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## HOW CAN THE U.S. AND INTERNATIONAL FINANCE INSTITUTIONS BEST ENGAGE EGYPT'S CIVIL SOCIETY?

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JUNE 2011

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## INTRODUCTION

Former Egyptian Finance Minister Youssef Boutros-Ghali, who has just been sentenced in absentia to 30 years in jail on corruption charges, was twice awarded the Emerging Markets Minister of the Year for the Middle East for championing economic reforms. His claim that Egyptian economic policymakers had “developed a sixth sense of where the economy is and where it should be” reflected Egypt’s impressive pre-revolution macro-economic performance, measured in terms of GDP growth, trade, private investment and foreign direct investments.<sup>1</sup> Foreign exchange reserves also swelled under his watch. In 2008, Egypt was named the top reformer in the World Bank’s *Doing Business* survey.

At the same time, an audit report of the United States Agency for International Development’s (USAID) democracy and governance activities found that, “independent nongovernmental organizations ranked Egypt unfavorably in indexes of media freedom, corruption, civil liberties, political rights and democracy. Egypt’s ranking remained unchanged or declined for the past two years.”<sup>2</sup> Significant discontent over public service delivery, such as in education and transportation, was registered. Egypt had very high rates of unemployment with only half the labor force having jobs, two-thirds of which were in the informal sector; the government was the majority formal sector employer. Egypt’s government habitually spent 8 percent or more of GDP in social subsidies, but because of poor targeting these largely went to better off households.

These two Egyptian economic realities—the dynamic, emerging economy driven by the elite and the state-dependent, repressed informal economy in which most Egyptians actually live—are in desperate need of help today. A recent International Monetary Fund (IMF) program is targeted at the first problem: how to avoid a short-term collapse of the formal economy. But that is unlikely to be sufficient and may even be harmful in the medium term if problems in the informal economy are not addressed. This policy paper addresses the second problem by exploring how to engage Egypt’s civil society in creating an equitable new economy, where jobs and self-reliance reduce state-dependence and restore dignity to the Egyptian people.

## CONTEXT

Recent donor assistance commitments made to Egypt include: at least \$20 billion for both Egypt and Tunisia from the G-8; an estimated \$8 billion or more from the IMF and the World Bank; €7 billion euros from the European Union through its European Neighborhood Policy; a U.S. government plan for debt relief of \$1 billion and for guarantees of another \$1 billion in borrowing to finance infrastructure and job creation; and a USAID Annual Program Statement of around \$165 million to civil society organizations (CSOs).

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But there is already a growing unease and sharp criticism from opinion leaders and some CSOs regarding the speed and lack of consultation in the recent negotiations with the IMF and the World Bank. Several Facebook groups have been created to advocate against Egypt's signing of the IMF loan agreement. Articles, such as a recent one written by Egyptian political and civil society activist Wael Khalil in the U.K. *Guardian* newspaper entitled "Egypt's IMF-backed revolution? No thanks", reflect a growing concern that Egypt is reverting to a development model based on the old approach of closed-door dialogue between domestic and foreign elites.<sup>3</sup> That approach delivered impressive results in terms of macro-economic indicators but it overlooked critical socioeconomic challenges. Limited attention was given to alarming indicators of growing crony capitalism, with massive abuses and with power and wealth concentrated in the hands of only a few. In 2007, Egypt's ranking in Transparency International's Corruption Perceptions Index declined from 70 to 105 out of 180 countries.<sup>4</sup> Until the recent revolution, the country continued to be celebrated as an emerging economic success while its corruption ranking showed no noticeable improvements. Such an inequitable economic growth model has been tolerated by foreign donors and subsequently produced strong local resistance against such funding. A recent Gallup poll found that 43 percent of respondents opposed the idea of accepting economic assistance from the United States.<sup>5</sup>

It is high time for donors to develop a more inclusive process by actively engaging Egypt's civil society, a sector that has long been neglected and restricted from domestic decision-making and oversight. CSOs play a critical role in Egypt's development. Given the opportunity and proper support mechanisms, CSOs can potentially play an even bigger role in three main ways:

- First, ensuring a more inclusive economic growth process by giving voice to traditionally underserved communities and advocating for policy changes that support their inclusion. To do this, CSOs must be empowered to organize themselves into umbrella networks and coalitions with a representative leadership to present their views;
- Second, creating innovative models that address market gaps, especially in service delivery. To do this, legal changes expanding the scope of activity for civil society activity is required;
- Third, by enforcing accountability and reducing the scope for corruption across all sectors of society.

## CHALLENGES FACED BY EGYPT'S CIVIL SOCIETY

Despite excessive regulation and government intrusion, Egypt has an active but fragmented civil society, composed of more than 30,000 officially registered nongovernmental organizations (NGO), nearly 700 philanthropic foundations and hundreds of other forms of CSOs, including professional syndicates, cooperatives, think tanks, student associations, federations, and other civic organizations that are registered as law offices or civic companies to avoid state interference. These organizations offer multiple advantages including innovative models, responsiveness, flexibility, contacts with grassroots marginalized populations and in many cases greater efficiency and lower transaction costs. Moreover, in the short-run, CSOs can play an important role in managing rising expectations among disenfranchised groups and in operating across sectarian and ideological divides. However, for CSOs to play this much needed role there are several challenges that need to be addressed.

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Egypt's civil society has been weakened and marginalized over the past several decades. According to the Civil Society Index Report on Egypt released by CIVICUS, a global alliance of CSOs, in 2006, "a long history of state centralization of power and limited political freedom has meant that CSOs have functioned in a highly inhibitive environment that is not conducive to unrestricted civil action. This is reflected in the level of autonomy enjoyed by CSOs, in the possible roles they can play and the scope of influence they can hope to have on policy and decision-makers."<sup>6</sup> Some CSOs are so beholden to the authorities that they are viewed more as quasi-government non-governmental organizations (QUANGOs). This desire for governmental control is still strong. For instance, in reaction to USAID's recent direct request for proposals to CSOs, the Egyptian minister of planning and international cooperation "protested to the U.S. Embassy in Cairo, complaining that USAID's actions violated Egypt's sovereignty."<sup>7</sup>

The restrictive legal and regulatory environment has affected CSOs working in economic development, human rights and democratization. Under these restrictions which were only worsened by the emergency law, syndicates and official trade unions were infiltrated and elections rigged while the establishment of alternative, independent trade and professional organizations was largely prohibited. CSOs had no role in reviewing government budgets nor did they have a place at the table in negotiating loans or terms of international finance institution (IFI) programs. Access to information was tightly controlled by the state, making it very difficult for CSOs to collect, assess, and report on government expenditures and activities. Official trade and labor unions were co-opted and became dormant actors.

With these legal and regulatory restrictions in place, most capacity building efforts in the past have been ineffective. For instance, USAID alone is estimated to have contributed at least \$410 million to strengthening Egypt's civil society over the past six years.<sup>8</sup> But the Office of the Inspector General in October 2009 found that the impact of USAID's democracy and governance programs in Egypt was unnoticeable in indexes describing the country's democratic environment.

One major problem has been the pervasive control by the Egyptian government over CSO registration and activities. According to the roadmap issued by the Forum for Independent Human Rights organizations a number of laws sharply constrain CSO registration and the scope of their activities and retain government control over their activities.<sup>9</sup> The key legal reforms include:

- Guarantee the right to diversity in professional and trade unions in accordance with international norms; abolish **Law 35/1976** on trade unions and its amendments, which imposes government tutelage over trade union activity, erodes labor freedoms, and establishes a unilateral, hierarchical structure that entrenches trade union uniformity; and dissolve the Egyptian Trade Union Federation.

- Abolish the **NGO law, Law 84/2002**, dissolve the General Federation of Civic Associations and regional federations. Refer to relevant articles in the civil code while observing international norms that guarantee the right to association, including prohibition of the dissolution of NGOs by administrative order.
- Abolish legislative and administrative restrictions on the circulation of information and the right of citizens to information and adopt a law that guarantees the media the right to access and publish information, and punishes the obstruction of this right. A Freedom of Information Act has languished in the Egyptian system for years. One notable complaint in the current context is that budgets are not published in a timely fashion, restricting the process of consultation and debate over economic policy.

## IMPROVING THE FINANCING MODEL FOR CSOS

One way that CSOs have been controlled is by limiting options for their financing. Bureaucratic measures limit access to domestic and international grants or credit and at the same time CSOs are curbed in their ability to embark on income-generating activities to achieve financial sustainability and independence. Without a new financing model, an independent, vibrant and sustainable civil society cannot be sustained in Egypt.

Although access to local grants is subject to government permits and consequently cumbersome for Egyptian CSOs to obtain, access to foreign grants is even more problematic. It requires prior approval from authorities and delays in receiving approval often extend over several months. State interference has grown in recent years, mostly affecting human rights organizations that rely heavily on foreign grants. As recently as 2009, as a result of pressure from the Egyptian government, USAID agreed to fund only NGOs that were officially approved and registered by the government. This intentionally eliminated several active human rights and democratization groups that were not registered as NGOs. USAID has since reversed its policy and now non-registered groups are eligible to apply for assistance. There are positive signs that more progress is underway. President Barack Obama reassured civil society during his May speech on the Middle East that “across the region, we intend to provide assistance to civil society, including those that may not be officially sanctioned, and who speak uncomfortable truths.”<sup>10</sup>

After the revolution, USAID is reported to have received a waiver from the Egyptian military council to make direct grants to NGOs without requiring prior approval. However, all officially registered Egyptian NGOs are still required to receive written approval for funding, which is resulting in continued delays.

CSOs in other countries can seek other means of finance to expand activities or achieve financial sustainability, but in Egypt they face challenges in exploiting these options. This is due to a regulatory framework that has blocked traditional and sustainable means of giving. Most importantly, the government of Egypt has nationalized *waqf* activities and all but banned innovative social investment frameworks. A *waqf* is an Islamic endowment, which

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for centuries financed social service provision across the Ottoman Empire. As early as the 9th century, *waqf* in Egypt was an important source of funding for mosques, schools, hospitals, public transportation and health care. Excessive government intrusion began under Nasser who placed all *waqf* under the Ministry of Endowments and diminished private control over this critical philanthropic resource. Due to its nationalization, new *waqf* have ceased to be established, greatly limiting the potential for this financing mechanism, which has experienced a revival in other Muslim majority contexts. As estimated by Egypt's Center for Development Services, Egyptians give at least \$1 billion annually.<sup>11</sup> This could be a strong force if directed toward development and human rights work, but the vast majority of the funds are used for charity and relief activities, such as food and shelter.

New regulations promoting traditional NGO functions as social investors and social enterprises are also needed. For example, the new draft microfinance law threatens to ban microfinance NGOs as possible recipients of loans. The legal framework for social investment funds could be improved to allow for tax-exempt contributions and the realization of equity or debt investments, as is the case in many other countries.<sup>12</sup> If such regulations are introduced, they could encourage the development of a philanthro-capitalist market that could possibly provide an additional channel for large and small investors to earn a financial return on savings while promoting the flow of capital to CSOs. Social investment models may very well extend services to disadvantaged groups and communities and create a more equitable and just society. Globally, such social impact investing has exploded. The Monitor Institute estimates that in five to ten years funds operating with social impact concerns could approximate \$500 billion worldwide.<sup>13</sup> Where social impact investments are large, they have contributed to CSO accountability, efficiency and effectiveness. However, in Egypt, there are serious legal ambiguities and restrictions on the ability of CSOs to access alternative means of finance, such as loans or equity investments.

The lack of such alternative means of financing has negatively affected the sustainability, strategic planning and expansion of CSOs. It has also created an unhealthy skewed dependence on and accountability toward donors as opposed to the beneficiary constituency that CSOs exist to serve and represent.

## NEW FORMS OF DONOR SUPPORT FOR CSOS

A survey of 50 leading Egyptian CSOs conducted post-revolution suggests how donors can help invigorate a sustainable Egyptian civil society:

First, donors can promote a culture of collaboration among CSOs. One of the main challenges for CSOs in engaging in policy dialogue is the fragmentation of the sector. National coordinating bodies, such as governorate-level or national federations, have been infiltrated and co-opted under the old regime. Some donor strategies have also worsened the situation by promoting competition and lack of transparency among CSOs. For instance, competitive funding mechanisms reinforce a zero-sum game culture among CSOs by forcing them to compete with each other. Egyptian CSOs need technical training on consensus and coalition building to better coordinate efforts, share resources, lobby and define a vision for their sub-sectors. During and since the revolution, several noteworthy CSO coalitions have emerged in an effort to collectively and more effectively tackle the significant challenges facing the country. Providing technical assistance to these groups and other emerging groups, such as the informal popular committees, who might be skeptical of receiving direct funds but would accept training from foreign groups would

be important. In addition, promoting collaboration could be partly achieved through donors utilizing funding mechanisms that encourage, emphasize and incentivize collaborative programs and joint proposals between local CSOs.

Donors can also foster CSO collaboration by including them in a policy dialogue in a more formal and structured way. To date, there have been sporadic efforts at consultation with individual CSOs or individuals, but concrete institutional mechanisms are needed for this process to be effective. Some of these concrete engagement mechanisms could be further defined through consultations with government and CSOs through Donor Assistance Group's (DAG) discussions or other channels.

Second, more donor funding should be made available for institution-building and core funding for local CSOs to help them grow and sustain themselves. Current donor support is largely restricted to use in short-term project and program implementation. Such support should also take into consideration public image challenges facing Egyptian civil society and should encourage stronger public outreach and communication efforts.

Third, several CSOs highlighted the fact that most donors focus on innovative ideas while not investing enough in helping existing successful models scale-up. In Egypt, there have been many successful social enterprises and NGOs, but they remain of limited reach and impact as they lack sufficient technical and financial support to allow for policy action or adoption on a national level. Scaling-up entails providing support for proper impact assessment, capacity building and refining existing models, and funding for expansion on a national level.

Fourth, donors could support reform efforts for an improved CSO legal framework and governance. This includes new liberalized laws governing the regulation, establishment and registration of NGOs, unions and syndicates, media, political parties, and other forms of civic and political institutions, as well as access to information. The efforts being undertaken by several leading Egyptian law firms and existing coalitions need to be reinforced. In addition to those legal reforms, laws should also ensure more accountability of CSOs to their main constituents, not just to donors. There is also a strong need to reform and restructure current official bodies governing civil society, such as the Ministry of Solidarity and Social Justice, the Ministry of Endowments, the General Federation of NGOs, specialized federations and others. The reforms should start with free and fair elections for leadership positions in these institutions.

Fifth, donors could support reforms to permit innovative and alternative means of local and external financing for CSO efforts, based on international best practices. There is a need to support advocacy efforts to promote local philanthropy in financing more sustainable development efforts. Other nontraditional areas like advocacy, human rights and democratization should also be allowed better access to local and foreign funds. Additionally, there is the need to revive indigenous and independent sources of development financing, such as *waqf* financing, to promote the financial independence of CSOs.

Sixth, donors could encourage CSO engagement and oversight over their assistance to state ministries and other bodies. Independent CSOs could be brought to the table to develop programs and priorities that more effectively meet the needs of the people and could be engaged in the implementation of these programs. Through public-private modalities, donors can also engage with both government entities and CSOs in program implementation. Alternatively, where ministries take on the role of public service delivery programs, CSOs could play a monitoring role to ensure implementation in a transparent and accountable manner.

## RELATED CONFERENCES:

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[http://www.brookings.edu/events/2011/0324\\_egypt\\_civil\\_society.aspx](http://www.brookings.edu/events/2011/0324_egypt_civil_society.aspx)

### Brookings roundtable: “A Multi-Stakeholder Approach to Egypt’s Development: The Role of Civil Society and the Way Forward”, March 24, 2011:

[http://www.brookings.edu/events/2011/0324\\_egypt\\_development.aspx](http://www.brookings.edu/events/2011/0324_egypt_development.aspx)

## ENDNOTES

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