demand better governance. That is, governance is also endogenous to growth. The ideal is to achieve a virtuous cycle where governance reforms support growth which in turn leads to better governance and even faster growth.

Acemoglu and Robinson (2012) argue that the main (or even only) explanation for different economic outcomes among countries is different institutions. Economic institutions are important in determining economic outcomes. Inclusive institutions lead to the creation of inclusive markets that support growth and equality of opportunity. On the other hand, extractive institutions stifle entrepreneurship and creativity and thus lead to low growth and high inequality. According to Acemoglu and Robinson, it is political institutions that determine what kind of economic institutions develop in a country. Hence, a country's economic development is driven by its politics. More open political systems that provide voice for their citizens and allow them to hold governments accountable naturally lead to inclusive economic institutions. In their discussion of Egypt Acemoglu and Robinson argue that "Egypt is poor precisely because it has been ruled by a narrow elite that has organized society for their own benefit at the expense of the vast mass of the people. Political power has been narrowly concentrated, and was used to create great wealth for those who possess it."

I shall focus in this paper on the issues of social justice and inclusive growth rather than economic growth per se. Egypt has experienced high rates of growth, particularly in the last decade of the Mubarak administration. However, the benefits from growth were not perceived to be fairly distributed. The middle class was squeezed, youth were excluded and poor small-holder farmers (especially in Upper Egypt) did not benefit.

As Egypt moves towards a more participatory political system, it will need to address issues of fairness and social justice. Otherwise, it will risk continued political instability. According to Acemoglu and Robinson (2012) and the World Bank (2003), this means that economic institutions need to change, and become more inclusive, in order to reflect the demands of the revolution and the evolution towards a more democratic political system and a more equitable distribution of the benefits of economic growth.

It is important to make clear at the outset that this paper does not argue that inclusive institutions is a panacea that will solve all of Egypt's social justice problems. Figure 1 presents the percentile ranks in 2012 of Egypt and some comparators for the six governance indicators developed by the Worldwide Governance Indicators research project. It shows that Egypt ranks very low in the area of inclusiveness and accountability. However, other countries with similar or worse inclusiveness indicators (most notably China) were able to achieve growth with a better distribution than Egypt. Those countries have a very different social and political system, and perhaps more importantly, a much more effective government (civil service) and a much higher regulatory quality than Egypt (see table 1). Hence, I am not arguing that it is impossible to achieve some measure of social justice without inclusive institutions. However, I shall try to show in the remainder of this paper, that building more inclusive economic institutions would greatly support the cause of social justice in Egypt.

[3] For example, see Calderon and Choong (2000); or Easterly and Levine (2002).

3. High Growth and High Discontent[4]

During the period leading to the January 25, 2011 revolution, the Egyptian economy appeared to be doing well. A 2009 World Bank evaluation report states that: "between fiscal 1999 and 2007the Arab Republic of Egypt's economic performance improved substantially. This was particularly true after 2004, following improvements in economic management, structural reforms, and correction of the exchange rate." Table 2 indicates that this positive evaluation of the country's economic performance was warranted. GDP was growing at 5-7 percent a year while the current account was under control and foreign reserves were high. Moreover, this strong performance continued even during the global financial crisis. In 2009 and 2010 the country was growing at a healthy 5 percent and had reserves equivalent to 7 months of imports despite a decline in foreign direct investment and some deterioration in the current account balance. At 11-12 percent, inflation was high by international standards, but still within the Central Bank's "comfort zone".

Strong growth performance was achieved with what appeared to be virtually no change in income distribution (Table 3). The Gini coefficient remained stable at around 30-33 percent, which indicates a more equal distribution of income than many other developing countries. For example, Gini coefficients are about 55 percent for Brazil, 52 percent for Chile, 46 percent for Malaysia and 63 percent for South Africa. Table 2 also shows (as would be expected from a stable Gini coefficient) that the distribution of national income across quintiles has remained quite stable with the lowest quintile receiving about 9 percent of income and the highest receiving about 40 percent.

Most poverty indicators also showed some improvement (Table 4). One dollar per day poverty was cut by half from 4 percent of the population in 1991 to 2 percent in 1996, but remained stable at that level till 2008. And, $2 per day poverty was cut from 44 and 46 percent of the population in 1990 and 1995, to 36 and then 32 percent in 2004 and 2008. On the other hand, poverty rates using the national poverty line (a little less than $2 a day) increased from 17 percent in 2000 to 22 percent in 2008. With the benefit of hindsight, this should have raised concern. Nevertheless, most observers focused on strong growth, relative macroeconomic stability and declining poverty according to the standard $2.5 in purchasing power parity (PPP) terms poverty line. The data seemed to indicate that Egypt was well on its way to becoming a development success story.

Good policies were credited for Egypt's economic performance. Economic reforms started in 1996 with some trade reforms, price liberalization and selected privatizations, and accelerated in 2004 when a new reformist government took office. The government set out to further deepen the reforms by accelerating privatization, reducing tax rates and trade tariffs while simplifying the tax and trade regimes, and adopting more business-friendly policy and regulatory frameworks. This program was associated with a rapid increase in foreign direct investment (FDI) flows and a further acceleration of GDP growth, which led the IMF's 2010 staff report on the Article IV consultation with Egypt to state that "the post-2004 reform agenda has started to pay dividends". Also in 2010 the World Bank identified Egypt as one of the top reformers in its "Doing Business Report", and the World Economic Forum moved Egypt up 11 places in its "Global Competitiveness Report".

Yet, Egyptians were bitterly complaining about inequality and poverty, and visitors commonly commented on the shocking difference between ostentatious wealth in Cairo's gated communities and the squalor of its shanty towns. The graph above shows that the proportion of Egyptians who responded positively to a Gallup poll question of whether they are thriving fell from 29 percent in 2005 to 11 percent in 2010, even as per capita GDP

[4] This section is based on the analysis in Ghanem (2013)

increased by nearly 34 percent over the same time period. And, in January 2011 millions of Egyptians were demonstrating in the streets and a few weeks later Mr. Mubarak's regime fell.

What went wrong? While highlighting aspects of good performance, many observers had mentioned signs of weaknesses in the Egyptian reform program, namely poverty and inequality, youth exclusion and corruption. The director general of the World Bank's Evaluation Department stated in his forward to the 2009 evaluation report that future World Bank work in Egypt should focus on "the persistent issue of poverty and inequality". The IMF's 2010 staff report on the Article IV consultation pointed out that "Transparency International cites accountability and transparency, and weakness in the legal/regulatory system as key reasons for Egypt remaining 111th of 180 countries in its Corruption Perception Index." While acknowledging that an Egyptian economic revival started in 2004 and had led to a marked improvement in the labor market, Assad and Barsoum (2007) state that "youth continues to be a most disadvantaged group in terms of higher rates of unemployment, lower earnings and limited job security and stability, with the majority of new entrants finding jobs within the informal economy".

4. A Stagnating Middle Class

A possible explanation for the rising discontent in Egypt is that the 2004 reforms increased the gulf between a struggling middle class and the elite. Such an explanation is consistent with recent literature, e.g. Diwan (2012), which emphasizes the important role that the Arab middle class plays in determining political regimes; as well as work carried out by Homi Kharas at the Brookings Institution that stresses the importance of the middle class in economic development.

There are many ways of defining the Egyptian middle class. I start by following Banerjee and Duflo (2008) in defining the middle class as those living on more than $2 a day but less than $10 a day. Table 5 shows the distribution of the population among different consumption groups and Table 5 shows the number of people in each of those groups. The two tables point out three important facts. First, according to this definition the Egyptian middle class is huge; it represents 83 percent of the population or 65 million people. Second, more than two-thirds of this middle class (44 million people or 56 percent of the total population) live on less than $4 a day. Popular culture in Egypt depicts the middle class as families where at least one member is a public employee. According to the Banerjee and Duflo definition this is apparently not true. The vast numbers of middle-class families who live on $2-$4 a day work in small enterprises, mostly in the informal sector. Third, the reforms of 2004 do not appear to have helped the middle class. In spite of the increase in average income, the structure of the middle-class remained basically unchanged between 2004 and 2008 with more than two-thirds in the $2-$4 a day income group. It is also noteworthy that the number of people living on more than $10 a day (and hence defined as upper class) has remained constant over those four years at about 1.9 million, and their proportion of the population declined slightly from 2.6 to 2.4 percent.

The above discussion could explain why the majority of Egyptians were discontent in spite of economic growth. Vast numbers were trapped in lower middle-class status, very close to the poverty line. They saw the small number of rich benefit from the economic reforms while they remained, for all intents and purposes, poor.

This failure to raise the standards of living for the lower middle class distinguishes Egypt's economic performance from that of successful developing countries. The World Bank publishes data on poverty using a $5 poverty line. Tables 7 and 8 present the head-count index and the number of poor using this measure for Egypt and five comparator countries. In Egypt the percentage of people living on less than $5 a day has been stagnant at 85% percent between 2000 and 2008, and their absolute number increased from 57 to 66 million.

During the same period Brazil, Chile, China, Malaysia and South Africa succeeded in reducing the proportion and absolute number of people living on less than $5 a day (although South Africa to a lesser extent than the others).

Does the above conclusion change if a different definition of the middle class is used? To respond to this question I use a definition developed by Homi Kharas at the Brookings Institution. According to this definition the middle class consists of "those households that have a certain amount of discretionary income that goes beyond the necessities of life to include consumer durables, quality education and health care, housing, vacations and other leisure pursuits. This group is differentiated from the poor in that they have choices over what they consume. They are differentiated from the rich in that their choices are constrained by their budget; they are price and quality sensitive." According to this definition, middle class households are those that spend between $10 and $100 per person per day.

Applying the above definition to the World Bank's household survey data, which is presented above, would yield a very small middle class in Egypt (roughly only 2 percent of the population). However, users of this definition typically apply it to the private consumption data obtained from the national accounts that consistently yield a much higher figure for average consumption than the household surveys. Hence, I use the data for the global middle class that is available at the Brookings Institution. According to those estimates the Egyptian middle class has grown from 12 percent of the population in 2000 to 22 percent in 2010, which appears to be a positive development. However, this expansion was not sufficient to reduce the absolute number of people living below the middle-class level (hence poor according to this definition). This number increased from 60 million in 2000 to 63 million in 2010.

Therefore, it seems that the different data sets and definitions point out a similar conclusion. The number of people who are poor or lower-middle class continued to increase in spite of the economic reforms and the rapid growth. The vast majority of Egyptians did not benefit from the growth that occurred over the 10 years immediately preceding the revolution.

5. Youth Exclusion

Young people, who represent about one-quarter of the population, felt particularly excluded. They did not participate in the social and political life of their country. Assad and Barsoum (2007) describe the constraints faced by young men and women to express themselves and the controls placed on student activities by the security apparatus. The result was that most young people refrained from any civic activities or volunteer work. They felt that their voices could not be heard. Most activist youth joined Islamist movements who, according to Bayat (1998), provided them with an alternative moral and cultural community. Islamist organizations also provided youth with services, like libraries and sports facilities, that the public sector was unable to deliver.

Youth also suffered from economic exclusion which can be best illustrated by examining labor market outcomes. Table 9 shows that youth unemployment is higher in Egypt than in any of the comparator countries except South Africa. The Egyptian public sector has traditionally provided jobs to the large numbers of graduates entering the labor market each year; currently about 800,000 young people enter the labor market annually and 70 percent of them have completed at least secondary education. This changed with the economic reforms that aimed at controlling government spending and rationalizing the public sector; and given the high fiscal deficit and over-employment in the public sector it is unlikely that this sector will be able to absorb many new graduates. As a result, it has become increasingly hard for young people to find jobs, and youth with secondary education or above represent about 95 percent of the unemployed in Egypt. The problem is particularly acute for young women who are 3.8 times more likely to be unemployed than young men. Of the young men and women who do find jobs, only 28 percent find formal sector jobs—18 percent in the public sector and 10 percent in the formal private sector. The vast majority, 72 percent, end up working in the informal MSE sector, often as unpaid family workers. For those who are paid, many have no labor contract, no job security or social benefits.

6. Regional and Rural-Urban Variations in Poverty and Opportunity

Egypt also suffers from huge regional inequalities. The probability of being extremely poor in Egypt is nearly 4 times higher for people living in rural areas than for those in urban areas. Table 10 shows the poverty headcount index using three poverty lines. The line for extreme poverty is defined by the cost of buying sufficient food. That is, the extreme poor are defined here as those who cannot afford to buy a minimum food basket. The table shows that 6.7 percent of the population of Egypt is extremely poor. The figure for urban areas is only 2.6 percent while that for rural areas is 9.6 percent. That is, nearly one out of every ten rural inhabitants in Egypt is extremely poor and food insecure.

The table also shows the incidence of poverty using two other poverty lines. The lower poverty line is based on a basket of goods and services that is considered by the government to be the minimum. According to this lower poverty line 22 percent of the population is poor, but rural poverty is 30 percent which is nearly three times higher than the incidence of poverty in urban areas. Using a higher poverty line yields a national headcount index of 41.2 percent, and a rural poverty rate of 52.7 percent, about double the urban poverty rate.

In addition to the rural-urban differences, poverty in Egypt also varies by region. In analyzing the incidence of poverty it is useful to divide Egypt into four regions: (1) metropolitan Egypt which includes the large cities especially Cairo and Alexandria; (2) lower Egypt which includes the fertile delta region north of Cairo; (3) upper Egypt which includes the Nile valley south of Cairo; and (4) borders regions which include the desert areas along the border with Libya and in the Sinai. Each of those regions (except the metropolitan region) is divided into rural area and urban centers.

Table 11 shows that Upper Egypt represents a special problem. It has about 50 percent of the country's population, but 83 percent of the extremely poor and 67 percent of the poor. The problem in Upper Egypt is especially serious in the rural areas. Urban Upper Egypt has 11.6 percent of the extremely poor and 11.3 percent of the poor. On the other hand, rural Upper Egypt has 71.5 percent of the extremely poor and 55.8 percent of the poor. Lower Egypt has less poverty. About 30 percent of Egypt's population lives in Lower Egypt and the region is home to 13.7 percent of the country's extreme poor and 27.6 percent of the poor. However, it is important to note that the vast majority of the poor and extremely poor in Lower Egypt also live in rural areas.

Other measures of welfare give similar results. For example looking at health indicators, 15 percent of urban women do not receive any antenatal care. In rural areas that figure is 33 percent. Comparing education data, 43 percent of women in rural Upper Egypt are illiterate compared to 20 percent in urban Upper Egypt. The illiteracy rate for women in rural Lower Egypt is 31 percent.

Table 12 compares the human opportunity index (HOI) for rural and urban Egypt. This index was developed at the World Bank based on the notion that outcomes in terms of income and consumption are affected by the opportunities available to people, and particularly children. The idea being that all people need to be given an equal opportunity in life. Thus, the index measures access to variables that affect a person's economic opportunity; e.g. education, health care, access to clean water, and non-crowded housing. As can be expected the aggregate index for urban dwellers (80) is higher than the aggregate index for rural dwellers (70). This implies that the difference in observed income and consumption, between urban and rural areas, is partly due to lack of access to some basic services that compromise rural dwellers' life opportunities.

Table 12 also presents the various components of the rural and urban HOIs. Urban areas offer better opportunities in nearly every aspect measured by the index. However, the biggest difference seems to be in the area of sanitation services, where the rural index is only 17 compared to an urban index of 74. Both urban and rural areas score very poorly in the area of post natal care, 33 in urban and 24 in rural.

The HOI index can be aggregated into four groups describing access to different types of services: education (primary, secondary, etc.); adequate housing (water, sanitation, etc.); early childhood (pre and post natal care, immunization, etc.); and nutrition (wasting, stunting, etc.). Table 13 presents those 4 aggregate HOIs for the five regional breakdowns of Egypt. The table shows that while Upper Egypt is the most lagging region in terms of education and adequate housing (particularly access to sanitation), the border areas are the most lagging in terms of early childhood development and nutrition.

Public spending does not appear to reflect a desire to reduce regional inequalities. Table 14 shows that Metropolitan areas with 17 percent of the population receive nearly 34 percent of public investment, although they have lower poverty rates than the rest of the country. Upper Egypt with about half of the population and the vast majority of the extremely poor only receives 25 percent of public investment.

The cross sector allocation of public investment also does not reflect a high priority for fighting poverty and inequality. For example, the border areas receive a disproportionate amount of public investment given their share of population and poverty. Nevertheless this could have been easy to rationalize if the investment was directed at early childhood development and nutrition, sectors in which the border areas are lagging. However, as table 14 shows, the disproportionate share of public investment in border areas has been directed at the electricity sector, rather than health or education. Similarly, there is pressing need for investment in sanitation infrastructure in Upper Egypt, a sector that has been long neglected; and in post-natal care across the whole country.

All of the poor in rural areas are either directly or indirectly affected by agriculture, and nearly all of them are small family farmers. About 40 percent of Egypt's agriculture is divided into parcels of less than 3 feddans (about 1.2 hectares); and 98 percent of holdings are smaller than 5 hectares. According to the FAO's agricultural census small-holder farmers and their family members working in agriculture number about 13 million people. In spite of its importance, successive Egyptian governments assigned low priority to family farming and focused on the development of large-scale modern agriculture. For example, the Government invested huge sums in the New Valley (or Toshka) project which aims at irrigating about a quarter of a million hectares of desert land by building a 150km long canal from Lake Nasser south of Aswan.

7. Inclusive Institutions as Part of the Solution

The technical options for improving social justice in Egypt and achieving inclusive growth have been widely discussed and seem to be well known. They even appear to have broad-based political support. Those options include: improving the environment for small enterprises and putting in place programs to support entrepreneurship and the middle class; special programs for youth employment and for encouraging young people to start new businesses; increasing public investment in social and physical infrastructure in rural areas particularly in Upper Egypt; supporting small-holder agriculture and family farming; and targeted safety net programs and cash transfers to protect the poor and vulnerable particularly in rural areas.

Most Egyptian governments over the last four decades have at least given lip service to the goal of social justice and have taken some symbolic steps towards implementing parts of this agenda. However, there has been no serious attempt taken so far to fully implement an agenda for achieving social justice and economic inclusion. Even after the 2011 revolution neither the transition governments nor the Moslem Brotherhood government made significant moves toward achieving this key goal.

The literature on governance and institutions provides a possible explanation for Egypt's failure to act decisively on social justice issues. Namely, the lower middle class and the poor who would benefit from such an agenda have little or no voice in the economic decision making process. This could explain why their interests were not served by economic policies, while a system of crony capitalism flourished.[5] Inclusive economic institutions that would give voice to ordinary citizens including the poor (to use UNDP terminology) in economic policy making, and empower them to hold government officials accountable, would increase the probability that an agenda for achieving social justice is actually adopted and implemented.

Sakamoto (2013) analyzed Egypt's planning system. Lack of a structured dialogue among key stakeholders is a key feature of the planning process in Egypt. Six five-year development plans were prepared during the Mubarak era. Budget allocations were determined before determining economic goals and strategies. The first planning step was the production of the "investment budget allocation sheet" by the Ministry of Planning based on the line ministries' investment budget requests. The five-year development plan was then drafted by the Ministry of Planning based on the budget allocation sheet. This system was simple with drafting being fully completed inside the Ministry of Planning without official "outside contacts". Thus, the system excluded major stakeholders, such as the private sector, civil society organizations, labor organizations and farmer organizations. Even line ministries had little voice in the preparation of the plan document.

However, Sakamoto also points out that there were strong interactions between the government and some elements of the private sector, especially after 2004 when the government instituted a policy of strengthening public-private relations. However, communication and cooperation were implemented without an institutional dialogue mechanism. Sakamoto argues that this lead to numerous collusive relationships that resulted in corruption and the emergence of a "soft state".

The problem was the lack of a rule-based institutional dialogue between government, private sectors, civil society organizations and other stakeholders. A well designed planning process can provide a framework for such a dialogue and for reaching consensus on a long-term vision for future economic development. Egypt should consider adopting a system of "inclusive planning" similar to the one used in Japan.[6] The Japanese economic council was established in 1952 to prepare the five year plans, build a national consensus on economic policy, and integrate expertise within the country. In addition to government officials, the council includes representatives of different stakeholders such as academia, the private sector, labor unions, civil society organizations (CSOs), and the media.

Abdou and Kharas (2012) looked at the role that CSOs could play in achieving inclusive growth in Egypt. They argue that CSOs could make four important contributions to inclusive growth. First, they can play an advocacy role for small businesses, the informal sector and other marginalized groups ensuring that government takes their concerns into account when formulating policies and programs. And they can also act as whistleblowers denouncing

[5] For example, see Richter and Steiner (2008) for a description of cronyism in the tourism sector.
[6] Handoussa (2010) also argued for more stakeholder participation in planning and economic policy making in Egypt.

corruption and other unfair practices harming small or weak economic agents. Second, they could provide important economic services that the public sector is unable to provide (or provides inefficiently); e.g. by helping small enterprises get access to finance and to technical assistance. Third, they can act as think tanks developing ideas and promoting best practices that support inclusive growth. Fourth, they can be an important source of employment opportunities for youth. Currently, only 3 percent of Egypt's labor force work in CSOs as compared to 9 percent in a country like the Netherlands. Abdou and Kharas conclude that the legal framework governing CSOs in Egypt needs to be reformed to provide CSOs with greater flexibility and incentives to expand their activities.

Farmer organizations and cooperatives are a special type of CSOs that can play an important role in strengthening the governance system of the agriculture sector, and particularly in developing and supporting family farmers. Problems caused by the large number of very small family farms in Egypt can be tackled through the development of strong producer organizations that group farmers together to ensure that their voice is heard in policy discussions, and also help enhance access to technology, inputs and markets. Existing farmer organizations and cooperatives are weak and are over-dependent on government for financial and technical support, which erodes their independence and limits their areas of action. Cooperatives and farmer organizations sometimes act more as government agencies, informing farmers of policy decisions that are taken at the central level and helping implement them, rather than as bodies that represent farmers and advocate for policies that protect their interests. Moreover, most of those organizations suffer from inadequate human resources which severely limit their ability to participate in agricultural and rural development. Lack of training and knowledge among grassroots actors limits the organizations' ability to identify issues and mobilize appropriate expertise at different levels to deal with them. Moreover, lack of members with experience and training negatively affects the way collective and individual responsibilities are being exercised in various farmer organizations.

Farmer organizations and cooperatives could play an important political role. Small and poor family farmers do not feel that their voices are being heard in policy circles. The lack of strong organizations representing family farmers, together with their low level of political participation, may explain why development strategies and policies tend to be biased in favor of urban activities and large modern agriculture. Independent and strong producer organizations could play an effective advocacy role and could help lobby politicians to promote the interests of family farmers.

Farmer organizations could also play an important economic role, grouping family farmers together to enhance their access to technology and inputs, and to improve market access and help them retain a larger share of value added. Producer organizations could encourage the exchange of experience and know-how between farmers. They could also propose and encourage programs for applied agricultural research that support family farmers, and help improve extension services and adapt them to the needs of family farmers. In fact, civil society organizations are often much better placed than government agencies to deliver extension and technical support to family farmers.

Some civil society organizations have been active in this area with good results. The SUN NGO which was created in 2002 and operates in Upper Egypt is an example of good practice in this area. This NGO works with family farmers in one of the poorest regions in Egypt. It organizes them into associations and provides them with technical, managerial and marketing support. It links family farmers to large producers and exporters through different contractual arrangements and out-grower schemes. It signed nearly 900 different contracts with exporters and agro-processors. It also prioritizes women participation in the program. By

2007 more than 12,500 family farmers had joined SUN associations. They exported non-traditional products worth 85 million Egyptian pounds (about USD 12 million) and estimate that participants' income rose by 60 million pounds (about USD 8 million).

8. Concluding Remarks and Lessons from International Experience

The discussion in this paper points to two broad conclusions. First, achieving inclusive growth and social justice in Egypt requires expanding the middle class and raising its standard of living, providing greater opportunities for youth, and improving livelihoods of small family farmers (especially in Upper Egypt). Second, a policy of inclusive growth and social justice needs to be supported by the development of more inclusive economic institutions. This could imply adopting an "inclusive planning model", providing more space and incentives for CSOs to act as advocates for the poor and vulnerable and to provide much needed economic services, and to encourage and strengthen farmer organizations and cooperatives while protecting their political and operational independence.

Many developing and emerging countries that went through similar economic, social and political upheavals as Egypt developed more inclusive economic institutions. For example, Indonesia changed its economic decision making process after the fall of the Suharto regime, from a top-down planning process to a bottom-up approach. The Indonesian development planning committee includes representatives of the private sector and civil society. Thus coordination between stakeholders became institutionalized which helps reach consensus on economic policies and allows citizens views to be reflected in policies. Indonesia also created a partnership against corruption which is an inclusive body comprising government, civil society, private sector and the media.[7]

When Luis Ignacio Lula da Silva was elected president of Brazil, fighting hunger was one of his top priorities for achieving social justice. Therefore, he created a National Food and Nutritional Security Council (Consea). Consea is a good example of an inclusive economic institution. It had 59 members, 17 government representatives and 42 members representing civil society, and it was chaired by a civil society representative. The council met on the premises of the presidency and made their recommendations directly to President Lula. Because the problem of hunger is intersectoral in nature the council had a broad membership so that all sectors of the economy were represented. Consea was also conceived as a tool to provide voice for those suffering from hunger and to improve cooperation between government and civil society. Under Consea and President Lula, Brazil was extremely successful in eliminating hunger.[8]

Analytical work as well as country experiences point out to the usefulness of inclusive economic institutions for achieving social justice and inclusive growth. Egypt needs to achieve growth that is widely shared by the population and to improve social justice. Hence, it may make sense to consider developing more inclusive economic institutions in a few key areas such as economic planning, youth employment, or rural development.

[7] For more on the Indonesian experience and lessons for Egypt see Magdi et al. (2012).
[8] See Menezes (2011).

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Figure 1: Egypt: Recent Trends in Percentage "Thriving" and GDP per Capita (PPP)

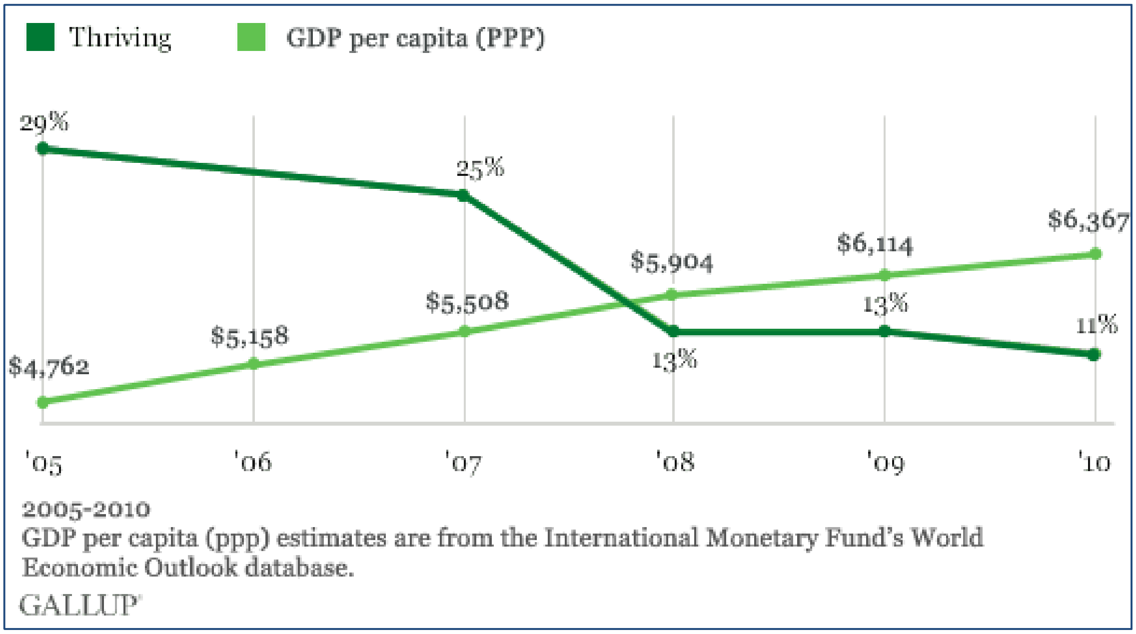

Table 1: Comparative Governance Indicators for 2012 (Percentile Ranks)

	Egypt	Brazil	China	India	Indonesia	Malaysia
Control of Corruption	34.4	56.5	39.2	34.9	28.7	65.6
Government Effectiveness	25.4	50.2	56.0	47.4	44.0	80.4
Political Stability	7.6	47.9	28.4	11.8	27.5	44.5
Regulatory Quality	33.0	54.5	43.5	34.0	43.1	69.9
Rule of Law	40.3	51.7	38.9	52.6	34.1	65.9
Voice and Accountability	36.5	60.7	4.7	58.3	51.2	37.9

Source: Worldwide Governance Indicators

Table 2: Egypt: Selected Macroeconomic Indicators (2000-2010)

Time Name	Current Account Balance (% of GDP)	Foreign Direct Investment, Net Inflows (% of GDP)	GDP Growth (annual %)	GDP per Capita Growth (Annual %)	Gross Fixed Capital Formation (% of GDP)	Total Reserves in Months of Imports
2000	-1	1	5	3	19	7
2001	0	1	4	2	18	7
2002	1	1	2	0	18	8
2003	5	0	3	1	16	9
2004	5	2	4	2	16	7
2005	2	6	4	3	18	7
2006	2	9	7	5	19	7
2007	0	9	7	5	21	7
2008	-1	6	7	5	22	6
2009	-2	4	5	3	19	7
2010	-2	3	5	3	19	7

Source: World Development Indicators, World Bank

Table 3: Egypt: Evolution of Inequality (%)

Year	GINI Index	Income Share Held by Lowest 20%	Income Share Held by Second 20%	Income Share Held by Third 20%	Income Share Held by Fourth 20%	Income Share Held by Highest 20%
1990	32	9	12	16	21	41
1995	30	10	13	16	21	40
1999	33	9	12	16	21	42
2004	32	9	13	16	21	41
2008	31	9	13	16	21	40

Source: World Development Indicators, World Bank

Table 4: Egypt: Evolution of Poverty (%)

Year	Headcount Ratio at PPP $1.25 a Day	Headcount Ratio at PPP $2.5 a Day	Headcount Ratio at National Poverty Line	Population (millions)
1990	4	44	..	58
1995	2	46	19	63
1999	2	37	17	68
2004	2	36	20	74
2008	2	32	22	78

Source: World Development Indicators, World Bank

Table 5: Egypt: Distribution of Population in Consumption Groups (%)

	Less than $2/day	$ 2-$4/day	$ 4-$6/day	$ 6-$8/day	$ 8-$10/day	$10-$12/day	$12-$14/day	More than $14/day
2008	14.61	56.04	19.80	5.25	1.92	0.88	0.48	1.02
2004	17.56	54.44	18.30	5.17	1.97	0.93	0.51	1.12
1999	18.42	54.47	17.54	5.05	1.95	0.94	0.51	1.12
1995	25.21	54.40	13.53	3.62	1.38	0.67	0.37	0.82
1990	26.72	50.11	14.76	4.37	1.74	0.84	0.47	0.99

Source: Author calculations using The World Bank's PovCalNet tool

Table 6: Egypt: Distribution of Population in Consumption Groups (millions)

	Less than $2/day	$2-$4/day	$4-$6/day	$ 6-$8/day	$8-$10/day	$10-$12/day	$12-$14/day	More than $14/day
2008	11.44	43.89	15.51	4.11	1.50	0.69	0.38	0.80
2004	12.79	39.65	13.33	3.77	1.43	0.68	0.37	0.82
1999	12.24	36.20	11.66	3.36	1.30	0.62	0.34	0.74
1995	15.65	33.76	8.40	2.25	0.86	0.42	0.23	0.51
1990	15.19	28.48	8.39	2.48	0.99	0.48	0.27	0.56

Table 7: Head-Count Index at $5/day Poverty Line (%)

	Brazil	Chile	China	Malaysia	South Africa	Egypt
1990	64	45	99	46	70	87
1995	51	36	96	45	72	89
1999	52	33	93	..	72	85
2004	47	24	80	48	66	85
2008	36	19	72	25	62	85

Source: World Development Indicators, World Bank

Table 8: Number of Poor at $5/day Poverty Line (millions)

	Brazil	Chile	China	Malaysia	South Africa	Egypt
1990	92	7	1,125	9	26	49
1995	84	5	1,172	9	28	55
1999	89	4	1,171	..	32	57
2004	91	5	1,044	12	31	62
2008	72	3	949	7	30	66

Source: World Development Indicators, World Bank

Table 9: Comparing Youth Unemployment (ages 15-24) (%)

	1998	2008	Share of Youth in Population
Brazil	17	15	20.0
Chile	15	20	17.2
China	…	…	15.9
Malaysia	9	11	18.3
South Africa	45	47	20.5
Egypt	23	25	22.3

Source: World Development Indicators, the World Bank and United Nations Population Statistics

Table 10: Poverty in Egypt- Percent of People Below Poverty Line

	Extreme poverty line	Lower poverty line	Upper poverty line
Urban	2.6	10.6	24.6
Rural	9.6	30.0	52.7
Total	6.7	22.0	41.2

Source: World Bank, Poverty Assessment (2011)

Table 11: Regional Distribution of Poverty

	Extreme poverty	Poor	Near poor	Share of population
Metropolitan	2.8	4.6	9.1	17.0
Lower Egypt	13.7	27.6	44.7	31.1
Upper Egypt	83.1	67.1	45.0	50.3
Borders	0.4	0.7	1.3	1.5
Total	100.0	100.0	100.0	100.0

Source: Velez et al. (2012)

Table 12: Human Opportunity Index, 2009

	Urban	Rural
Primary education	88	85
Secondary education	69	60
School attendance 9-15	92	87
Water	96	85
Sanitation	74	17
Lighting energy source	100	98
Cooking energy source	99	97
Non-overcrowding	64	55
Telephone	84	64
Assisted birth	93	79
Post-natal care	33	24
Pre-natal care	87	73
Immunization	85	85
Non-wasting	74	75
Non-stunting	72	67
Non-underweight	88	82
Aggregate index	80	70

Source: Velez et al. (2012)

Table 13: Aggregate HOI by Group, 2009

	Metropolitan	Lower Egypt	Upper Egypt	Borders
Education	76	78	70	77
Housing	89	77	68	75
Early childhood	77	69	65	55
Nutrition	77	77	75	65

Source: Velez et al (2012)

Table 14: Distribution of Public Investment in Selected Sectors (Percent)

	Total	Electricity	Water	Education	Health
Metropolitan	33.6	6.4	16.9	30.4	32.1
Lower Egypt	30.3	20.0	53.9	35.6	32.4
Upper Egypt	25.6	29.7	20.9	30.2	30.9
Borders	10.4	43.9	8.4	3.9	4.6
Total	100.0	100.0	100.0	100.0	100.0

Source: World Bank (2011)