

Annual Report 2012

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

Egypt is on the right track. A new government has been formed following the June 30, 2013 Corrective Revolution with the objective of positioning Egypt back on the road to recovery following the significant losses incurred during the drawn-out transition period. To that end, it has become necessary to articulate an economic vision with well-defined short, medium and long term goals. The vision will help the country stay on the reform track and overcome obstacles faced during the arduous process of pulling the country out its current economic and social woes. As will be seen in more detail throughout this edition of annual report, ECES has spared no efforts whether in the distant or immediate pasts to provide relevant research and will continue in the future to offer recipes for economic reform. In doing so, ECES has collaborated with diverse research partners locally, regionally and internationally.

To cite but two examples in the past year, the Center embarked on a large-scale project to draw on the successful political and economic transformation of key countries in East Europe, namely Czech Republic, Hungary, Poland and Slovakia. Policy makers would do well to analyze these experiences carefully as they lay the foundations for economic reform at this critical juncture of the country's history. The Center also organized a workshop to explore ways of increasing investment and job creation. This event was held in the context of a national initiative for economic takeoff embraced by a number of independent research institutes in Egypt with a view to helping the Egyptian economy out of its relative malaise. The event also featured rich presentations by a high-level ministerial group highlighting government plans on the short, medium and long runs to increase investment and the rate of job creation. In undertaking reform, one cannot overemphasize the importance of taking inclusive growth and social justice into account—their absence previously caused social discontent that eventually triggered the January 25 Revolution and later the June 30 Corrective Revolution. In short, articulating a vision and complementing this vision with specific reform targets will surely help restore and solidify investor confidence in the economy post the Revolution and position Egypt on a sustained path to economic recovery and attaining its high potential.

Omar Mohanna

Chairman of the Board of Directors

▼ **Omar Mohanna** is Chairman of Suez Cement Group of Companies (SCGC), the leading cement producer in Egypt and a subsidiary of the multinational Italcementi, one of the world leading cement producers. SCGC is comprised of Suez Cement Co., Tourah Portland Cement Co., Helwan Cement Co., and Suez Bags Co, and has as subsidiaries ten other cement related companies and operations in Egypt and the region. Mohanna is also Chairman of the Alexandria Tire Company (ATCO), the largest tire producer in Egypt, and a subsidiary of the multinational tire manufacturer Pirelli. He is also Chairman of ACE Insurance Co. Egypt, and Chairman of ACE Life Insurance Co. Egypt. Both companies are subsidiaries of the US multinational insurance group ACE. ▼



Message from the Acting Executive Director and Director of Research

Over the course of 2012-2013, Egypt witnessed rapid and significant political developments with strong implications for the economy. Although this fast-changing environment poses severe challenges for long-term economic policy planning, the Center attempted to support reform efforts by offering advice on important policy issues, including investment, employment generation, research and development, rural-urban development, industrialization, Islamic banking, banking efficiency post consolidation, financial market integration, minimum wage policy, revenue mobilization. More importantly, the Center collaborated with the East European group known as the Visegrad-4 to draw on their political transformation experience and their success stories. The collaboration culminated in holding a conference during which the experiences of Czech Republic, Hungary, Poland and Slovakia were discussed in the presence of policymakers, academia, civil society and the business community. Another conference was held on unemployment and job creation, which are two of the most important challenges facing policymakers in Egypt today.

In the year ahead, I look forward to continue collaboration with partner research organizations with the goal of contributing policy advice that could help lift the economy out its current state. In what follows, the annual report highlights the Center's research activities in 2012-2013 and briefly demonstrates how they addressed Egypt's various economic challenges and concerns. It also includes the 2012 financial statements, which show the solid financial position of ECES well into the future. Finally, I would like to extend my gratitude to the ECES Board and Members for their great support as well as to the ECES staff for the commitment and dedication they have shown throughout the year.

Omneia Helmy

Acting Executive Director and Director of Research

▼ **Omneia Helmy** is acting executive director and director of research at the Egyptian Center for Economic Studies (ECES) and professor of economics at the Faculty of Economics and Political Science, Cairo University. She is also a visiting professor at the University of Barcelona, Spain; in addition to her appointment as affiliate professor of economics at George Mason University, USA. Dr. Helmy is a member of the Egyptian Society for Political Economy, Statistics and Legislation and Egypt's Scientific Research Academy. ▼

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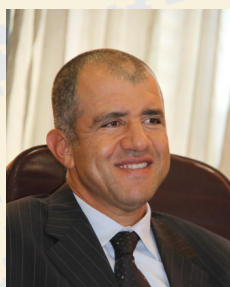
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Chairman & CEO, EFG-Hermes Holding
(SAE)

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).

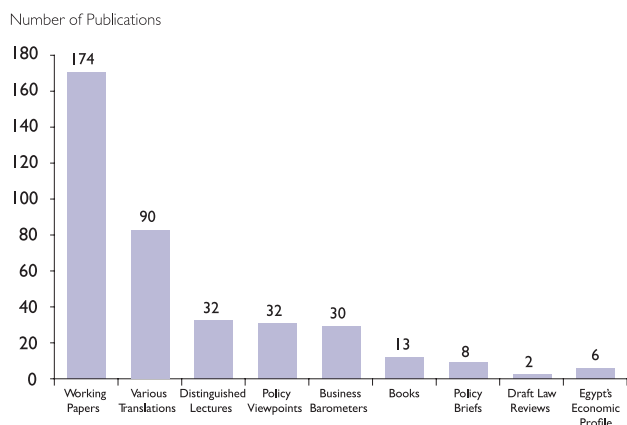
SUMMARY

In terms of sheer numbers, by the end of June 2013, ECES published as many as 174 working papers, 13 books, 32 distinguished lectures, 32 policy viewpoints, 30 editions of the business barometer, 8 policy briefs, 2 draft law reviews, 6 editions of Egypt's economic profile and statistics as well as 90 various translations. The average is 21 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.

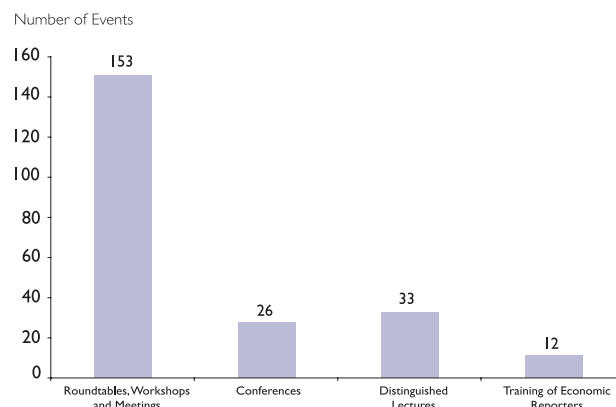
Besides publications, during the same period the Center organized 224 forums for the exchange of views among different stakeholders, averaging at least one event per month. The number of conference participants typically exceeded 200, while each roundtable discussion included around 70 participants. 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 - 2013



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

Figure 2. ECES Events by Type, 1996 - 2013



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.

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 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.

THE THINK TANKS AND CIVIL SOCIETIES PROGRAM



THE GLOBAL "GO-TO THINK TANKS"

The Egyptian Center for Economic Studies was selected in 2012 as one of the leading think tanks in the region in the report entitled "Global Go-To Think Tanks."

The Global Go-To Think Tank Index is the result of an international survey of over 1,950 scholars, public and private donors, policy makers, and journalists who helped rank more than 6,500 think tanks using a set of 18 criteria developed by the Think Tanks and Civil Societies Program (TTCSP). The purpose of the rankings is to help improve the profile and performance of think tanks while highlighting the important work they do for governments and civil societies around the world. For more details on the rankings and the report itself, please follow the following link: <http://www.gothinktank.com/2012-global-goto-tank-index-report>

2012-2013 in Focus

During the period July 2012-June 2013, ECES held two flagship research activities (Investment and Employment: Vision for a Better Future; Economic Reforms During Democratic Transformation: Lessons Learned from the Visegrad Group) and eleven focused research projects. Published research included four *Working Papers*, three *Policy Viewpoints*, two editions of the *Business Barometer* and one edition of *Egypt's Economic Profile and Statistics*. A common thread that runs through most research activities during the year is the attempt to contribute specific policy recommendations to lift the Egyptian economy out of its prolonged slump.

Flagship Activities

Investment and Employment: Vision for a Better Future

Unemployment and job creation are among the most important challenges facing policymakers in Egypt today. Official statistics indicate that youth unemployment was 24.8 percent in 2011, which is double the unemployment rate at the national level (12 percent). Specifically, this conference aimed to explore ways of increasing investment and job creation. The event also discussed government plans on the short, medium and long runs to increase investment and the rate of job creation. Recommendations included the importance of granting the National Training Fund more independence and funding; ensuring the transparency and predictability of economic policies; developing the capital market; and last but not least boosting the competitiveness of the Egyptian economy through lowering the cost of production and increasing productivity.

This event was held in January 2013 in the context of a national initiative for economic takeoff embraced by a number of independent research institutes in Egypt with a view to helping the Egyptian economy out of its malaise. The participant institutes in this initiative included the Economic Research Forum; the Faculty of Economics and Political Science (Cairo University); the Egyptian Center for Economic Studies; Masrina (our Egypt) Association; the Information and Decision Support Center; Egypt's Supreme Council for Energy; and the Egyptian Federation

of Tourist Chambers. Participants in this event included a high-level group comprising government ministers and representatives of academia, the media, civil society and the private business sector.



The panel from left to right: Omneia Helmy (ECES), Osama Saleh (Minister of Investment), Alaa Arafa (Arafa Holding and ECES) and Hatem Saleh (former Minister of Foreign Trade and Industry). The audience comprises a high-level group including Aly Lotfy (former Prime Minister), Samir Radwan (former Minister of Finance), Ashraf El Araby (Minister of Planning), Safwan Thabet (Juhayna for Food Industries) and several other distinguished individuals.

Economic Reforms During Democratic Transformation: Lessons Learned from the Visegrad Group



From left to right: Professor Peter Balaz (Faculty of Economic Relations, University of Economics, Prague), Omar Mohanna (ECES Chairman) and Mounir Fakhry Abdel Nour (Minister of Trade and Industry and ECES).

The Egyptian Center for Economic Studies in collaboration with the Visegrad Group (V4) embassies and the Egyptian Cabinet's Information and Decision Support Center organized a conference entitled "Economic Reforms During Democratic Transformation: Lessons Learned from the Visegrad Group." The one-day conference was held in June 2013 and brought together a high-level group of incumbent and former ministers and senior officials as well as representatives of civil society organizations, academia,

the media and the business community. The conference was motivated by the desire of ECES and the V4 Group to support Egypt's transition at this critical juncture in its history.



The audience during the Visegrad Group conference with Omar Mohanna (ECES Chairman) and Omnia Helmy (Acting Executive Director and Director of Research) in the front row.

Specifically, the aim of the conference was to draw on the experience and the success stories of the Visegrad Group (V4), comprising the Czech Republic, Hungary, Poland and Slovakia. The V4 has formed an alliance after the political changes that took place in the 1990s. Now, all four nations are high-income countries and enjoy steady economic growth. If counted as a single entity, the V4 is the seventh largest economy in Europe and the 15th in the world.

For more information about the Visegrad Group, please visit www.visegradgroup.eu.

The conference was intended to transfer knowledge related to selected economic transformation processes that is of interest for current Egyptian economic reform plans. The issues discussed included the economic and political transformation in the 1990s, public and private sectors cooperation in the experience of the V4, EU integration as a catalyst for reform and the role of the energy sector in supporting the transformation process.

Focused Projects

Research and Development: Potential Driver of Egypt's Pharmaceutical Industry

In today's knowledge-based economy, research and development (R&D) is key to driving output and productivity, particularly in R&D-intensive industries like pharmaceuticals. Although to date the pharmaceutical industry in Egypt has been a modest contributor to manufacturing value added (5%), exports (3%) and employment (4%), it has the potentials for further growth, especially from the knowledge perspective. This roundtable discussion highlighted the main findings of ECES research regarding the micro and macro factors behind modest R&D performance in Egypt's pharmaceutical firms. At the micro level, an R&D strategy is evidently lacking, with firms leaning heavily towards development as opposed to basic or applied research. Moreover, there is virtually no collaboration either with other firms or with universities in research. At the macro level, public R&D expenditure remains meager, and the public R&D system lacks good governance. As such, the discussion aimed to draw relevant policy implications for placing Egypt on the new, long-sought growth trajectory. This study was published in the Working Paper Series.



Iman Al-Ayouty (ECES) discusses the main findings of her research regarding the micro and macro factors behind modest R&D performance in Egypt's pharmaceutical firms.

Global Monitoring Report 2013: Rural-Urban Dynamics

With less than 1,000 days remaining until the end of the 2015 target date for achieving the eight Millennium Development Goals (MDGs), this report highlights the need to accelerate efforts to improve the lives of the poor in both rural and urban areas. The theme of Global Monitoring Report (GMR) 2013 is rural-urban disparities in development and ways urbanization can better help achieve the MDGs. The GMR, jointly produced by the World Bank and the International Monetary Fund (IMF), is an annual report card on the world's progress toward the MDGs.

Not only is the theme highly relevant for assessing progress within the current MDG framework, but it also has the potential to inform discussions about the post-2015 development framework in which urbanization will be a major factor. The report calls for complementary rural-urban development policies and actions by governments to facilitate a healthy move toward cities without short-changing rural areas. Besides introducing the key findings of the GMR 2013, this roundtable discussion touched on the central challenges facing countries in the MENA region in their progress toward achieving the MDGs. The objective was to help explore the development assistance these countries need in order to accelerate their progress toward attainment of the MDGs.



From left to right: Heba Handoussa (ENID), Omneia Helmy (ECES) and Jos Verbeek (the World Bank).

The Egyptian Economy: The Way Forward

Given the troubled economic situation in Egypt since the outbreak of the 25 January Revolution, ECES mobilized resources to put together a vision for economic reform.

The vision was outlined in a presentation that analyzed the nature of Egypt's economic woes and their main causes and highlighted some proposals for reform.

In this vision, integration between the financial, monetary and trade policies was described as essential for achieving macroeconomic stability, particularly if coupled with structural reform policies (e.g., institution building). On the fiscal front, rationalizing public spending on subsidies and formalizing the unorganized sector to increase tax revenues were suggested as important avenues for fiscal reform. Regarding labor market legislations and policies, the vision placed emphasis on improving the quality of basic and higher education and training as well as establishing an equitable system of wages that strikes a balance between wage levels, productivity and inflation.

The vision also highlighted the importance of extending incentives to job-creating growth and enhancing forward and backward linkages between large firms and SMEs; encouraging public-private partnerships to invest, particularly in basic infrastructure projects; and reducing transaction cost. Providing a conducive environment for doing business, enhancing respect for the rule of law and achieving political stability were cited as key prerequisites for reform.

Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation

The 2013 edition of the Economic Report on Africa suggests that Egypt together with eight other African countries have an opportunity to transform their economies through a commodity-based industrialization strategy that leverages on the continent's abundant resources, current high commodity prices and changing organization of global production process. Such a policy is necessary if the continent is to become a global economic power that can address the challenges of youth unemployment, poverty and gender disparities.

Specifically, the report examines key constraints and opportunities for African countries to make the most of their commodities by adding value through linkage development.

With respect to Egypt, the report considers the textile industry of paramount importance to the economy,

accounting for 5 percent of total GDP and 26.4 percent of industrial production. It employs more than half a million Egyptians and is a crucial foreign exchange earner. In spite of its superior raw materials, Egypt has been unable to exploit its advantageous position to the best of its capabilities. Egypt needs to direct more investments into weaving and dyeing of local fabrics instead of exporting the raw material, thereby limiting its comparative advantage in the textiles industry. Clearly, there is a need to create a niche market because competition with other countries such as China and Pakistan is difficult due to the huge differences in input and output costs.



From left to right: Abia Abdul Latif (AUC), Mounir Fakhry Abdel Nour (Minister of Trade and Industry and ECES), Abdalla Hamdok (UN Economic Commission for Africa) and Alaa Arafat (Arafat Holding and ECES).

Measuring Banking Efficiency Post Consolidation: The Case of Egypt

The paper measures the Egyptian banks' efficiency post consolidation and increased banks' capitalization by using Data Envelopment Analysis (DEA) and by traditional financial ratios to capture changes in profitability and financial performance. Moreover, it uses Tobit regression analysis to identify efficiency determinants. The study compares the results of two periods, as the pre-consolidation (2000-2003) period and (2007-2010) as the post consolidation period. The key assumption is that banking efficiency improved post consolidation. The results showed that consolidation had a positive effect on managerial efficiency, banks' capitalization and risk management practices. Yet, banks' intermediation function and banks' profitability remained weak. Policy makers should design a strategy that promotes the channeling of deposits to productive lending by further promoting small and medium size enterprise lending and designing new innovative lending instruments

that are well suited to the Egyptian market needs. This study was published in the Working Paper Series.

On Egypt's De Facto Integration in the International Financial Market

This study explores whether Egypt has become de facto integrated in the international financial market following the steps taken towards the de jure liberalization of the capital and financial account of the balance of payments since the early 1990s. It does so by running two empirical tests, namely, the uncovered interest parity and the monetary autonomy tests using monthly data for the periods January 2000–December 2011 and July 2004–June 2008. The outcome of both tests indicates that during the periods under investigation, Egypt has maintained limited de facto integration in the international financial market, despite the de jure financial openness. To explore the reasons behind such limited de facto integration, the study estimates a vector error-correction model (VECM) using quarterly data for the period 2001/02–2010/11. According to the variance decompositions generated from the VECM, high inflation rate in Egypt has been a major contributor to the variability of the spread between interest rates on domestic and foreign financial assets, and thus could be deemed as a culprit behind Egypt's limited de facto integration. This study was published in the Working Paper Series.

Minimum Wage in Egypt: Striking a Balance between Productivity and Social Justice

The issue of social justice has taken center stage post January 25 Revolution, where many have argued for the need to establish a minimum wage policy that protects real income from deterioration. Over time, 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 study analyzes the aspects of disparity in wage distribution across sectors and regions, based on indicators of productivity and cost of living. Subsequently, the study draws 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

and investment across sectors and regions. This study was published in the Policy Viewpoint Series.

Towards Mobilizing Fiscal Revenues and Boosting Economic Activity in Egypt

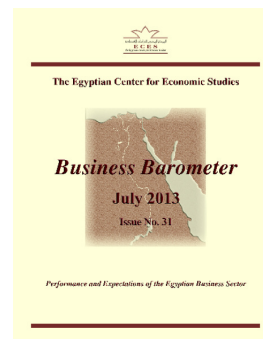
The issue of social justice has taken center stage since the January 25 Revolution. In recent years, many Egyptians have suffered in the context of a growing economy as the growth model proved to exclude many and wealth did not trickle down. Post the Revolution, growing demands have focused on the need to reform public finances towards mobilizing additional revenues and trimming the waste in government spending. The scope to mobilize additional revenues has revolved around the current tax system. More specifically, the debate has focused on the scope to institute progressive taxes towards achieving social justice and making more resources available for much-needed social and development 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. This study weighs the merits of both arguments, drawing on Egypt's track record and international experience in this respect. This study was published in the Policy Viewpoint Series.

The Egyptian Economy in Retrospect and Future Prospects

Egypt is at a crossroads. A new government has been formed following the first presidential election post the January 25 Revolution. The government's priority has been focused on positioning Egypt back on the road to recovery following significant losses the economy has suffered during the transition period. To that end, it has become necessary to articulate an economic vision toward helping fulfill the growing expectations for a better future post political transformation. Looking back, it is clear that many years of flawed economic policies helped catalyze the January 25 Revolution. This study takes stock of opportunities as well as the challenges facing an economy that has grown substantially in the last two decades, but at a high price in terms of perceived inequality and injustice. It concludes by laying out the main pillars of sustaining inclusive growth going forward. These pillars build on previous ECES research to address distortions that have built over the past

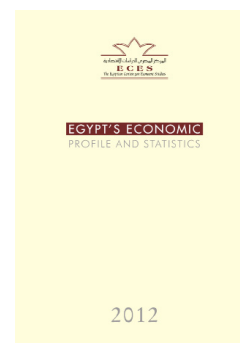
six decades, adversely impacting economic management and performance. More specifically, the study aims to articulate priorities for the economic reform agenda and help guide policies in the future. This study was published in the Policy Viewpoint Series.

Business Barometer: Performance and Expectations of the Egyptian Business Sector



Business Barometer reflects the views of 474 firms regarding the overall performance of the economy and their own activities during the preceding six months as well as their expectations for the next six months. The purpose is to assess firms' actual economic activity and shed light on their projections in the context of rapid political and economic developments in Egypt. The surveyed firms cover manufacturing (50 percent), financial intermediation (13 percent), construction (12 percent), transportation (11 percent), tourism (8 percent), and communications (6 percent). The survey was conducted across a number of small, medium and large enterprises, specifically 42, 12 and 46 percent, respectively. The Center produced two editions during the period under review.

Egypt's Economic Profile and Statistics



The latest edition of Egypt's Economic Profile and Statistics provides an overview of the main developments in the

Egyptian economy up to mid-2012. Specifically, it covers overall economic growth and its main drivers, inflation dynamics, unemployment, fiscal and monetary policies, and last but not least, the main developments in Egypt's external sector. Intended mainly for investors and the business community, this publication provides up-to-date summary data and information on the various aspects of the Egyptian economy.

Egypt-U.S.: Towards a Smooth Transition from Aid to Trade

ECES contributed a study entitled "Egypt-U.S.: Towards a Smooth Transition from Aid to Trade," to the workshop organized by Prince Al-Waleed Bin Talal Center for American Studies and Research (CASAR) and the Faculty of Economics and Political Science (FEPS). The study explores alternative options for expanding Egypt-U.S. trade and investment flows, considering the differences in their levels of development. The analysis concludes that negotiating a free trade area (FTA) between Egypt and the U.S. is better to start sooner rather than later. This FTA should involve eliminating tariff and non-tariff barriers on trade in goods and services, mutual agreement on investment and the harmonization of some domestic policies such as intellectual property rights. A well-designed and implemented FTA could advance and "lock in" domestic economic reforms in Egypt and associate the U.S. with positive change in Egypt.

SME Policy Index for Egypt (2012-2014)

ECES contributed Egypt's portion of the OECD SME Policy Index 2012-2014. By defining Egypt's position on a set of key enterprise policy dimensions, this index would provide a structured and comparative evaluation of progress on SME policies and initiatives. SME dimensions covered included bankruptcy laws and second chance, administrative regulations, public administration and tools of public policy, access to finance, European single market, skill upgrading, research and development and environmental issues among others. OECD is developing an SME policy index for several countries in the MENA region, including Egypt.

Institutions for Enhanced Competitiveness in Egypt

ECES contributed the first chapter of the 9th Egypt's Competitiveness Report published by the Egyptian National

Competitiveness Council (ENCC). This chapter takes stock of Egypt's global competitiveness performance over two consecutive years 2011/2012 and 2012/2013 towards highlighting the areas of improvement, shortcomings and necessary corrective policies. In particular, the chapter profiled Egypt's competitiveness over the three years 2010–2011, 2011–2012 and 2012–2013, highlighting the three main Global Competitiveness Index (GCI) subindexes, the pillars and their associated dimensions. For each of the dimensions, the analysis was substantiated with comparable indicators from several national and international sources (e.g., World Bank 'Doing Business', 'Worldwide Governance Indicators' and 'World Development Indicators', World Heritage 'Index of Economic Freedom' and Transparency International 'Corruption Perception Index').

Recently Published Volume

Which Factors Determine the Upgrading of Small and Medium-sized Enterprises (SMEs)? The Case of Egypt



ECES, in collaboration with the German Development Institute, published a volume entitled "Which Factors Determine the Upgrading of Small and Medium-sized Enterprises (SMEs)? The Case of Egypt." This study investigates the main constraints as well as success factors for small enterprise upgrading in Egypt. Based on an enterprise panel data from 2004 and 2008 and a qualitative in-depth survey, the study concludes that in Egypt the main determinants of upgrading are the entrepreneur's (i) human capital (quality education, work experience and international exposure), (ii) motivation and risk readiness, (iii) investment in human resources, (iv) market research, (v) access to finance and (vi) ability to deal with persistent deficits in the rule of law (especially in state-business interactions such as licensing, taxation and inspections).

Social Events

ECES Ramadan Iftar

ECES organized an Iftar reception in honor of Mr. Mounir Fakhry Abdel Nour, Minister of Trade and Industry and Dr. Ahmed Galal, Minister of Finance. The reception was held in recognition of their previous contributions to ECES as founding members or researchers and on the occasion of their joining the newly formed cabinet. The Iftar was held on July 29, 2013 in Fairmont Nile City, Cairo.



From left to right: Mohamed Zaki El-Sweidy (Head of the Federation of Egyptian Industries and Member of ECES); Safwan Thabet (Chairman, Juhayna for Food Industries and Member of ECES); Mounir Fakhry Abdel Nour (Minister of Trade and Industry and ECES), and Omar Mohanna (ECES Chairman and Chairman of Suez Cement Group of Companies).



From left to right: Mounir Fakhry Abdel Nour (Minister of Trade and Industry and ECES), Omneia Helmy (Acting Executive Director and Director of Research), and Ahmed Galal (Minister of Finance and Former ECES Executive Director and Director of Research).



Members of ECES staff (from left to right): Tarek Abdel Baki (office staff); Magda Awadallah (Deputy Director for Finance and Administration); Omneia Helmy (Acting Executive Director and Director of Research); Mohamed Leheta (Senior Accountant); Hussein Mohamed (office staff).



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Omneia Helmy is Acting Executive Director and Director of Research at the Egyptian Center for Economic Studies (ECES) as well as professor of economics at the Faculty of Economics and Political Science, Cairo University. She held academic positions outside Egypt, including visiting professor at the University of Barcelona (Spain), and affiliate professor of economics at George Mason University, USA. Dr. Helmy is a member of the Egyptian Society for Political Economy, Statistics and Legislation; Egypt's Scientific Research Academy; the Economic Research Forum; the Egyptian National Council for Wages; and the Egyptian National Committee for Investing Pension Funds. She has undertaken several professional activities at various prominent organizations including the World Trade Organization, the World Bank and the Center for Economic and Financial Research and Studies at Cairo University. Her areas of interest include international economics, trade policy, institutional economics, pension reform in Egypt, in addition to macro- and microeconomic analysis. Dr. Helmy earned her Ph.D. in economics from Cairo University.

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Magda Awadallah is currently the ECES Deputy Director for Finance and Administration. Previously, she worked with several prominent organizations, including USAID-Egypt, UNDP/FAO, Louis Berger International, Inc, National Council for Negro Women (NCNW) and the International Development and Energy Associates (IDEA). She has extensive experience exceeding 30 years in the areas of USAID-funded projects and audit requirements.

MALAK REDA

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Malak Reda is a senior economist at ECES. She has practical experience in banking, and economic research. She has worked as a consultant for several organizations

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Iman Al-Ayouty is senior economist at the Egyptian Center for Economic Studies (ECES). She previously worked as adjunct faculty at the American University in Cairo and research assistant at Cairo University. Dr. Al-Ayouty was the recipient of the 2006-07 Fulbright Non-Degree Scholarship, where she was an affiliate of the Latin American Institute, University of California, Los Angeles. She has published on topics related to efficiency and industrial upgrading, decent work attainment, and the export effects of privatization and restructuring of public enterprises, all with application to the textile industry in Egypt. Her research interests include international economics, industrial organization, and economic development. She was awarded her doctoral degree in economics from Cairo University.

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Fax : (202) 33032228

AUDITOR'S REPORT

TO THE MEMBERS 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 2012, 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 and cash basis as shown in note (3/A) of the notes to the financial statements.

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 cash basis as shown in note (3/A) of the notes to the financial statements 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 referred to above, 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 2012, and its financial performance for the year then ended in accordance with the Egyptian Accounting Standards and cash basis as shown in note (3/A) of the notes to the financial statements and in the light of relevant Egyptian laws and regulations.

Basis Of Accounting

Without qualifying our opinion and as shown in note (3/A) of the notes to the financial statements as the statement of receipts and disbursements had been prepared 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

Fellow of ICAEW

Fellow of ESAA

RAA No. 5136

EFSA No. 28

Cairo 8 April 2013

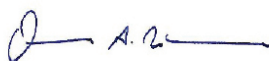
BALANCE SHEET
31 December 2012

	Note	2012 L.E.	2011 L.E.
ASSETS			
LONG TERM ASSETS			
Property and equipment	5	5,623,039	5,888,989
Restricted cash	6	50,000,000	50,000,000
Total long term assets		<u>55,623,039</u>	<u>55,888,989</u>
CURRENT ASSETS			
Cash and bank balances	7	3,394,744	2,669,362
Other debit balances	8	231,342	253,808
Balance of fund investment certificates	9	2,367,275	2,123,271
Total current assets		<u>5,993,361</u>	<u>5,046,441</u>
Total assets		<u><u>61,616,400</u></u>	<u><u>60,935,430</u></u>
SURPLUS AND ENDOWMENT AND LIABILITIES			
Surplus and endowment			
Surplus funds	10	11,522,425	10,722,990
Restricted endowment fund	6	50,000,000	50,000,000
Total surplus and endowment		<u>61,522,425</u>	<u>60,722,990</u>
LIABILITIES			
Other credit balances	11	93,975	212,440
Total surplus and endowment and liabilities		<u>61,616,400</u>	<u>60,935,430</u>

Auditor's report attached.



Ms. Magda Awadallah
Deputy Director for Finance &
Administration



Mr. Omar Mohanna
Treasurer



Dr. Alaa Arafa
Chairman

The attached notes from 1 to 16 form part of these financial statements.

STATEMENT OF REVENUES AND EXPENSES
For the year ended 31 December 2012

	Note	2012 L.E.	2011 L.E.
REVENUES:			
Endowment Fund interest income-Net	12	5,915,870	4,532,238
Members subscriptions/contributions	13	240,000	260,000
Revenues on research conducted to others		209,828	145,897
Publication Revenue and others		3,199	1,162
Other interest income		446	41,006
Net change in market value of fund's investment certificates in «CIB Osoul Fund»		244,004	169,656
Total revenues		<u>6,613,347</u>	<u>5,149,959</u>
EXPENSES:			
Salaries and other benefits		(4,129,000)	(4,732,470)
Operational and administrative expenses	14	(1,416,385)	(1,549,666)
		<u>(5,545,385)</u>	<u>(6,282,136)</u>
Fixed asset depreciation	5	(275,300)	(295,571)
Foreign exchanges gain		6,773	44,522
Total expenses		<u>(5,813,912)</u>	<u>(6,533,185)</u>
Excess/(Deficit) of revenue over expenses	10	<u>799,435</u>	<u>(1,383,226)</u>

The attached notes from 1 to 16 form part of these financial statements.

STATEMENT OF RECEIPTS AND DISBURSEMENTS
For the year ended 31 December 2012

	Note	2012 L.E.	2011 L.E.
Cash and bank balances at the beginning of the year		2,669,362	3,966,660
ADD:			
RECEIPTS DURING THE YEAR :			
Endowment Fund interest income-Net	12	5,915,870	4,532,238
Members subscriptions/contributions	13	240,000	260,000
Revenues on research conducted to others		209,828	145,897
Publication revenues		3,199	1,162
Other interest income		446	41,006
Other payables		93,975	212,440
Receipts from other receivables		253,808	219,402
Foreign exchange gain		6,773	44,522
Total receipts		<u>6,723,899</u>	<u>5,456,667</u>
LESS:			
DISBURSEMENTS DURING THE YEAR :			
Purchases of property and equipment	5	9,350	12,480
Operational and administrative expenses	14	1,416,385	1,549,666
Salaries and other benefits		4,129,000	4,732,470
Other payables settlement		212,440	205,541
Other receivables	8	231,342	253,808
Total disbursements		<u>5,998,517</u>	<u>6,753,965</u>
Cash and bank balances at the end of the year	7	<u>3,394,744</u>	<u>2,669,362</u>

The attached notes from 1 to 16 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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 2005 C Comish 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 2012 on 31 March 2013.

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 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 and approved by the minister of social affairs, as well as the annual subscription, membership fees and contribution made by ECES members.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

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 and assumptions 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

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

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 revenue and expenses 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 financial statements 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 for each category of fixed assets 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 2012

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.

d) Cash and cash equivalents

For the purposes of preparing receipts and disbursements statements, cash and cash equivalents comprise cash at banks, time and certificate of deposits held at banks, and cash held by both asset and investment managements. 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 endowment fund interest after deducting taxes of treasury bills is recognized as revenue based on accrual basis.
- The subscription and membership fees are recognized as revenue based on accrual basis.
- Research conducted to others is recognized as revenue based on accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

- Interest income is recorded on a time apportionment basis

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. 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**

Interest rate risk is represented in nature of ECES activities which maintain significant interest bearing asset. ECES uses two asset managers 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 and liabilities in foreign currency which has cash nature on the financial statements date are equivalent to LE. 189,202 and LE 27,211 respectively as mentioned in note (3-1) foreign currency transactions and the following is a list of net of foreign currency balances at the financial statements date:

Fore foreign currency	Surplus
US Dollar	26,056

The assets and liabilities in foreign currency (shown above) were translated by using the current rates at the financial statements date.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

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 2012	6,660,000	1,051,911	560,053	609,928	1,229,140	10,111,032
Additions during the year	-	-	-	-	9,350	9,350
Disposals during the year	-	-	-	-	(32,802)	(32,802)
At 31 December 2012	<u>6,660,000</u>	<u>1,051,911</u>	<u>560,053</u>	<u>609,928</u>	<u>1,205,688</u>	<u>10,087,580</u>
Depreciation:						
At 1 January 2012	1,094,082	786,792	560,053	607,567	1,173,549	4,222,043
Provided during the year	133,199	105,189	-	1,180	35,732	275,300
Disposals during the year	-	-	-	-	(32,802)	(32,802)
At 31 December 2012	<u>1,227,281</u>	<u>891,981</u>	<u>560,053</u>	<u>608,747</u>	<u>1,176,479</u>	<u>4,464,541</u>
Net book value:						
At 31 December 2012	<u>5,432,719</u>	<u>159,930</u>	<u>-</u>	<u>1,181</u>	<u>29,209</u>	<u>5,623,039</u>
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>

Cost of property and equipment include fully depreciated assets which are still in use are as follows:

	L.E.
Office equipment	1,113,451
Office furniture	607,305
Motor vehicles	<u>560,053</u>
	<u>2,280,809</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

6. RESTRICTED CASH

The restricted cash is invested by two asset managers in treasury bills and investment certificates of mutual fund. The current weighted average interest rate on the Endowment Fund restricted cash is approximately 14% during the year.

ECES is allowed to utilize the interest generated from investing the Endowment Fund to finance its activities, 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:

	2012	2011
	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

	2012	2011
	L.E.	L.E.
Cash at banks	307,491	127,727
Cash held by asset managers (Note 12)	3,087,253	1,922,585
Time and certificate of deposits	-	619,050
	<u>3,394,744</u>	<u>2,669,362</u>

The cash held by asset managers represents interest earned from managing restricted cash. The interest earned remains in banks under the supervision of the asset managers.

8. OTHER DEBIT BALANCES

	2012	2011
	L.E.	L.E.
Prepaid expenses	177,711	175,466
Other Debit balances	50,000	74,711
Advance payment	3,631	3,631
	<u>231,342</u>	<u>253,808</u>

9. BALANCE OF FUND INVESTMENT CERTIFICATES

ECES subscribed in CIB Osoul Fund. The total number of certificates as of 31 December 2012 is 12188 at L.E. 194.23 per certificate with a total amount of L.E. 2,367,275 (2011: 12188 ICs with total amount of L.E. 2,123,271). Net change in market value of fund's investment certificates is to be included in the statement of revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

10. SURPLUS FUNDS

	2012	2011
	L.E.	L.E.
Balance at the beginning of the year	10,722,990	12,106,216
Excess /(Deficit) of revenues over expenses	<u>799,435</u>	<u>(1,383,226)</u>
Balance at the end of the year	<u><u>11,522,425</u></u>	<u><u>10,722,990</u></u>

11. OTHER CREDIT BALANCES

	2012	2011
	L.E.	L.E.
Other credit balances	34,805	9,101
Accrued publication expenses	29,170	98,190
Professional fees	30,000	30,000
Other creditors	-	75,149
	<u><u>93,975</u></u>	<u><u>212,440</u></u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

12. ENDOWMENT FUND INTEREST - NET

Endowment fund interest represents in realized interest after deducting taxes of treasury bills generated from endowment fund invested by both asset managers .According to Law No. 84 of 2002, ECES as nonprofit organization can receive and invest funds, following the approval of the Ministry of Social Affairs. ECES obtained such approval to receive the Endowment Fund in September 2002.

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

	Beltone Asset Management Co. L.E.	Arab African Investment Management Co. L.E.	2012 Total L.E.	2011 Total L.E.
Balance at the beginning of the year	1,130,591	791,994	1,922,585	1,179,357
Accrued interest during the year –Net (*)	3,529,766	2,386,104	5,915,870	4,532,238
Cash transferred to the ECES	(2,780,000)	(1,840,004)	(4,620,004)	(3,660,000)
Annual fees (Note 14) (**)	(78,688)	(52,510)	(131,198)	(129,010)
Balance at the end of year (Note 7)	<u>1,801,669</u>	<u>1,285,584</u>	<u>3,087,253</u>	<u>1,922,585</u>

(*) Endowment fund interest is presented after deducting taxes of treasury bills.

(**) 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

	2012 L.E.	2011 L.E.
Members subscriptions	<u>240,000</u>	<u>260,000</u>

Members subscriptions/contributions are represented in 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 and this exemption had been extended for year 2012 according to decision taken in board of directors meeting No (1) held on 26 January 2012.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

- Annual subscription is determined according to article of association of the center and annual subscription fee of L.E. 10,000 for each member which is determined by the Extraordinary General Assembly Meeting held on 20 February 2008.
- ECES members contribute, in some instances, in financing some activities and events operated by the center (i.e. seminars...etc.).

14. OPERATIONAL AND ADMINISTRATIVE EXPENSES

	2012	2011
	L.E.	L.E.
Maintenance and insurance	502,048	486,455
Auto, insurance and fuel	135,187	123,413
Endowment asset managers fees (Note 12)	131,198	129,010
Roundtable and conferences	101,019	144,609
Technical assistance	94,345	118,394
Data and subscriptions	87,792	80,386
Office supplies	61,778	78,143
Publications	57,150	156,328
Medical insurance	30,927	32,573
Water and electricity	30,766	31,775
Professional fees	30,000	30,000
International travel and per diem	27,234	30,697
Rent	26,850	22,125
Entertainment	16,136	13,762
Telephone and fax	14,163	15,308
Training expenses	10,000	500
Courier, postage and shipment	8,011	10,726
Bank charges	6,460	4,241
Local travel	362	1,556
Miscellaneous	44,959	39,665
	<u>1,416,385</u>	<u>1,549,666</u>



NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

15. FAIR VALUES

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

16. TAXATION

ECES is exempted from income taxes on revenues or surplus of revenues in accordance with Law No. 157 of 1981 as amended by Law No. 187 of 1993 and Law No. 91 of 2005 Article No 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 accrue differences which amounted LE 10,978 were paid during year 2011.

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.