

Annual Report 2011

Private Initiative
for Public Interest

THE EGYPTIAN CENTER FOR ECONOMIC STUDIES



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The Center at a Glance

- *ECES is an independent, non-profit research think tank founded in 1992 by prominent members of Egypt's private sector.*
- *The mission of the Center is to promote economic development in Egypt by conducting and disseminating applied policy research. The aim is to develop viable policy options for Egypt in light of international experience.*
- *ECES research is conducted by the Center's staff, often in collaboration with local and international experts.*
- *The Center provides open forums for the exchange of views among key stakeholders through conferences, lectures and roundtable discussions.*
- *The Center's activities are carried out in the spirit of public interest.*



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Message from the Chairman of the Board of Directors

During the period 2011-2012, the Egyptian Center for Economic Studies followed a diligent approach in support of the Egyptian economy post January 25, 2011. Urgent answers were needed to many of the social and economic problems that came to the forefront following the Revolution and this is where the role of ECES comes in. Any country undergoing such a deep transformation needs effective think tanks to provide a strong analytical backup for policymaking.

The ECES work program during the year covered a wide range of issues. To cite but a few examples, the Center explored options for mobilizing additional fiscal revenues with a view to improving the state of public finances and reducing the fiscal deficit. Boosting exports was another critical avenue explored by ECES. With the increasingly inflated social agenda post the Revolution, the Center probed ways of addressing high poverty, unemployment and income distribution through integrating the informal economy into the mainstream. The Center also drew on international experience to offer suggestions for a minimum wage policy that achieves social justice, taking productivity and employment into account.

The year was also transitional for ECES management, as Magda Kandil who managed the Center very efficiently for the past two years is returning to the International Monetary Fund, where she has been a staff member since 1999. In her years at ECES, she has worked diligently to steer the Center during a demanding time. We owe her a hearty thank you for all she has done for ECES.

For the period ahead, ECES is bracing for a busy program in support of Egypt's transition period. We all look forward to rising up to the challenge and making a change for the better. Last but not least, I would like to thank the ECES team for their dedication during the year. Their positive spirit and hard work is the core of the Center's success.

Alaa Arafa

Chairman of the Board of Directors

▼ **Alaa Arafa** is ECES Chairman and Executive Director and Chairman of Arafa Holding Co. He is board member of the Commercial International Investment Company (CIIC) and Citadel Capital, and Chairman of the Egypt Readymade Garments Export Council. He is also member of a number of business associations, including the Federation of Egyptian Industries and the American Chamber of Commerce. ▼



Message from the Executive Director and Director of Research

Over the past two years, ECES has played an essential role in informing policy debates and articulating important messages during a very challenging time. Clearly, it is difficult to focus on economic priorities during political instability and short-lived transition governments preoccupied primarily with short-term agendas. In the conduct of its mission, ECES has attempted to strike a balance between the social and economic priorities of Egypt post the January 25 Revolution. Inclusive growth is essentially a balancing act between a vibrant private sector and measured interventions by the government to streamline private incentives and align economic activity with broad macro objectives.

Over the course of the past two years, I am proud to have contributed to an edited volume on privatization, edited a volume on human capital and labor market issues and supervised a collection of 20 working papers on a variety of important analytical and policy issues. I also contributed to 8 policy viewpoints on a variety of issues of direct relevance to policy debates, including reform of subsidies, competitive devaluation, Egypt post-January 25, priorities for monetary policy, short and medium-term priorities for the labor market, an optimal minimum wage policy, priorities for the tax system, and economic priorities in the next phase. I also contributed presentations to numerous successful events to spark public debate and inform policymaking.

In undertaking the above tasks, I had the opportunity to work closely with a high-caliber team of researchers, editors, and financial and administrative staff, which was instrumental in ensuring quality ECES deliverables. I look forward to my return to Egypt in the future to continue to serve my country and contribute to unlocking its potential, capitalizing on Egypt's strong economic fundamentals and the benefits of political reforms post the Revolution.

Magda Kandil

Executive Director and Director of Research

▼ **Magda Kandil** is the current Executive Director and Director of Research of the Egyptian Center for Economic Studies (ECES). Previously, she worked with the IMF where she held the positions of Advisor to the Executive Director and Senior Economist. She was also a visiting scholar at the IMF Institute and Research Department. ▼

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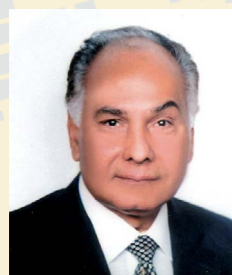
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ECES IN RETROSPECT

MILESTONES

Establishment. ECES was established in 1992 under Law 32 of 1964 as a non-profit, non-governmental organization. It was founded with the objective of promoting economic development in Egypt by conducting and disseminating applied policy research in light of international experience. The Center's founders believed that the creation of an independent think tank was in the best interest of Egypt, especially that the economy was undergoing a process of transformation that continues today. Financially, ECES received support per an endowment agreement between the Egyptian government and the United States Agency for International Development (USAID). Support was also provided by the ECES members themselves as well as such organizations as the World Bank and the United Nations Development Programme (UNDP).

Take off. After a gestation period, during which the Center's physical infrastructure was put in place and key staff appointed, ECES initiated a number of research activities. However, it was in 1996 that the founders' vision was translated into a systematic work program with diverse activities, including regular forums for discussion and dissemination of research, and a series of publications. Since then, the strategy of the Center has been based on two main pillars: knowledge generation and knowledge dissemination. Knowledge generation is decidedly in favor of applied policy research, and knowledge dissemination is guided by the strong desire to reach out to as many stakeholders as possible, whether through open forums, publications, and/or the ECES website (www.eces.org.eg).

Sustainability. Slowly but surely, the Center has acquired a reputation for producing relevant, quality research and for offering objective advice on the economic challenges facing Egypt. This reputation helped the Center acquire an endowment of LE 50 million, which will ensure the independence and sustainability of ECES for years to come.

NOTABLE CONTRIBUTIONS

It would be difficult to recount the research and dissemination activities that ECES undertook over the past two decades or so. Readers interested in the full range of initiatives are invited to consult the Center's website (www.eces.org.eg).

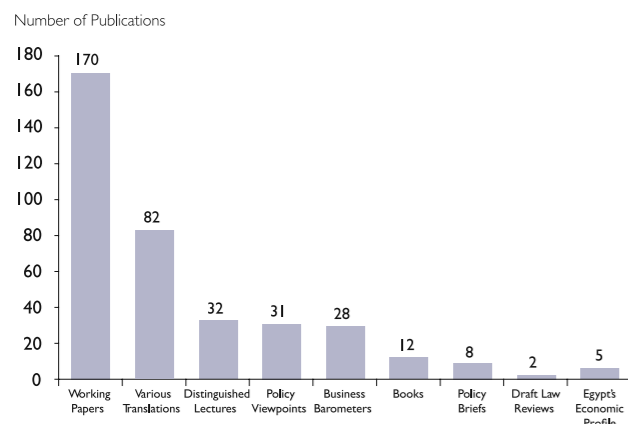
SUMMARY

In terms of sheer numbers, by the end of June 2012, ECES published as many as 170 working papers, 12 books, 32 distinguished lectures, 31 policy viewpoints, 28 editions of the business barometer, 8 policy briefs, 2 draft law reviews, 5 editions of Egypt's economic profile and statistics as well as 82 various translations. The average is 23 publications per year (see Figure 1).

While most publications were written in English, some were written in Arabic and others were translated to ensure wide readership. For the same reason, the writing style of most of these publications is essentially non-technical.

Besides publications, during the same period the Center organized 219 forums for the exchange of views among different stakeholders, averaging at least one event per month. The number of conference participants typically exceeded 200, while each roundtable discussion included around 70 participants. In both instances, the speakers and participants were carefully selected to ensure diversity of views and representation. Policymakers, academia, private sector leaders, non-Egyptians, and members of civil society were invited, without prejudice to political affiliation.

Figure 1. ECES Publications by Type, 1996-2012



To ensure wider dissemination, ECES paid special attention to the media and the development of a well-functioning website. With respect to the media, the Center established a tradition of holding a three-day annual workshop for economic reporters. This workshop provides a forum for economic reporters to discuss topical issues and share

ECES Publications

The Working Paper Series aims to present research findings in a timely fashion and to elicit constructive feedback.

The Distinguished Lecture Series features lectures given at ECES by renowned international scholars or practitioners.

The Policy Viewpoint Series reflects the official stance of ECES on key economic and policy issues. It is written in a concise and non-technical manner.

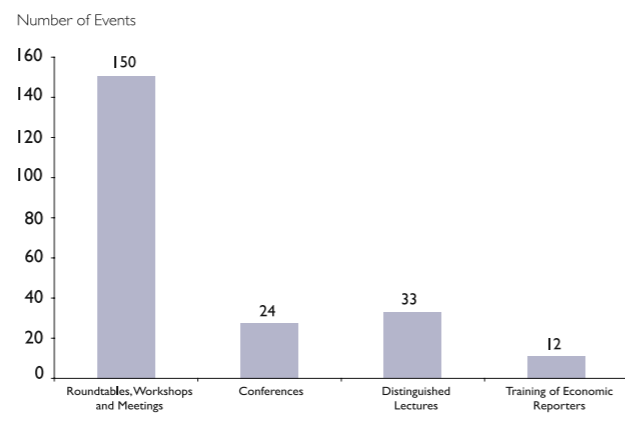
The Business Barometer is a biannual assessment of the state of economic activity in Egypt based on a sample survey of large firms.

Books are edited volumes of multiple related research papers.

The Draft Law Review Series aims to support economic reform efforts in Egypt by providing timely input on proposed legislation in light of international experience.

Egypt's Economic Profile and Statistics intended mainly for investors and the business community, this annual series provides summary data and information on the various aspects of the Egyptian economy.

Figure 2. ECES Events by Type, 1996-2012



best practices in effective economic reporting. As for the website, every effort was made to ensure it is user-friendly and continuously updated to convey information about the Center's recent and upcoming events. Also, in keeping with the spirit of public interest, visitors have been allowed to download ECES publications free of charge.



The Egyptian Center for Economic Studies was selected in 2007 as one of the leading think tanks in the region in the report entitled «Global Go-To Think Tanks».

This report was issued by the Think Tanks and Civil Societies Program, which is part of the US Foreign Policy Research Institute. This project grew out of never-ending requests from journalists, scholars and government officials who wanted a list of the leading think tanks in a particular country or region of the world. «Global Go-To Think Tanks» is the culmination of 18 months of polling and surveying to create the first global ranking of think tanks. For more about this report, follow the link: www.homepage.villanova.edu/james.mcgann.

2011-2012 in Focus

During the period July 2011 – June 2012, ECES completed 16 roundtable discussions: From Shock to Recovery: Supporting and Protecting the Poor; Economic Reform and Social Justice in Egypt: Lessons from the German Experience; The State of Food Security in Egypt; Promoting Growth and Employment through Development; Fuel Subsidies in Egypt: A Strategy for Reform; The Repercussions of the Euro Area Debt Crisis on Neighboring Countries, Including Egypt; Minimum Wage in Egypt: Striking a Balance Between Productivity and Social Equity; Enabling the Poor in Egypt: Integrating the Informal Economy into Mainstream Activity; Towards Mobilizing Additional Fiscal Revenues: Progressive or Flat Taxes?; Upgrading Small and Medium Enterprises: The Case of Egypt; The Risk-Sharing Banking Model: A Prospective Channel For Development in Egypt?; Priorities for Monetary Policy: The Scope for Inflation Targeting; Structural Reforms to Enhance the Business Environment in Egypt; Africa's Potential as a New Pole of Global Growth; and Social Justice in a Growing Market Economy. Each of the above involved a diagnosis of the problem in question and recommendations for improvement.

The Center also hosted a distinguished lecture by internationally-renowned Professor Dirk Messner (German Development Institute). The lecture discussed prospects of moving towards a global low carbon economy with a focus on cooperation between Europe and North Africa. Further, the Center contributed to the Global Competitiveness Report and the African Economic Outlook, by preparing the Egypt country note. Lastly, the Center continued to produce its usual series of publications, including the bi-annual business barometer, Egypt's economic profile and statistics, working paper series, policy viewpoints and books.

Supporting Economic Recovery in Post-revolutionary Egypt

From Shock to Recovery: Supporting and Protecting the Poor

This roundtable discussed the challenges faced by the poor post-January 25, lessons learned from international experience in the area of cash transfers as well as ways to target the poor using alternative methods. The event was

organized by ECES in collaboration with IDSC, the UNDP and Cooperazione Italiana.

Economic Reform and Social Justice in Egypt: Lessons from the German Experience

Despite high real economic growth rates over the past decade, Egypt was hard hit by the political and social upheaval that broke out on January 25, 2011. Social inequality and inadequate human development alongside lack of political reforms were among the key factors that led to the outbreak of the Revolution.

Against this backdrop, this workshop drew on the German experience in economic liberalization, coupled with social justice, aiming to propose a forward-looking strategy for economic policies in Egypt. The purpose was to strike a balance between tackling short-term challenges that have contributed to the social discontent and to drive economic reforms towards securing sustainable inclusive growth for the Egyptian economy over the medium term.



From Left to right: Sahar El Tawila, Magda Kandil and Alia El Mahdy.

The State of Food Security in Egypt

The agricultural sector plays an important role in Egypt's economy, contributing about 13 percent to gross domestic product (GDP) and employing around 27 percent of the labor force. Despite this importance, the agriculture sector has not been given its due attention over the past several decades, minimizing its contribution towards the achievement of national economic objectives, mainly food security. This objective has been made all the more difficult in light of successive global and domestic developments,

causing steep increases in food prices as well as intensifying uncertainty about the future.

Limited natural resources such as land and water as well as lower private and public investment in agriculture are among the main challenges precluding the achievement of Egypt's objective of food security. Crop composition is also a concern due to competition for limited resources. This roundtable discussed the state of food security in Egypt, with a view to offering some relevant proposals for agricultural policy in an attempt to contribute to the achievement of this much-sought objective.



From Left to right: Saad Nassar, Gouda Abdel Khaleq, Magda Kandil and Omneia Helmy.

Promoting Growth and Employment through Development

ECES held a roundtable discussion within the framework of the conference on "Stimulating Growth and Investment during Transition," organized by the European Bank for Reconstruction and Development (EBRD), the Federation of Egyptian Industries (FEI) and the Egyptian Junior Business Association (EJB) in collaboration with the Ministry of International Cooperation. The ECES roundtable addressed ways of promoting growth and employment through development of small and medium enterprises (SMEs). The session brought together a large group of Egyptian stakeholders including local and foreign owned banks, SMEs and representatives from the Central Bank of Egypt and the General Authority for Investment. The discussion focused on the challenges faced by SMEs in obtaining access to finance and what needs to be done to improve this. The session covered a range of topics including bank lending to SMEs, ways of improving SME business skills and the role that

information technology could play in spreading knowledge among SMEs.

Fuel Subsidies in Egypt: A Strategy for Reform

Views have increasingly converged that fuel subsidies in Egypt are inefficient, inequitable and costly. Budgeted at LE 95.5 billion, fuel subsidies in 2011/12 account for 71 percent of total subsidies, 19 percent of total expenditures and 6 percent of GDP. These subsidies benefit mostly energy-intensive industries as well as the richer quantiles who consume more petroleum products.

With an overall fiscal deficit of 9.8 percent of GDP in 2010/11 and a projected wider deficit for 2011/12, reforming the current system of fuel subsidies could help the government create the much-needed fiscal space and provide more social support to the most vulnerable groups. Well targeted reform will discourage wasteful fuel consumption and increase Egypt's earnings of foreign currency, capitalizing on a larger scope for oil and gas exports. More importantly, some of the budgetary savings from reducing subsidies could be redirected to programs that better help the poor, including education, healthcare services and cash transfers. Further, reducing wasteful energy consumption could also result in other positive externalities such as protecting the environment and achieving intergenerational equity in light of limited reserves of energy in Egypt.



From Left to right: Alaa Arafat, Mohamed Hafez Taher, Tamer Abu Bakr and Magda Kandil.

The Repercussions of the Euro Area Debt Crisis on Neighboring Countries, Including Egypt

The European debt crisis has dominated the economic debate at the last World Economic Forum in Davos. Many experts have expressed concerns about continued deterioration of economic conditions in Europe, against the backdrop of failure to reach a resolution to the debt crisis in Greece and lingering uncertainty about the impact of further austerity measures on the growth prospects in Europe. Trade with Europe is crucial to growth in many economies, including the US and China. Closer to home, Europe is the number one trading partner for Egypt, accounting for approximately one third of its total exports and imports, and is deemed a major source of FDI and financial investments for the country. Hence, the prospects of slow recovery in Europe casts further shadow on the recovery of the Egyptian economy, which is already challenged by post-Revolutionary political and economic instability.



From Left to right: Magda Kandil, Mohamed Taymour and Heliodoro Temprano Arroyo.

Minimum Wage in Egypt: Striking a Balance Between Productivity and Social Equity

The issue of social justice has taken center stage post the January 25 Revolution, where many have argued for the need to establish a minimum wage policy that protects real income from deterioration. Overtime, the minimum wage policy has failed to balance the objectives of employment creation and securing a dignified standard of living for many in Egypt. In the absence of such a coherent approach, increasing the minimum wage could increase unemployment and informality, and heighten inflationary pressures if sectoral

and regional disparities were not taken into consideration.

This roundtable discussion analyzed aspects of disparity in wage distribution across sectors and regions, based on productivity and cost of living. Subsequently, the roundtable drew on international experience to offer suggestions that could aid the formulation of a minimum wage policy that achieves social justice, taking into account productivity, employment, industrial policy dynamics and investment across sectors and regions.



From Left to right: Patrick Belser, Safwat El-Nahass, Samir Radwan, Magda Kandil and Omneia Helmy.

Enabling the Poor in Egypt: Integrating the Informal Economy into Mainstream Activity

Despite high economic growth in Egypt over the past ten years, a large segment of the Egyptian population still lives in poverty, estimated at 40 percent. This roundtable discussion attempts to contribute to the ongoing debate about Egypt's economic challenges post-January 25, 2011, by exploring ways of addressing high poverty, unemployment and income distribution through integrating the informal economy into the mainstream. The roundtable drew on previous studies conducted by ECES in this respect, which concluded that the poor in Egypt stand to benefit considerably if they opt to convert their dead capital (unregistered assets) into viable economic assets that could serve as collateral to increase their access to credit and their integration in economic activity.

The presentation also highlighted the main findings of ECES research regarding informality, both businesses and real estate, the size of which is estimated at 40 percent of economic activity. The discussions also addressed the main

barriers that stand in the way of formalization in Egypt as well as the legislations needed to encourage the poor to formalize and utilize their idle capital.



A high-profile audience and panel discussing ways of integrating the informal economy into the mainstream economy in Egypt.

Towards Mobilizing Additional Fiscal Revenues: Progressive or Flat Taxes?

The roundtable discussion attempted to explore options to mobilize additional revenues to improve the state of public finances and reduce the fiscal deficit. The debate has focused recently on the scope to institute progressive taxes. Advocates cite the low income tax rate in Egypt compared to other countries, and the need to introduce higher progressive taxes to achieve social justice and make more resources available for the much-needed social and developmental spending by the government. Opponents are concerned that progressive taxes could hinder the prospects of recovery in a fragile economy, reduce investment, and result in less revenue for the government. The roundtable weighed the merits of both arguments, drawing on Egypt's taxation track record and international experiences in this respect.



From Left to right: Mohamed El Bahi, Ramadan Siddique, Hazem Hassan, Magda Kandil and Omneia Helmy.

Towards Mobilizing Export Competitiveness: Impact of Exchange Rate Policy

The roundtable discussion discussed the pros and cons of exchange rate depreciation in Egypt. It considered the import content of Egyptian exports at the aggregate level and for the manufacturing sector in particular. Using data for exports by industry and country of destination over the period 2000-2010, the analysis assessed the impact of fluctuations in the bilateral exchange rate of the Egyptian pound and the real effective exchange rate on export competitiveness in the presence of a high imported intermediate content. The results will reflect on the current debate regarding the need to let the Egyptian pound depreciate to ensure higher export competitiveness and on the downside risks of depreciation on the cost of production and higher inflation. Policy implications were assessed in light of high industrial dependency on imported inputs and the risk of depreciation on the cost of production and loss of competitiveness.



From Left to right: Omneia Helmy, Magda Kandil, Tarek Tawfik and Khaled Hanafy.

Upgrading Small and Medium Enterprises: The Case of Egypt

In recognition of the potential role that small and medium enterprises (SMEs) stand to play in driving Egypt's economic growth, ECES has been conducting collaborative research with the German Development Institute (Deutsches Institut für Entwicklungspolitik (DIE)) on the factors determining the upgrading of SMEs in Egypt. Like in many other developing countries, business activities in Egypt are largely dominated by both "micro to small" and "large" enterprises, thus posing the so-called "missing middle" problem.

This roundtable discussion presented the findings of the research team. The results indicate that many small enterprises find it very difficult to innovate towards growing into the segment of medium size enterprises. Nevertheless, a considerable number of companies was able to go through a process of upgrading even at times of difficulty such as the present environment. Some have even more than doubled in size (by employment criteria) within the last five years. The main factors explaining differences in growth and upgrading are: (i) education, work experience and international experience of the company owner; (ii) access to finance; (iii) investment into human resource development and market research and (iv) efficiency in the application of existing laws such as taxation and licensing.



From Left to right: Magda Kandil and Markus Loewe.

The Risk Sharing Banking Model: A Prospective Channel for Development in Egypt?

Although the Egyptian banking sector has gone through several waves of reforms in the last two decades, it has yet to play its expected role as a catalyst for economic development. This roundtable discussion explored the viability of growing interest in the risk-sharing banking model as a possible approach to strengthen the currently weak developmental role of the Egyptian banking sector. Building on research findings, the roundtable first presented a new theoretical model comparing the investment process in the risk-sharing and the conventional systems. The presentation then empirically assessed the effect of applying the Islamic system on financial intermediation in a panel of 616 banks from 19 countries over the period 1996-2010. The main theoretical and empirical research findings were discussed, shedding light on the major prospects and challenges

inherent in risk-sharing banking as a model for development. Finally, policy recommendations suggested ways to address challenges and capitalize on the potential of the risk-sharing banking approach in promoting investment and growth in Egypt.



Tarek El-Ghamrawy discusses the major prospects and challenges inherent in risk-sharing banking as a model for development.

Priorities for Monetary Policy: The Scope for Inflation Targeting

The continuous rise in the cost of living constitutes a serious challenge to most Egyptians, especially those who suffer from deteriorating real income and limited scope to expand opportunities in the context of a growing economy. Further, high inflation has eroded Egypt's export competitiveness in the face of continued appreciation of the real exchange rate of the pound, despite successive waves of nominal depreciation. More recently, the conduct of monetary policy has been challenged by economic slowdown in the aftermath of the January 25 Revolution. Fiscal dominance also poses a serious challenge for the independence of the Central Bank against a backdrop of widening fiscal deficit which could potentially increase inflationary pressures and exert depreciation pressure on the exchange rate of the Egyptian pound. Moreover, excessive domestic financing of the fiscal deficit has increased the cost of borrowing and crowded out private activity. This roundtable discussion discussed the efforts undertaken by the Central Bank to adopt an inflation targeting regime and highlighted the challenges facing monetary policy at the current juncture.



The audience participating in the roundtable discussion "Priorities for Monetary Policy: The Scope for Inflation Targeting."

Structural Reforms to Enhance the Business Environment in Egypt

Egypt's rankings in institutional quality indices have stagnated or deteriorated over the years. Lack of progress in developing quality institutions has long hampered the economy from achieving its potential, even at times of high growth and private investment. While the focus in the near term is on stabilizing the economy, priorities of structural reforms should be aligned, in parallel, towards easing chronic bottlenecks and positioning the economy on an upward trajectory of growth and competitiveness going forward. On the structural front, it is necessary to address existing impediments towards improving governance and global competitiveness, and reducing the cost of doing business and corruption.

This roundtable discussion focused on the impact of institutional quality on the business environment in Egypt. The aim was to highlight the impact of long-term rigidity that has long constrained the potential of the economy and the implications of recent developments post the Revolution towards prioritizing the agenda of structural and institutional reforms that would help unlock Egypt's growth potential.



From left to right: Amina Ghanem, Mohamed Kassem, Magda Kandil, and Andrew Stone.

Africa's Potential As A New Pole of Global Growth

Despite the political and social unrest that affected some countries in North Africa, growth remains strong in the rest of Africa. Out of the top-fifteen fastest growing economies in the world today, ten are African. The continent's contribution to world GDP is projected to increase from 2.4 percent in 2012 to 5.1 percent in 2034. A fast growing Africa could provide a new driver for consumer demand, a large market and a new engine of global growth. To harness both the productive potential and untapped consumer demand of the continent, Africa will need to enhance productivity and competitiveness through investing in infrastructure, technology, higher education and health, broadening the range of exports and making the necessary investments in productive sectors, enhancing development financing and promoting regional integration and South-South cooperation. This roundtable discussion introduced the key findings of the Economic Report on Africa 2012 "Unleashing Africa's Potential as a New Pole of Global Growth."



From left to right: Omneia Helmy, Magda Kandil and Adam Elhiraika.

Social Justice in a Growing Market Economy

Social justice requires creating jobs to increase participation by all in the fruits of economic growth and increase wages in line with productivity towards achieving higher standards of living for the wider majority of Egyptians. To mobilize additional demand for labor and increase the job content of growth, investing in education and training, and increasing efficiency to close the gap between demand and supply in the labor market are top priorities. Reforming the pay system should consider variations across sectors, based on economic indicators of growth and value added to align wages and investments with productivity indicators. Further, rules and regulations constraining hiring activity in the private formal sector should be revisited to ease structural bottlenecks and increase incentives for formality. In addition, there is a need for a thorough review of the educational system, fields and curricula, to increase the return on education and provide more opportunities for graduates based on the economy's needs.

This roundtable discussion focused on the inclusive growth agenda and explored ways to achieve social justice via broader participation in production and economic activity. It aimed at increasing the job content of growth and broader support for disadvantaged geographical areas and economic activities to maximize the shares in growth benefits among various participants in the production process.

Distinguished Lectures

Towards a Global Low Carbon Economy: Elements of a Green Pact Between Europe and North Africa

Access to safe, clean and affordable energy for all people in the world, with simultaneous decarbonisation of energy systems, can only succeed if international cooperation is stepped up. The most important objectives of the global transformation of energy use are: limiting global energy demand and ensuring access to modern, sustainable energy services for all, decarbonising the energy supply, and introducing new low-carbon technologies in the transport sector, in buildings, and in industry. International cooperation is essential in order to accelerate the development of key technologies and facilitate the global diffusion of

technologies. From a European perspective, Egypt and other North African economies might be key partners in the area of a global low carbon transformation. Overall, international cooperation should focus less on individual projects and more on systemic changes, with a view to developing joint strategies for climate-compatible development and 'green growth'. The low carbon transformation offers a new platform for reciprocal patterns of cooperation between European and (North) African countries.



Professor Dirk Messner: International cooperation should focus less on individual projects and more on systemic changes.

Periodic Activities

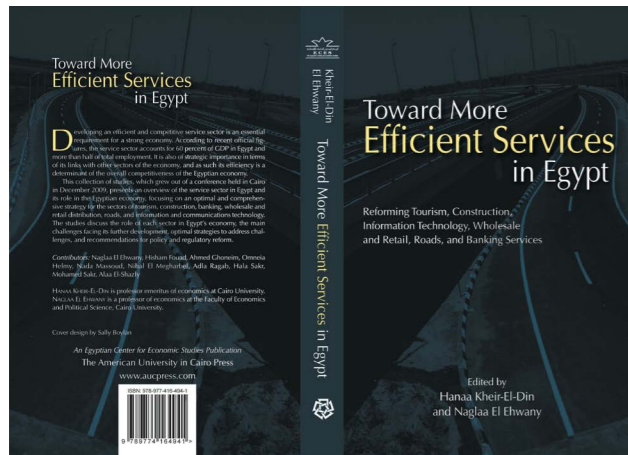
Global Competitiveness Report

Egypt occupied the 94th position (out of 142 countries) in the 2011-12 Global Competitiveness Index (GCI)—13 places lower than the 2010-11 position (out of 139 countries). As a tool used by the World Economic Forum (WEF), the index evaluates how countries fare on competitiveness. Evaluation is based on their performance on three main pillars ('basic requirements', 'efficiency enhancers' and 'innovation and sophistication factors'). These pillars are weighted depending on the stage of development that countries fall into (based on GDP/capita and other indicators) so as to calculate their individual GCIs. Egypt's classification as transitory from a factor- to efficiency-driven economy places the bulk of weight on basic requirements and efficiency enhancers. ECES is a partner institute of the World Economic Forum in the preparation of the Global Competitiveness Report

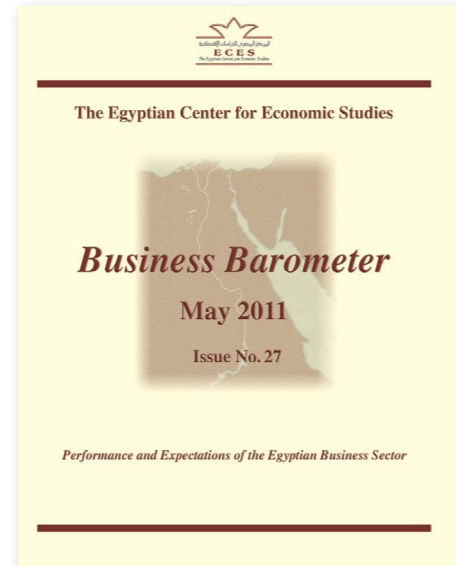
Publications and Translation

The Center continued to produce its usual series of publications, including the biannual business barometer, Egypt's economic profile and statistics, working paper series, policy viewpoints and books. In terms of numbers, ECES published 10 working papers, 4 policy viewpoints, one Distinguished Lecture, one book and one edition of Egypt's economic profile and statistics. The January edition of the barometer assessed the economic repercussions of the January 25 Revolution over 2011 and drew a comparison with a pre-Revolution benchmark, namely, the last three months of 2010. This edition also assessed whether firms had a better outlook for the first half of 2012 relative to the second half of 2011.

The Center collaborated with the AUC Press in publishing the ECES volume entitled *Toward More Efficient Services in Egypt*. Edited by Hanaa Kheir-El-Din and Naglaa El Ehwany (former ECES executive director and deputy director), the volume includes a collection of studies about the service sector in Egypt and its role in the Egyptian economy. The studies discuss the role of each sector in Egypt's economy, the main challenges facing its further development, optimal strategies to address challenges and recommendations for policy and regulatory reform.



Last but not least, the Center produced several publications in translation. In addition, all ECES presentations have been translated into Arabic to increase wider dissemination on the web site, rendering the past year as the most productive by ECES in terms of the volume of translations.



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Magda Kandil is the current Executive Director and Director of Research of the Egyptian Center for Economic Studies (ECES). Previously, she worked with the IMF where she held the positions of Advisor to the Executive Director and Senior Economist. She was also a visiting scholar at the IMF Institute & Research Department. Dr. Kandil has undertaken several academic and professional activities at various institutions, including Professor and Chair of the Department of Economics at the University of Wisconsin-Milwaukee, Washington State University, Southern Illinois University and the Justus-Liebig Universitat, Giessen, Germany. Dr. Kandil received several awards, including three citations of excellence for the highest quality rating by ANBAR Electronic Intelligence. In 2000, she was ranked 344th among the top 500 economists in the world. In 2011, she was ranked 29 (top 1 percent, based on number of journal pages weighted by the number of authors, using data from 26675 authors. She is member of the American Economic Association, Canadian Economic Association, Arab Society for Economic Research and the Economic Research Forum for the Arab Countries, Iran, and Turkey (ERF), where she was elected as the first woman chair of ERF Research Fellows. She has published extensively on various topics such as debt accumulation, public spending, price flexibility, exchange rate fluctuations, and macroeconomic policies. Dr. Kandil received her Ph.D. in economics from the Washington State University, Pullman, Washington.

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FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF THE EGYPTIAN CENTER FOR ECONOMIC STUDIES (ECES) - NOT FOR PROFIT ORGANIZATION

Report on the Financial Statements

We have audited the accompanying financial statements of the Egyptian Center for Economic Studies (ECES), not for profit organization which comprise the balance sheet as of 31 December 2011, and the statements of revenues and expenses, and receipts and disbursements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Center's Management as Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations. The Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of relevant Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Egyptian Center for Economic Studies (ECES) – not for profit organization – as of 31 December 2011, and its financial performance for the year then ended in accordance with the Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the note (3a) of the notes to the financial statements, which describe the basis of preparation of the statement of receipts and disbursements on a cash basis.

Report on Other Legal and Regulatory Requirements

The Center maintains proper books of accounts that include all that is required by the Law and the Center's bylaws, and the financial statements are in agreement therewith.

The financial information included in the Board of Directors' report, which has been prepared in accordance with the requirements of Law No. 84 of 2002 and its Executive Regulations, is in agreement with the relevant information in the Center's books.

Taha M. Khaled
Chartered Accountant
R.A.A. 5136

Cairo 24 April 2011

BALANCE SHEET
31 December 2011

	Note	2011 L.E.	2010 L.E.
ASSETS			
LONG TERM ASSETS			
Property and equipment	5	5,888,989	6,172,080
Restricted cash	6	50,000,000	50,000,000
Total long term assets		<u>55,888,989</u>	<u>56,172,080</u>
CURRENT ASSETS			
Cash and bank balances	7	2,669,362	3,966,660
Other debit balances	8	253,808	219,402
Balance of fund investment certificates	9	2,123,271	1,953,615
Total current assets		<u>5,046,441</u>	<u>6,139,677</u>
Total assets		<u><u>60,935,430</u></u>	<u><u>62,311,757</u></u>
SURPLUS AND ENDOWMENT AND LIABILITIES			
Surplus and endowment			
Surplus funds	10	10,722,990	12,106,216
Restricted endowment fund	6	50,000,000	50,000,000
Total surplus and endowment		<u>60,722,990</u>	<u>62,106,216</u>
LIABILITIES			
Other credit balances	11	212,440	205,541
Total surplus and endowment and liabilities		<u>60,935,430</u>	<u>62,311,757</u>

Auditor's report attached.



Ms. Magda Awadallah
Deputy Director for Finance &
Administration



Mr. Hassan El Khatib
Treasurer



Dr. Alaa Arafa
Chairman

The attached notes 1 to 18 form an integral part of these financial statements and read with it.

STATEMENT OF REVENUES AND EXPENSES
For the year ended 31 December 2011

	Note	2011 L.E.	2010 L.E.
REVENUES:			
Endowment fund interest income	12	5,200,414	4,856,477
Other interest income		41,006	89,801
Revenues on research conducted to others		145,897	376,990
Members subscriptions/contributions	13	260,000	220,000
Other revenue	14	1,162	9,573
Net change in market value of fund's investment certificates in «CIB Osoul Fund»		169,656	145,160
Total revenues		<u>5,818,135</u>	<u>5,698,001</u>
EXPENSES:			
Salaries and other benefits		(4,732,470)	(4,408,340)
Operational and administrative costs	15	(2,217,842)	(2,502,292)
		(6,950,312)	(6,910,632)
Depreciation	5	(295,571)	(332,961)
Foreign exchanges gain		44,522	71,243
Total expenses		<u>(7,201,361)</u>	<u>(7,172,350)</u>
Excess of expenses over revenue	10	<u>(1,383,226)</u>	<u>(1,474,349)</u>

The attached notes 1 to 18 form an integral part of these financial statements and read with it.

STATEMENT OF RECEIPTS AND DISBURSEMENTS
For the year ended 31 December 2011

	Note	2011 L.E.	2010 L.E.
Cash and bank balances at the beginning of the year		3,966,660	5,487,678
RECEIPTS DURING THE YEAR :			
Endowment fund interest income	12	5,200,414	4,856,477
Other interest income		41,006	89,801
Revenues on research conducted to others		145,897	376,990
Members subscriptions/contributions	13	260,000	220,000
Publication revenues	14	1,162	7,773
Other revenue	14	-	1,800
Other payables		212,440	205,541
Receipts from other receivables		219,402	373,316
Foreign exchange gain		44,522	71,243
Total receipts		<u>6,124,843</u>	<u>6,202,941</u>
LESS:			
DISBURSEMENTS DURING THE YEAR :			
Purchases of property and equipment	5	12,480	73,977
Operational and administrative costs	15	2,217,842	2,502,292
Salaries and other benefits		4,732,470	4,408,340
Other payables settlement		205,541	519,948
Other receivables	8	253,808	219,402
Total disbursements		<u>7,422,141</u>	<u>7,723,959</u>
Cash and bank balances at the end of the year	7	<u>2,669,362</u>	<u>3,966,660</u>

The attached notes 1 to 18 form an integral part of these financial statements and read with it.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

1. ACTIVITIES

a) Introduction

The Egyptian Center for Economic Studies ("ECES" or the "Center") is a non-profit, non-government research center, established in January 1992 and registered with the Ministry of Social Affairs and Cairo Governorate, in accordance with Law No. 32 of 1964 as amended by Law No. 84 of 2002. The Center's head office is located at Cornish El Nil, Ramlet Boulaq, Nile City Building- North Tower-8th floor, Cairo, Egypt.

The mission of the Center is to promote economic development in Egypt by conducting and disseminating applied policy research. The aim is to develop viable policy options for Egypt in light of international experience. The Center's activities are carried out in the spirit of public interest.

The Board of Management of the center approved the issuance of the financial statements for the year ended 31 December 2011 on 19 April 2012.

b) ECES Objectives are to:

- Provide policy-makers with results of applied economic policy research to support the policy formulation process.
- Foster an active dialogue between policy makers and private sector institutions.
- Strengthen the capacity of government institutions for policy analysis.
- Promote applied economic policy research and the advancement of the science of economics, finance and management.
- Promote public understanding of economic development issues and encourage active participation in the economic process.

c) Sources of Funding:

• Endowment Fund

In May 2001, the Ministry of International Cooperation (MIC) and the United States Agency for International Development (USAID) has entered into an Agreement with the Center to endow ECES with a grant of L.E. 50 million to be invested for the benefit of the recipient. The objective of this grant is to ensure the independence and sustainability of the Center. This grant is considered to be the main source of finance for the Center. The actual transfer of the fund was made in April 2002 and the center is allowed to utilize the interest generated from investing the Endowment Fund, and is prohibited from utilizing the principal amount, without the prior written approval from USAID in accordance with the terms of the agreement.

According to the agreement, two asset managers currently manage the endowment portfolio. This endowment creates a legacy for the Center (Note 6).

• Other Sources of Finance

In addition to the Endowment Fund, there are other sources of funding such as the income derived from research activities received from various donors, as well as the annual subscription, membership fees and contribution made by ECES members.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

2. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods if it affects future periods.

The estimates and underlying assumptions that affect the financial statements are as follows:

- Estimated useful life for Property and Equipment
- Claim Provision

3. SIGNIFICANT ACCOUNTING POLICIES USED

The Center applies the following accounting policies with consistency which agrees with policies applied in preparing the annual financial statements as follows:

a) Basis of preparation

The statement of revenues and expenses was prepared on accrual basis and statement of receipts and disbursements was prepared on a cash basis as required by the Ministry of Social Affairs.

The financial statements are prepared under the historical cost convention, modified for measurement of investments in fund investment certificates at fair value through receipts and disbursements statement.

The financial statements were prepared in accordance with the Egyptian Accounting Standards and related local laws and regulation.

The financial statements are presented in Egyptian Pound.

b) Property and equipment and its depreciation

Property and equipment are recorded on purchase at cost and are presented in the balance sheet net of accumulated depreciation and impairment losses. Historical costs include costs associated with the purchase of the asset.

Depreciation is provided on a straight line basis to write off the cost less estimated residual value of each asset over its expected useful life using the following rates:

Office premises	50 years
Decoration & fixtures	10 years
Motor vehicles	5 years
Office furniture	5 years
Office equipment	3 years

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

c) Assets impairment

Asset values are reviewed at the financial statements date to determine if there is any indication of impairment. In case of such an indication, an estimate is made of the recoverable amount and compared to the book value. Impairment loss, being the excess of book value over its recoverable amount, is taken to the statement of revenues and expenses on the same date.

d) Cash and cash equivalents

For the purposes of the receipts and disbursements statements, cash and cash equivalents comprise cash at banks, time and certificate of deposits held at banks, and cash held by asset and investment management. Restricted cash represents the amount of the Endowment Fund, which is disclosed in the financial statements as long term assets.

e) Fund investment certificates

Fund investment certificates are recognized at the acquisition by cost and are revalued on the balance sheet date at fair value and net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

f) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits is required to settle this obligation and then a reliable estimate can be made for the obligation.

Provisions are reviewed at the financial statements date and adjusted (if necessary) to present the best current estimate.

g) Debtors

Provision for debtors and other debit balances is provided when there is estimation for amounts not expected to be collected in full and this provision is to be included in the statement of revenues and expenses.

h) Accounts payable

Liabilities represented in amounts to be paid in the future for goods received or services rendered to the center, whether billed or not billed by the supplier.

i) Revenue recognition

- The subscription and membership fees are recognized as revenue based on accrual basis.
- The endowment fund interest is recognized as revenue based on accrual basis.
- Research conducted to others is recognized as revenue based on accrual basis.
- Interest income is recorded on a time apportionment basis.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

j) Expenses

The operating expenses are recognized and charged to the statement of revenues and expenses for the fiscal year during which it occurs.

k) Pension and social insurance

The Center contributes in the social insurance scheme for the benefit of its employees in accordance with the Social Insurance Law No. 79 of 1975 and its amendments. Contributions are charged to the statement of revenues and expenses in salaries and other benefits item on accrual basis.

l) Foreign currency transactions

The accounting records are maintained in Egyptian Pounds which are the measurement currency of ECES. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the financial statement date. All retranslation exchange profit and loss on date of financial statements are taken to the statements of revenues and expenses and receipts and disbursements.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

On-balance sheet financial instruments comprise receivables, payables, cash and bank balances. Note (3) to the financial statements includes the accounting policies adopted in the recognition and measurement of financial instruments.

The significant risks associated with the financial instruments and the procedures followed by the center to mitigate these risks are as follows:

- **Interest rate risk**

ECES activities are affected by changes in market interest rates as the organization has significant interest bearing. ECES uses two asset managers to ensure that market rates of interest are earned, and to ensure that exposure to changes in interest rates is minimized.

- **Foreign currency risk**

Foreign currency risk is represented by changes of exchange rates, which affect cash inflows and outflows in foreign currency, and the valuation of assets and liabilities in foreign currencies. Most of the ECES's transactions are in Egyptian Pounds as the main activities are carried out in Egypt. Contracts of services quoted in foreign currency are paid in Egyptian pounds, whenever possible and total assets in foreign currency which has cash nature on the financial statements date are equivalent to LE. 602,270 as mentioned in note (3-1) and assets with cash nature are translated at the rate of exchange ruling at the financial statements date.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

5. PROPERTY AND EQUIPMENT

	Office premises L.E.	Decoration & fixture L.E.	Motor Vehicles L.E.	Office furniture L.E.	Office equipment L.E.	Total L.E.
Cost:						
At 1 January 2011	6,660,000	1,051,911	560,053	609,928	1,216,660	10,098,552
Additions during the year	-	-	-	-	12,480	12,480
At 31 December 2011	<u>6,660,000</u>	<u>1,051,911</u>	<u>560,053</u>	<u>609,928</u>	<u>1,229,140</u>	<u>10,111,032</u>
Depreciation:						
At 1 January 2011	960,882	681,601	560,053	605,539	1,118,397	3,926,472
Provided during the year	133,200	105,191	-	2,028	55,152	295,571
At 31 December 2011	<u>1,094,082</u>	<u>786,792</u>	<u>560,053</u>	<u>607,567</u>	<u>1,173,549</u>	<u>4,222,043</u>
Net book value:						
At 31 December 2011	<u>5,565,918</u>	<u>265,119</u>	<u>-</u>	<u>2,361</u>	<u>55,591</u>	<u>5,888,989</u>
At 31 December 2011	<u>5,699,118</u>	<u>370,310</u>	<u>-</u>	<u>4,389</u>	<u>98,263</u>	<u>6,172,080</u>

Property and equipment include fully depreciated assets which are still in use; those assets represent motor vehicles amounting to L.E. 560,053, office furniture amounting to L.E. 599,787 and office equipment amounting to L.E. 1,105,795

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

6. RESTRICTED CASH

The restricted cash is invested by two asset managers in time deposits, certificates of deposit, treasury bills and investment certificates of mutual fund. The current weighted average interest rate on the Endowment Fund restricted cash is approximately 10.15% during the year.

ECES is allowed to utilize the interest generated from investing the Endowment Fund, and is prohibited from utilizing the principal amount, without the prior written approval from USAID in accordance with the terms of the agreement.

The endowment principal has been distributed between the two asset managers as follows:

	2011	2010
	L.E.	L.E.
Beltone Asset Management Co.	30,000,000	30,000,000
Arab African Investment Management Co.	20,000,000	20,000,000
	<u>50,000,000</u>	<u>50,000,000</u>

7. CASH AND BANK BALANCES

	2011	2010
	L.E.	L.E.
Cash at banks	127,727	1,488,203
Time and certificate of deposits	619,050	1,299,100
Cash held by asset managers (Note 12)	1,922,585	1,179,357
	<u>2,669,362</u>	<u>3,966,660</u>

The weighted average effective interest rate on short-term US Dollars bank deposits was 4.125% annually. These deposits have an average maturity of one month. In addition to short term time deposits in Egyptian pounds with interest rate of 5% annually and 3 years fixed income certificates of deposit with a weighted average interest rate of 9.15% annually.

The cash held by asset managers represents the endowment principal and its unrestricted interest earned on its investment. The interest earned remains in banks under the supervision of the asset managers (Note 12).

8. OTHER DEBIT BALANCES

	2011	2010
	L.E.	L.E.
Prepaid expenses	175,466	165,771
Advance payment	3,631	3,631
Debit balances	74,711	50,000
	<u>253,808</u>	<u>219,402</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

9. BALANCE OF FUND INVESTMENT CERTIFICATES

ECES subscribed in CIB Osoul Fund. The total number of certificates as of 31 December 2011 is 12188 at L.E. 174.21 per certificate with a total amount of L.E. 2,123,271 (2010: 12188 ICs with total amount of L.E. 1,953,615). Net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

10. SURPLUS FUNDS

	2011	2010
	L.E.	L.E.
Balance at the beginning of the year	12,106,216	13,580,565
Excess of expenses over revenues	(1,383,226)	(1,474,349)
Balance at the end of the year	<u>10,722,990</u>	<u>12,106,216</u>

11. OTHER CREDIT BALANCES

	2011	2010
	L.E.	L.E.
Accrued publication expenses	98,190	136,000
Accrued technical assistance	-	25,600
Professional fees	30,000	30,000
Other credit balances	9,101	13,941
Other creditors	75,149	-
	<u>212,440</u>	<u>205,541</u>

NOTES TO THE FINANCIAL STATEMENTS
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12. ENDOWMENT FUND INTEREST

According to Law No. 84 of 2002, ECES can receive and invest funds, following the approval of the Ministry of Social Affairs. ECES obtained such approval to receive and invest the Endowment Fund in September 2002.

The schedule below analyzes the movement of cash transactions held by asset managers:

	Belton Asset Management Co. L.E.	Arab African Investment Management Co. L.E.	2011 Total L.E.	2010 Total L.E.
Balance at the beginning of the year	687,129	492,228	1,179,357	2,290,237
Accrued interest during the year	3,052,856	2,147,558	5,200,414	4,856,477
Cash transferred to the ECES	(2,210,000)	(1,450,000)	(3,660,000)	(5,200,000)
Treasury bills taxes (Note 15)	(322,267)	(345,909)	(668,176)	(638,725)
Annual fees (Note 15) (*)	(77,127)	(51,883)	(129,010)	(128,632)
Balance at the end of year	<u>1,130,591</u>	<u>791,994</u>	<u>1,922,585</u>	<u>1,179,357</u>

(*) Annual fees comprised of the two asset management fees and these fees are calculated according to the following:

- Fixed fees amounting to 0.25% annually, of the market value of the portfolio, calculated and accrued on daily basis and paid quarterly.
- ECES bears all costs related to the purchase, sale, trading, custody and disposition of the debt securities included in the portfolio.

13. MEMBERS SUBSCRIPTIONS/CONTRIBUTIONS

	2011 L.E.	2010 L.E.
Members subscriptions	<u>260,000</u>	<u>220,000</u>

Members subscriptions/contributions used in financing ECES activities represent the following:

- An entry fee of L.E. 25,000 paid by each new member.
- The board of directors in its meeting (No. 4) dated 15 June 2011 had decided to exempt new members from paying entry fees during year 2011.
- An annual subscription fee of L.E. 10,000 which is determined by the Extraordinary General Assembly Meeting of 20 February 2008 and in accordance with ECES bylaws.

NOTES TO THE FINANCIAL STATEMENTS
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- ECES members contribute, in some instances, in financing some activities and events operated by the center (i.e. conferences and seminars).

14. OTHER REVENUE

	2011 L.E.	2010 L.E.
Publication revenues	1,162	7,773
Other revenue	-	1,800
	<u>1,162</u>	<u>9,573</u>

15. OPERATIONAL AND ADMINISTRATIVE COSTS

	2011 L.E.	2010 L.E.
Taxes on treasury bills (Note 12)	668,176	638,725
Maintenance and insurance	486,455	462,192
Publications	156,328	117,975
Roundtable and conferences	144,609	237,245
Endowment asset managers fees (Note 12)	129,010	128,632
Auto, insurance and fuel	123,413	185,658
Technical assistance	118,394	202,531
Data and subscriptions	80,386	59,625
Office supplies	78,143	117,620
Water and electricity	31,775	32,940
International travel and per diem	30,697	120,275
Professional fees	30,000	30,000
Rent	22,125	22,988
Telephone and fax	15,308	19,253
Entertainment	13,762	28,928
Courier, postage and shipment	10,726	7,988
Bank charges	4,241	4,326

NOTES TO THE FINANCIAL STATEMENTS

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Local travel	1,556	2,739
Miscellaneous	72,738	82,652
	<u>2,217,842</u>	<u>2,502,292</u>

16. FAIR VALUES

Fair values of financial assets and liabilities are not materially different from their carrying value at the balance sheet date.

17. SIGNIFICANT CURRENT EVENTS

The current events in the Arab Republic of Egypt may have a significant impact on the economic sectors in general and may lead to a significant decline in the economic activities during the coming periods. Therefore, these events may have a material impact on the elements of assets and liabilities, the recoverable amounts and results of operations during the coming periods. The size of the impact of these events on the assets and liabilities included in these financial statements cannot be determined at the present time.

18. TAXATION

ECES is exempted from income taxes in accordance with Law No. 157 of 1981 as amended by Law No. 187 of 1993 and Law No. 91 of 2005 Article 50 (3). ECES is also exempted from customs duties in accordance with Ministerial Decree No. 260 of 1984.

- **Payroll tax**

Inspection was executed for years 2001 until 2005 and all differences which amounted LE 10,978 are paid. ECES calculates and pays the taxes monthly to the Tax Authority on timely basis.

- **Withholding tax**

ECES calculates withholding taxes every three months and pays them to the Tax Authority regularly.