Global Economy and Development at BROOKINGS

Policy Paper 2012-05

GLOBAL VIEWS

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Regulatory Reforms Necessary for an Inclusive Growth Model in Egypt

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NOVEMBER 2012

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Acknowledgments

The authors would like to thank the following people for their invaluable assistance in reviewing and commenting on this brief:

Ahmed Zahran, KarmSolar; Amira Maaty, National Endowment for Democracy (NED); Arnout Wagenaar, Richard Chandler Corporation; Ayman Shehata, PriceWaterHouseCoopers Egypt; Dalia Abdullah, Danish Embassy in Cairo; Dina Sherif, Gerhart Center for Philanthropy and Civic Engagement, American University in Cairo; Floris Wessling, Danone Egypt; Hisham El Rouby, Youth Association for Population & Development and Synergos Institute Egypt; Kareem Elbayar, The International Center for Not-for-Profit Law (ICNL); Lina Khatib, Program on Arab Reform and Democracy, Stanford University; Loay El Shawarby, Nahdet El Mahrousa NGO; Mayada El-Zoghbi, Consultative Group to Assist the Poor (CGAP); Mohamed Nada, Habitat Egypt; Mona Atia, George Washington University; Nahla Zeitoun, UNDP Egypt; Pascale Nader, Endeava Egypt Inclusive Business; Raghda Ebrashi, Alashanek Ya Balady NGO; Ranya Abdel-Baki, The Microfinance Network of Arab Countries (Sanabel); Ross Baird, Village Capital Impact Investment Fund; Samir Sedky, CARE Egypt; Wael Rafea, Pro-poor Horticulture Value Chains in Upper Egypt (Salasel); and Yasmina Zaidman, Acumen Fund.

Abstract

Egypt needs a new, inclusive and equitable economic growth model. To develop one, it needs an enabling legal framework to encourage forms of inclusive businesses (such as cooperatives) and intermediary support organizations (ISOs) that could help micro and small enterprises. Inclusive business (IB) is a growing global trend which appears to have a demonstrable economic and social impact, yet Egypt is poorly placed to take advantage of these changes. There is a historical momentum around creating models for inclusive and sustainable development in Egypt, but not enough support to capture it. This policy paper argues that legal and regulatory reforms that encourage ISOs and allow new firms of inclusive business to register and operate are a necessary first step towards a new inclusive growth model. While many actors, including civil society, business, education and the media, have an important role to play in creating awareness about the nascent IB sector, there are two key types of policy reforms and policy application in which the government of Egypt needs to play a leadership role: reforms to introduce IB options and reforms to allow for stronger ISOs.

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Introduction

Egypt needs a new inclusive and equitable economic growth model. Unemployment has spiked since the 2011 revolution, clearing over 12 percent, a figure which is not expected to decrease for several years at least and the situation is even more dire for the country's youth.[2] While the likely IMF program will offer the macroeconomy a measure of relief, it cannot reverse decades of mismanagement. Egypt's private sector may therefore not experience a recovery in the near future. The government's situation looks similarly stressed as its gross debt is projected to rise from 73 percent of GDP in 2010 to 79 percent this year.[3] Combined with the confusion surrounding the government's structure and organization, it is unlikely that the public sector can fill the jobs gap or provide the needed high quality and affordable goods and services. However, the legal limbo surrounding inclusive business models (IBs) as well as intermediary support organizations (ISOs), which are supposed to provide the needed support to IBs, has unnecessarily shrunk this sector of the economy and disabled it from playing its necessary role.

In his inaugural speech, Egyptian President Mohamed Morsi portrayed himself as a president for all Egyptians, including the menial and underprivileged rickshaw drivers. The Muslim Brotherhood's Al-Nahda Program emphasizes social justice and a consensus vision across all groups in society. The new leadership is committed to social innovation with "a national strategy to develop mechanisms to support innovation dealing with community issues."

Although the constitution has not yet been drafted and there is currently no parliament, this moment in time contains a golden opportunity for the government of Egypt to capture the energy, civic engagement and entrepreneurial spirit in the country.

Under Mubarak, Egypt's economic growth and business policy reforms helped foster the private sector, but 85 percent of the population continued to live under $5/day and this ratio did not change during the decade of growth prior to 2008.[4] Safeguards against abuse and incentives for inclusiveness were missing, and the economy became dominated by crony capitalism with wealth concentrated in the hands of a few. People's perception of inequity and dissatisfaction with public services increased. The governance indicators of "Voice & Accountability" and "Control of Corruption" deteriorated from 2000 to 2010, even though there was a steady improvement in "Regulatory Quality."[5]

Egypt needs an enabling legal framework to promote a more equitable growth model. Such a framework should encourage forms of inclusive businesses (such as cooperatives) and ISOs that could help micro and small enterprises. These firms (with less than 50 employees) represent nearly 99 percent of all non-public sector, non-agricultural firms and provide about 80 percent of employment in Egypt. But their expansion has been restricted because of the weakness of the ecosystem of incubators, angel investor networks, microfinance institutions (MFIs) and impact investors necessary to allow young entrepreneurs to start up and grow. This policy

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paper argues that legal and regulatory reforms that encourage ISOs and allow new forms of inclusive business to register and operate are a necessary first step towards a new inclusive growth model.

Context

"Inclusive business" (IB) is a growing global trend which appears to have a demonstrable economic and social impact. IB is defined here as an entity with a sustainable business model, oriented towards providing affordable and quality goods and services to base of the pyramid (BOP) populations. According to the United Nations Development Program (UNDP), an IB would "include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points in the value chain." The International Finance Corporation (IFC) has documented the strong impact in some countries of IB models in health, education, clean energy and nutrition, among others.[6] For example, it discusses Anglo Zimele, an enterprise that provides loans to small businesses in the mining sector, supporting 700 entrepreneurs and close to 14,000 jobs in South Africa. Similarly, other IB models, such as Ecom Agroindustrial Corporation, have been improving farmers' livelihoods and market access. Ecom has supported the upgrade to premium-grade coffee for 12,000 small-scale farmers in Central America and now offers the same model in Vietnam.

Inclusive businesses are raising capital from a new—but rapidly expanding—global "impact investment" sector. Impact investment can be defined as investment that is willing to accept a lower-than-market financial return in exchange for demonstrated social benefits. The Monitor Institute estimates that in five to ten years, impact investment funds could approximate $500 billion worldwide, providing between $400 and $987 billion in just five sub-categories: affordable urban housing, clean water for rural communities, maternal health, primary education and microfinance.[7,8] According to a survey by JP Morgan and the Global Impact Investment Network (GIIN), some of the world's leading impact investors plan to invest almost $4 billion annually. The Middle East and North Africa region's share, however, is expected to be only 2 percent, the lowest of all regions, because of a lack of suitable investment opportunities.[9]

Egypt is poorly placed to take advantage of these global trends. The weakness of its IB sector was verified through a recent Brookings Institution and Gates Foundation survey, concluded in May 2012.[10] That survey closely analyzed 69 Egyptian social enterprises[11] in areas such as microfinance, fair trade, youth employment and clean energy and concluded that only nine were potentially scalable through additional equity or debt-financed investments. Most social enterprises (including MFIs) were registered as NGOs, which, in theory, can receive debt and equity investment. In reality, in very few cases do NGOs receive debt or equity. Such NGOs remain the rare exceptions, as the current law gives government authorities full power to dissolve NGOs at any time and liquidate their assets in favor of the public sector. With no safeguards, most investors are wary of investing in NGOs in Egypt. In addition, most social entrepreneurs are reluctant to share their decision-making powers with other equity investors.

With little possibility of attracting outside investment, few Egyptian social enterprises have an incentive to build sound financial management capabilities or explore their potential for scale-up, though some are relatively successful on a small scale. All the surveyed enterprises indicated that they face serious problems in operating within current bureaucratic and legal systems. All were reluctant to share financial information, even if they had financial records and systems in place. In other countries, qualified ISOs provide social enterprises with specialized services on financial capacity building, legal support, mentoring, incubation and other areas. Despite a growing demand for such support in Egypt, supply remains limited due to such a restrictive legal environment.

A few Egyptian IBs do exist, suggesting both a desire to expand in this direction and extant examples of success. One celebrated model is the Sekem group. This company invests heavily in the development of all its employees: Its mission clearly states that it supports "individual development through holistic education and medical care" and aims to "create workplaces reflecting human dignity."[12] Some Egyptian fair trade models also target the poor as producers to help generate income for artisans or farmers.

Egyptian conglomerates are also targeting the poor as consumers. The Orascom Hotels & Development (OHD) group has funded the Orascom Housing Communities (OHC), an affordable housing project for low-income clients. The Mansour group's Kheir Zaman retail outlets explicitly target the poor. However, policy obstacles limit these efforts. The World Bank-funded Affordable Mortgage Finance Project aims to "reform the current system of inefficient and poorly targeted supply-side subsidies for housing for the broad middle and lower-middle income sector and replace them with a transparent and economically efficient demand side subsidy system."[13]

Egypt's Legal Framework for Inclusive Business

Inclusive businesses take many legal forms: cooperatives, MFIs, companies, NGOs and hybrid organizations. This section describes how Egyptian law constrains each type of IB, thus restricting the development of the IB sector.

Cooperatives

In several countries, a cooperatives model has played an important role in promoting economic development, poverty reduction and empowerment of producers and consumers. Cooperatives can be powerful organizations, empowering the poor to be able to participate in decision-making processes, increase their negotiating powers and take advantage of economies of scale. Cooperatives are common in Egypt, with some estimates putting the number of cooperative members at 12 million people (equivalent to roughly 15 percent of Egypt's total population). However, the cooperative sector is ineffective and dormant. Years of centralized planning and state infiltration dating back to Nasser as well as total neglect or control under later regimes have taken a toll. Many cooperative leaders believe that their movement was weakened under President Sadat and faced further marginalization under Mubarak. According to the Egyptian Regulatory Reform & Development Activity (ERRADA), years of state intervention, meddling in leadership elections and perceived corruption have undermined cooperatives.[14]

A further problem is that Egyptian cooperatives must be organized by sector (housing, agriculture, etc.) and are supervised by the corresponding ministry or department. Hence, there is no unified government approach

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toward cooperatives and each ministry's officials exercise considerable discretion in the regulatory treatment of their sector.

Understandably, very few social entrepreneurs in Egypt opt for a cooperative model. For example, out of the more than 50 Egyptian social entrepreneurs supported by Ashoka, only one is registered as a cooperative. Similarly, the Brookings survey of 69 social enterprises found only one viable IB registered as a cooperative.

One alternative for cooperatives is to register as a regular company. The Pro-poor Horticulture Value Chains in Upper Egypt Program, Salasel, a U.N. joint program funded by the Millennium Development Goals Fund, has opted to support small farmers to establish shareholder companies such as Goodies in Qena Governorate or Salasel for Agriculture Investment in Sohag Governorate as alternatives to cooperatives.[15] Salasel's leadership avoided the cooperative model because "[a cooperative] is considered a governmental body and the law of cooperatives needs to be changed completely."[16] Other fair trade associations have also opted to become for-profit companies in order to allow them to respond to market demand and be able to export and receive foreign currency in a timely manner. However, a strong downside to that option is that they must pay corporate taxes, reducing the income distributed to poor artisanal producers. The corporate model, therefore, makes it harder for a social enterprise to fulfill its primary purpose, which is to maximize profit distributions to BOP producers.[17]

Other IBs in Egypt have opted to be registered as an NGO. That is the case for the Danone and CARE International which partnered with the Agricultural Cooperative Association (ACA) to improve small dairy producers' access to organized markets. The partnership generates income for small producers while also helping Danone access fresh milk for its yogurt production. The key challenge in this case, however, is how to build a strategic partnership in a win-win approach between the two parties with well-defined roles, incentives and responsibilities. Heinz and ACDI-VOCA have a similar NGO partnership for tomato production.

Organization as an NGO has proved to be a temporary solution, but has its own problems (see below). The most prominent Egyptian and multi-national agribusiness and agro-food companies have strongly argued for a new cooperative model that will ensure sustainability in linking the poor within a commercial production supply chain. From a business perspective, a cooperative helps firms access inputs in a timely, consistent and quality-assured manner, and permits support to be offered throughout the value chain with commercial practices that an NGO model does not support.[18]

Microfinance Institutions (MFIs)

The microfinance sector, providing financial services to the poor, is recognized by many as the most evolved IB sector in Egypt, but even it has considerable untapped potential. Microfinance has been growing rapidly in Egypt, with an annual growth rate of 28 percent in the number of borrowers and 29 percent in loan portfolio size.[19] Yet, according to the Global Financial Inclusion Database (Global Findex), Egypt has among the worst levels of financial inclusion of the poor, ranking behind many other lower-middle income and MENA region countries.[20] The MIX-Sanabel study similarly finds the Arab region performing poorly in terms of total financial outreach and scale. Most MFIs in Egypt are therefore registered as NGOs, despite the difficulties this causes in accessing finance and achieving sustainability. Additionally, the current NGO law restricts MFIs from mobilizing savings and offering other banking products, such as the direct provision of insurance and remittance services, key elements for the financial sustainability and growth of a normal MFI. One obstacle to the development of this sector is the lack of laws and regulations governing Egyptian microfinance. A draft law has been under discussion since 2010 but was put on hold when the revolution took place in 2011. The draft non-bank financial institutions (NBFI) law is expected to allow private companies to operate in the microfinance space. One of the key concerns highlighted by experts with the draft NBFI law is that it does not address the lack of provisions that allow for deposit mobilization for MFI borrowers and clients, which is a core weakness in current regulations.[21]

Intermediary Support Organizations (ISOs)

For IBs to thrive in an evolved ecosystem, they need access to ISOs that would provide them with a range of support such as incubation, access to financing, technical and legal assistance and more. In Egypt, the restrictive legal and regulatory framework governing ISO work contributes to their weak state, rendering them unable to fulfill their role in supporting emerging IBs.

First, the restrictive legal framework is negatively affecting impact investment. Funds that want to invest in Egypt, such as the U.S.-based Acumen fund, Dubai-based Willow Impact Investors, Singapore-based Richard Chandler Corporation and U.S.-based Village Capital are affected in multiple ways: The legal framework does not allow them to benefit from tax-exempt donations, make equity and debt investments or even officially exist. Indirectly, the framework inhibits their ability to find a viable pipeline of enterprises in which to invest.

Second, due to the restrictive regulatory environment, Egypt is lagging behind the innovative inclusive finance models advancing in other parts of the region. Among other positive steps, Egypt's neighbors have cooperated in developing new platforms for such financing. The Swiss social investment fund ResponsAbility has been assisting viable MFIs by providing local currency loans worth a total of $1.5 million to Jordan's Middle East Micro

In Egypt, the restrictive legal and regulatory framework governing ISO work contributes to their weak state, rendering them unable to fulfill their role in supporting emerging IBs.

Credit Company. Other innovative financial inclusion models include the recently launched KIVA Arab Youth, which is a partnership between the Doha-based Silatech and global KIVA, an organization that leverages its web-based platform and network of MFIs to allow individuals to give loans as small as $25 to micro-entrepreneurs in Palestine, Jordan, Lebanon, Iraq and Yemen.[22] Due to bureaucracy and regulatory restrictions on real-time monetary transfers to NGOs, Egypt benefits neither from this globalized individual donors' platform nor these emerging regional and global IB models.

Third, the restrictive frameworks are affecting other ISOs, including incubators and other networks, which are mostly governed by the NGO law. For instance, the country has only a handful of incubators, and within those, only one, Nahdet El Mahrousa (Renaissance of Egypt), focuses on incubating social enterprises and nonprofit development projects. The remaining few focus on high growth enterprises in the information and communications technology (ICT) sector. None focus on supporting the manufacturing sector or other enterprises that have better prospects for adding value to the economy and ensuring inclusive growth to the poor.

A revised NGO law is important to help ISOs thrive: According to a recent mapping of the IB sector in Brazil, out of 40 capacity development providers (incubators and accelerators) at least 80 percent are registered either as civil associations or foundations.[23] In this way, a vibrant civil society fueled by a flexible NGO law could itself be a direct source of job creation as new positions are created in this historically small sector.

Non-governmental Organizations (NGOs)

As mentioned above under MFIs and ISOs, the current restrictive legal and regulatory environment is already inhibiting the ability of organizations such as NGOs to perform their much-needed roles. A comprehensive NGO law can empower a vibrant civil society to contribute to a healthier, more equitable economy in several key ways. First, NGOs would be able to build innovative models addressing gaps in services. They also can play an important role as ISOs by contributing to improved access to finance and technical support necessary for IBs. In this case, the law must introduce provisions allowing and incentivizing NGOs to be flexible and responsive to community needs and to become financially sustainable instead of being donor-dependent and donor-driven. Second, NGOs can play an important advocacy role as watchdogs and whistleblowers, ensuring that businesses remain fair. Third, they can act as think tanks promoting social accountability as well as the analysis and dissemination of best practices for businesses and economic development at large. Last but not least, the NGOs themselves can play an important role in creating jobs within them. Indeed, only about 3 percent of the economically active population in Egypt works in civil society as compared with 9 percent in the Netherlands.[24]

The NGO law in Egypt is highly restrictive and limits the ability of many NGOs to sustain, grow and improve their impact. For instance, NGOs must seek official approval of any funding, and this process typically takes several months. Reportedly, delays have only gotten worse following the January 2011 revolution. One prominent NGO, Alashanek Ya Balady (AYB, and, in English, For You My Country), with a proven track record in creating jobs for marginalized youth, led by Raghda El Ebrashi, one of the most celebrated social entrepreneurs recognized by Ashoka, Synergos, Schwab and the World Economic Forum, is facing serious financial difficulties due to long delays of funding approval from authorities. In addition, AYB efforts to achieve financial independence have been hampered because the NGO law does not permit an NGO to establish and hold shares in either for-profit or not-for-profit companies. AYB has therefore been forced to keep its social ventures as small pilots that remain financially dependent on the organization rather than become the income generators they were intended to be.[25]

NGOs are consistently trying to pursue revenue-generating activities that can help them achieve financial independence while navigating the legal obstacles prohibiting them from making profits. For example, the Youth Association for Population & Development (YAPD) established a small bookstore a few years ago to sell stationery, allowing it to generate some income and eventually reduce its external financial dependence. Although it was compliant with the NGO law, it faced so many bureaucratic hurdles and a general lack of trust from government regulators that it eventually had to close the project down.[26]

Examples of Policies in Other Countries

In countries with conducive policies and regulations, IBs and ISOs have thrived. To encourage IB models, governments across the world have been adopting different strategies and policies. Among these policies is the introduction of a hybrid legal form between a nonprofit and a for-profit, a step that recognizes the social return of such enterprises without barring them from being profitable. The following organizational structures serve as good hybrid models: the Limited Liability Low Profitability (L3C) in the U.S., Community Interest Corporations (CIC) in the U.K. , Gemeinnützigkeit (Acting for the Common Benefit) in Germany and the Community Interest Organization (CIO) in Poland. In Egypt, no such hybrid model exists. The closest is the not-for-profit company model which remains in a gray legal area because there is not exactly a law that allows for them. The ambiguity exists because these laws can only be found in the civil code, but many prominent organizations—like the Cairo Institute for Human Rights Studies—nonetheless operate as not-for-profit companies. The Egyptian government has tried several times to close the loophole that allows for nonprofit companies since the authorities would prefer that all these groups register as NGOs and remain under their close supervision and control. It would be advisable for the authorities to work on legalizing these institutions as hybrid models rather than prohibiting them.

To promote inclusive financing and impact investment, countries like India have begun to require commercial banks and other financial institutions to report on the level of social investment they undertake. India's Reserve Bank requires at least 40 percent of domestic banks' lending to be directed to priority sectors such as agriculture, microfinance, health and education. Although there has been criticism and much needed analysis of this model, it is worth considering how it might be relevant in Egypt.[27] Other countries have introduced sector-specific policies that are conducive to IBs. For instance, according to the IFC, Ecuador's Tourism, Micro-Enterprises, Micro-Credit and Poverty Reduction Program developed a microfinance model that used a savings and credit cooperative to stimulate the tourism sector by channeling funds to small enterprises managed by and employing the poor. Other successful models include platforms like the Nexus for Impact Investing (NEXII) in South Africa and the Impact Investment Exchange Asia.

With a newfound sense of empowerment after the January 2011 revolution, there is an increased interest, especially among young Egyptians, in entrepreneurship coupled with increased civic engagement.

Why the Time is Right for IB in Egypt

There is a historical momentum around creating models for inclusive and sustainable development in Egypt but not enough support to capture it. With a newfound sense of empowerment after the January 2011 revolution, there is an increased interest, especially among young Egyptians, in entrepreneurship coupled with increased civic engagement.

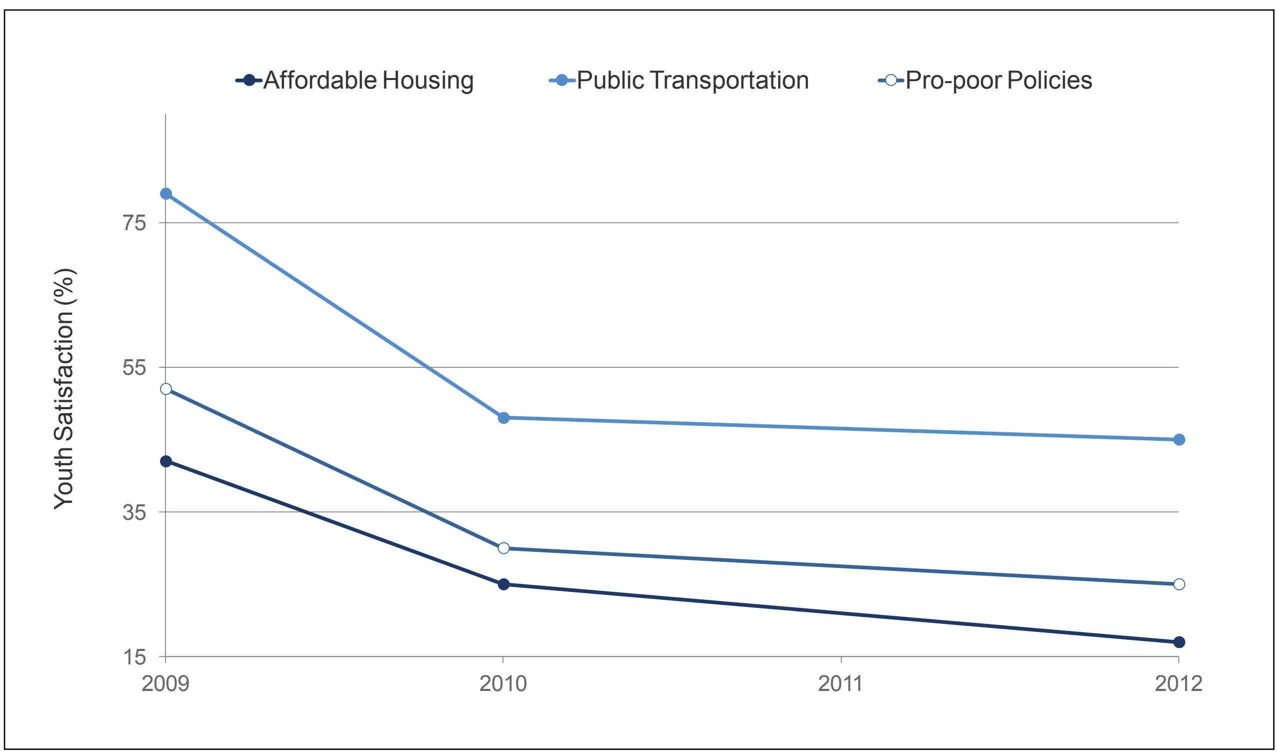
First, there are a growing number of nascent but promising social enterprise/IB models. The trajectory of business plan competitions in Egypt over the past few years confirms the increasing supply and strong demand for such organizations. Although none of these competitions, except possibly the Yahoo! Maktoob-Nahdet El Mahrousa national competition in 2010, explicitly required a social impact as one of their main selection criteria; yet several of these competitions' finalists and in some cases their winners were businesses with a strong social mission. For instance, among Injaz Egypt's Young Entrepreneurs Competition 2011's approximately 20 finalists, several had an apparent social dimension. Examples included projects to design scientific toys for Egyptian students' intellectual development; to recycle computer hardware and support eco-friendly, low-cost products to decrease waste and protect the environment; and to reinforce Egyptian culture and identity.[28] The same applies to the Google's Ebda2 (Start with Google) competition including the winner, "Bey2ollak," a software application that aims "to share real-time information about Cairo and Alexandria traffic."[29] Another nascent model is KarmSolar, which through a profitable business model, aims to "modernize the agriculture sector and support sustainable food production by providing farms with an affordable and efficient solar energy solution."[30] This model was a winner of the Wharton Business School business plan competition as well as a finalist of the Ebda2 competition, among others. Additional groups include Schaduf urban roof farms which "develops innovative urban farming systems," and strives to "create financially sustainable businesses for … customers, while tackling Egypt and other arid regions' agricultural land and water scarcity problems."[31] According to its Web site, Schaduf "sells soil-less agriculture systems to low income individuals, and provides them with the supporting infrastructure to operate a profitable business." If supported, these initiatives could all be viable IBs and have transformational powers in their respective fields.

One positive phenomenon already occurring in Egypt is that some of the initiatives already being supported by ISOs and business incubators could qualify as IBs as well. For example, among the Flat6 incubator's businesses, at least one seems to carry a direct social and inclusive nature as it aims to "add value to handicraft production and marketing in Egypt by being the first online fair-trade store for local handicrafts in the country …. [and] to educate people and raise awareness about the artisanal communities in Egypt."[32]

Second, coupled with growing belief in entrepreneurship, there is a growing dissatisfaction among youth with the status quo provision of goods and services. According to a recent study published by Stanford University, "changing attitudes and practices suggest the emergence of a new generation of social entrepreneurs across the Arab region."[33] Additionally, the 2011 Gallup-Silatech Index shows that only 25 percent of young Egyptians are satisfied with the availability of good, affordable housing, down from 42 percent in 2009. Only 48 percent are satisfied with public transportation, versus 79 percent in 2009. While there was an increase in both favorable views and the practice of entrepreneurship, the percentage of those that were satisfied with "efforts to deal with the poor" decreased sharply from 52 percent to 30 percent.[34]

Third, the trend to support IBs is also recognized and supported by donors, large international organizations and multinational corporations (MNCs) operating in Egypt. In June 2011, the U.N. Global Compact called upon "companies, investors and policymakers to take up the opportunity of responsible business and investment in Egypt."[35] Donors' efforts include the BOP Learning Labs supported by the Danish Industries, which among several activities supports exchanges to inspire knowledge and experience sharing between Egypt and the highly developed Danish BOP sector. Through its global program "Innovations Against Poverty," the Swedish International Development Agency's (SIDA) program, in collaboration with partners such as PricewaterhouseCoopers aims to support IBs in Egypt.[36] The program will provide financial assistance, guarantees and advisory services with the aim to serve as a catalyst for innovation of new products, services and market systems that benefit people living in poverty.[37]

Dissatisfaction of Egyptian Youth with Lack of Inclusive Growth (Gallup-Silatech Index)



Over the past two years, a growing amount of resources have been allocated to support policy reform for IB in Egypt. Organizations such as the IFC are leading a pioneering effort to analyze the legal and regulatory framework governing social enterprise and IB in Egypt. The International Labor Organization (ILO) office in Cairo also has a growing interest in the social enterprise space that is starting to translate into partnerships and several planned programs. Although the economies of scale and improved organization precipitated by new laws and regulations may turn cooperatives and other IB models into strong competitors for large producers, the private sector and MNCs nonetheless seem to view it as a win-win situation. They clearly expressed that, from a business perspective, this new arrangement is a more efficient structure with which to deal, as well as one that helps reduce costs and increase efficiency in their supply chain.[38] Hence, from the demand side, several leading MNCs operating in Egypt's agribusiness sector showed interest in working with more organized farmer groups, whether in the form of cooperatives or otherwise.

Fourth, there is a growing popular awareness and activism promoting inclusive growth models. Positive developments that capture this increasing awareness are the launches of some grassroots efforts led by prominent civil society actors such as the Ta'woon (Arabic for cooperation) movement which has begun an awareness campaign encouraging citizens across Egypt to establish consumer cooperatives that would help ensure better access to affordable quality products to BOP and middle class consumers.[39] This is an important activity since there is a widespread lack of knowledge among citizens, producers and farmers about the purpose and potential of cooperatives and how they are managed.

Finally, there is also a strong demand among the poor and marginalized for affordable and high quality goods and services. A study on BOP opportunities of investment in Egypt commissioned by the Danish Embassy in Cairo concluded that there is a potential and need for specific high quality products for the BOP in the food, health, water and waste management sectors. The study argues that poor people "often pay just as much for low quality products and services as rich people in urban areas."[40] The study further highlights specific and immediate BOP business opportunities, such as setting up food processing units, distributing household water purification systems, establishing garbage compost plants and establishing centralized modern facilities for cloth weaving and manufacturing by women.

What Good Policy Could Do to Promote Inclusive Models in Egypt

There are already good policy foundations on which to build in Egypt. Although there are still many business environment reforms yet to undertake, improvements in this area have given Egypt a relatively good basis on which to promote IBs. According to the IFC's *Doing Business Report*, Egypt, along with Colombia, was the only country to be among the top global business reformers in four out of the seven years between 2002 and 2009.[41] It also demonstrated a commitment to promoting social and environmental responsibility among businesses. The launch of the national center for corporate responsibility in 2009 and the introduction of the Environment, Social and Governance (ESG) Index to incentivize sustainable business practices were also positive steps. However, while those business reforms were occurring, laws governing other sectors, such as the NGO law, were either kept the same or made even more restrictive. There is more to be done if businesses are to have the right incentives to not only respect the law and pay taxes, but to support efficient, sustainable and profitable models that create decent jobs and provide basic public goods and services that are missing for the poor.

The role of good policy in promoting IB has already been proven in the case of Egypt. A recent case study (UNDP 2011), which was part of the UNDP growing inclusive markets (GIM) database, reveals how the OHD's OHC housing project mentioned earlier was partly launched "to take advantage of the Egyptian Government's attempt to relieve the severe low-income housing shortage." In 2005, the Egyptian government had launched a low-income housing scheme allowing developers access to cheap land and providing buyers with subsidies.[42] In response, OHC has been able to successfully construct 12,000 units, though there is a need for at least 1.2 million with an annual increase of at least 150,000 units. Clearly, more needs to be done. Incentives like these encourage large businesses and others to invest in win-win opportunities, which are both profitable for them and help provide affordable, good quality products to the BOP. Interestingly, case studies commissioned by the UNDP GIM database of such models like OHD's in Egypt nearly all cite the "regulatory environment" as a main constraint to growth.

While many actors, including civil society, business, education and the media, have an important role to play in creating awareness about the nascent IB sector, there are two types of policy reforms in which the Egyptian government needs to play a leadership role: reforms to introduce IB options and reforms to allow for stronger ISOs.

Policy Reforms to Introduce IB Options

A. Introduce new hybrid legal models

There are many possible models upon which Egypt could base its own system. Successful examples include the frameworks in the U.S., U.K., Poland and Germany as well as those in emerging countries such as India, Turkey and Brazil. In regards to social enterprises receiving funds, the taxes for entrepreneurs willing to make positive social impact should be revised. There are various ways to accomplish this type of reform, whether by a blanket waiver from taxes for qualifying entities, reduced rates, exemption from taxes in relation to the qualifying activities, tax holidays, or exempting the beneficiaries/clients of such entities from certain taxes. In addition, as mentioned, there needs to be efforts to legalize the currently gray area that is the not-for-profit company option in Egypt.

There is more to be done if businesses are to have the right incentives to not only respect the law and pay taxes, but to support efficient, sustainable and profitable models that create decent jobs and provide basic public goods and services that are missing for the poor.

B. Strengthen existing models (such as cooperatives)

To ensure a flexible, empowered and responsive cooperatives sector, laws need to be revised with a commensurate philosophy. The key demands of the cooperatives sector, summarized since 2008 after celebrating 100 years of existence in Egypt, included demands to: 1) Place cooperatives under a single, unified law while leaving enough space for each sector to develop its own internal regulations. The government's role ideally would be to provide the legal framework and, in some sectors such as agriculture, provide the information–sharing infrastructure; 2) allow freedom of registration; 3) prohibit government appointments of outside Board members except with prior consent and 4) increase access of cooperatives to soft loans and/or grants made available from international donor grants and funding. The majority of such funds is currently going to the government (Ministry of International Cooperation) while a smaller portion is allocated to NGOs but not cooperatives. In other countries, cooperatives are eligible for a whole range of such financing including through banks, government agencies, foundations and private grants, among others. Building on the fourth point, the revised law should allow for access to new forms of impact investment with lower interest rates and patient capital.

Policy Reforms to Allow for Stronger ISOs

A. Amend the Capital Markets Law to promote impact investments

No current Egyptian law or provision allows for the formation of impact investment funds. Hence, none of the funds mentioned throughout this note that have operated in Egypt, or were planning to, have any legal presence in the country. According to the Brookings-Gates survey analysis, there are two main amendments needed: allowing such funds access to finance and tax benefits. In terms of access to finance, the law should expressly legalize donations to be given to an impact investment fund, allowing them to raise money flexibly. In terms of taxation, according to the Brookings-Gates survey and legal analysis, impact investment funds investing in social enterprises or IBs should be exempt from taxes or at least be eligible for reduced tax rates. Alternatively, and more preferably, tax benefits should be given to investors for their equity contributions. Benefits might include tax reliefs, tax credits or exemptions from capital gains. Following similar initiatives in the U.K., Australia, Sweden and Germany, commercial banks and other financial institutions could also be obliged by law to report on whether they take account of social, environmental or ethical factors in their investment decisions. Such changes will help avail sources of low interest rates and the patient capital for which Egyptian cooperatives and other inclusive BOP models have been in dire need.

B. Amend NGO law

As mentioned above, the current Law 84-2002 is restrictive and stifling for NGOs on many fronts, especially in terms of reaching financial sustainability and scale. After the January 2011 revolution, a number of competing draft NGO laws have been introduced by various official and independent entities, including the Human Rights Committee and Religious and Social Affairs Committee of the recently dissolved People's Assembly (the lower parliamentary house), the Ministry of Insurance and Social Affairs, and coalitions of civil society organizations.

In addition to the urgent need to pass the laws and amendments proposed, it is as important that those laws be implemented and applied in a new spirit of respect and partnership worthy of this new phase in Egypt's history.

With the Parliament dissolved, civil society experts find it difficult to articulate where the draft law really stands and who is pushing which draft. There continues to be discussion and speculation with regard to whether a new NGO law will be passed before or after a new Parliament is elected and which draft, among those currently circulating, will be pursued. With the exception of some recent discussion with human rights groups by the Minister of Justice, a unified draft law has not been officially circulated or consulted on since the Parliament was dissolved. It is hoped that a wider consultation would be organized for the drafting of a new, progressive NGO law in line with international standards and addressing several of the suggestions and concerns included in this policy brief.

Egypt's future in the coming years will be determined by its ability to reverse the cronyism of the Mubarak era and ensure that future growth is broadly distributed. It must perform this considerable feat in an environment of serious ambiguity surrounding the central government's authority and structure. Yet, Egypt has a key advantage in that it will be able to draw upon a deep reservoir of untapped entrepreneurial spirit and enthusiasm for civic and social engagement. The examples mentioned in this brief are but a sampling of the scope of expansion of projects which could result from an enabling policy reform. In addition to the urgent need to pass the laws and amendments proposed, it is as important that those laws be implemented and applied in a new spirit of respect and partnership worthy of this new phase in Egypt's history. Allowing these and new organizations to realize their full potential will not only spur job growth and economic development, but will help foster the sense of justice, equity and inclusivity required for Egypt's future progress and social peace.

Endnotes

1. Ehaab served as an advisor to the Middle East Youth Initiative of the Wolfensohn Center, which was housed at the Brookings Institution from 2006 to 2010. Until May 2011, he led an assessment exercise of the Egypt National Replication Fund, on which this policy brief builds. He currently works on the MENA Development Marketplace program at the World Bank Institute.

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