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The investment climate in Egypt:

Institutions or Relationships as Conditions for  
Sustainable Reform?

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## Summary

Countries referred to as “developing” are being urged more and more to reform their “investment climate”. It is often said that a “good” investment climate leads to both increased economic growth and reduced poverty. In these countries, corrupt government, clientelism, a lack of transparency in political activities and authoritarianism are often seen as reasons behind unattractive investment climates for investors. International development agencies believe that by adopting institutional reforms based on the best practices that have proved effective elsewhere, these countries could take their places in the globalised economy. The implicit argument is that the only way to generate the necessary confidence to create a good investment climate is to substitute a system of cooperation between private investors and public actors based on personal relationships for an institutional system based on formal and impersonal rules. However, experience has shown that merely introducing the “right” institutions is not sufficient to bring improved economic performance to developing countries.

Important issues are raised for societies operating under a mode of trust production based on personal relationships. Are they doomed to nepotism and corruption? Is the investment climate irretrievably entrenched in the fact that transaction costs become very high as soon as we move away from operations between networks of friends? Is it necessary, therefore, that these societies undergo some kind of cultural revolution which leads to the implementation of an ins-

titutional system based on the Rule of Law and the enforcement of property rights, in line with the theory developed by North? This would be necessary for creating an effective cooperation between individuals who have no particularistic relationships with each other. Based on a case study carried out in Egypt, we will argue by using an ethnographic approach that this thesis is not sustained.

Our observations show that it is possible to improve the investment climate, achieve effective cooperation between private investors and political decision-makers, fight against corruption and make effective progress without waiting for radical institutional reform. In fact, improvements to the investment climate in Egypt are due to the novel combination of “clear rules” and “flexibility” to meet the needs of investors as they arise. In this case, the ability to “adjust the rules” to meet specific problems faced by investors improves the investment climate, rather than introducing undesirable uncertainty.

In this way, we demonstrate that improving trust between private investors and public authorities is certainly a question of reforming institutions. However, the issue for developing countries is not to substitute particularist relationships for formal universal rules to improve the investment climate, but rather to have the capacity to establish institutional systems that reflect the local conception of a “good” cooperation.

## Introduction

There are many different definitions of a “good investment climate”. Although it is hard to give an exhaustive list and detail the diverse approaches adopted to explore the conditions for a good investment climate, recommendations drawn up by financial institutions and international development agencies on this issue are fairly standardised. These recommendations unanimously place emphasis on the importance of implementing “best institutional practices” and encouraging the adoption of “universal” formal rules in developing countries to promote private investment (Moore and Schmitz, 2008; Chang, 2007). The underlying assumption is that adopting Western standards is the only possible way available for developing countries to improve their investment climate and achieve economic progress. Decision-makers in developing countries are therefore urged to establish institutions which guarantee greater protection of property rights, provide an effective legal framework which helps the fight against rent seeking and increases the credibility and legitimacy of public institutions. Qian (2005: 302-3) provides a useful overview of these suggested recommendations:

“To these [new institutional] economists, a set of institutions is critical for sustained growth, including secure private property rights, protected by the rule of law, impartial enforcement of contracts through an independent judiciary, appropriate government regulations to foster market competition, effective corporate governance, transparent financial systems, and so on. The fact that all of them can be readily found in the developed economies, especially in the United States, implies that they are ‘best practice’ institutions”.

From this perspective, if developed societies have a “good investment climate”, it is because they have managed to

establish a form of trust production based on formal rules that apply to everyone, regardless of the intrinsic characteristics of each individual. Thus, institutions are separated from people (Meisel and Ould Aoudia 2007). This separation, which is the outcome of a long process of formalizing rules, increases institutional trust. Everyone must carry out the duties assigned to them within the institutional framework, whilst depersonalising the relations with the people they are working with. Letting personal relationships between private investors and political decision-makers influence economic decisions in most cases is often seen as a form of corruption or discrimination.

As a result, a widespread reproach made to both private investors and governments of developing countries is that they constantly contravene this separation between personal relationships and public activities, and that nepotism, favouritism, etc., are prevalent. These personal relationships maintained between private investors and public authorities – often referred to as “crony capitalism” – are reputed to increase transaction costs, generate uncertainty and promote rent seeking behaviour. It is generally regarded that for modernisation to work in these countries, the operations of both companies and public authorities must eventually take on only the functions they are supposed to carry out. It is, therefore, necessary to substitute trust based on interpersonal relationships for institutional trust, guaranteed by means of a system of transparent, formal and impersonal rules.

From this perspective, it is not surprising that the methods for creating a “good investment climate,” recommended by international agencies particularly stipulate formalising rules and making them universally applicable (separate from people) as the only way to free people from the tradi-

tional ties that are considered to be “impediments to development”. These recommendations do away with social and cultural contexts, and with the political dimension relating to how relations between private investors and public authorities operate. The origin of these recommendations is based on the tradition/modernity dichotomy established by the modernisation theory. This theory continues to influence the way in which challenges to development are formulated. It highlights the persistence of the argument that it is only by following a linear and univocal movement towards depersonalisation and formalisation of rules that individuals can be freed from the arbitrary yoke of traditional relationships and catch up with modern standards of developed countries (Yousfi, 2007).

However, within developing countries, the modernisation movement and the institutions that ensure effective cooperation between public authorities and private investors are far from identical (Meisel 2004; D’Iribarne 1989). The way in which factors ensuring a “good investment climate” are shaped is different in each country. Although the World Bank report (2005) on improving the investment climates mentions in various places the importance of having measures that are well-adapted to local contexts, the argument is unspecific and does not explain in what way and how policy should take these local contexts into account.

Much research, in political science and economic history, has questioned the hegemony of the “best institutional practices” discourse. For example, Rodrik (2005) put emphasis on the importance of an experimentation phase and on taking the political context into account in terms of improving the investment climate. Chang (2007) suggests that institutional change is above all a “political act”, which shapes the definition of rights and obligations, which in turn determines the institutional arrangements put in place. More specifically, Moore and Schmitz (2008) suggest that we should be more concerned with the specific conditions that enable the relationships between private investors and political decision-makers to generate productive investment. Building a “common interest” between the private investor and political powers is seen as a critical ingredient in terms of promoting and increasing private investment.

In this case, the creation of a climate of confidence between government and private investors, so that investors believe that the government shares a common goal with them, is more important than following strict rules:

“The *investment climate* (a) is more about intangibles – confidence, uncertainty, how (potential) investors feel about prospects of a good return on their investment – than about measurable costs; and (b) derives more directly from the reality and perceptions of the relationships between business and those who exercise political power. What largely makes the investment climate is the extent to which different groups of actual and potential investors perceive that those who hold political power are on ‘their’ side”. (Moore and Schmitz 2008, 17)

Furthermore, Moore and Schmitz argue that adopting a strategy to improve the investment climate in developing countries is more feasible than a broad policy of institutional reform because the institutional reforms of the sort implied by North’s analysis (North 1990) require many complementary reforms — in the legal system for example — to make them effective.

This argument can be taken a step further by examining the way in which local culture structures power relationships between investors and government actors. Whether these different actors are oriented by their private interests or by the construction of a “common interest”, the way they legitimate their strategies is embedded in the cultural context that provides meaning to their actions, and this context varies from country to country. These cultural references will both shape the strategies adopted and determine expectations about what constitute trustworthy relationships (d’Iribarne, 2003). Therefore, the analysis of the construction of common interests between public actors and private investors has to be analysed within the context of how actors interpret their relationships and give meanings to their actions.

In order to break away from a simple opposition between particularistic relationships - considered damaging to the

investment climate - on the one hand, and universal formal rules seen as critical ingredients for an effective investment climate on the other, we intend to use an ethnographic approach to highlight the nature of the dynamics in play during initiatives to improve on the investment climate. By using the definition of the investment climate developed by Schmitz and Moore, we are particularly interested in the criteria and reference points according to which investors interpret and assess the actions of political decision-makers. We will demonstrate that the sustainable investment climate reforms needed to overcome uncertainty require neither the implementation of more “institutions” nor the development of particularistic relationships between private investors and public powers. It is rather a case of taking local conceptions of “good cooperation” into account when implementing effective institutional reforms that regulate relationships between private investors and public authorities. In order to carry out this analysis, we will focus on a case study carried out in Egypt, in October 2007, on the impact of institutional reforms on relations between private investors and public authorities. As per below:

- We will start by presenting the context of the study and the research methodology adopted.

- We will introduce the difficulties encountered by private investors in Egypt, as well as the solutions implemented where institutional reforms were effective, as they were expressed by the respondents.
- We will demonstrate that although the actors were using a range of standard tools for improving the investment climate, they interpreted them in a particular way and used them in novel manners. We will show that although these reforms have a universal appearance, their implementation allows room for adaptations at local level.
- Lastly, by looking at the areas of weakness encountered in the creation of a strictly formal framework to regulate the investment climate, we will analyse the conditions for effective cooperation mechanisms to be implemented between private investors and the Egyptian government.
- In conclusion, drawing upon the lessons driven from the Egyptian example, we will attempt to find more general recommendations on the influence of culture when implementing effective institutional reforms.

## 1. Context of the study

Since a new government was formed in Egypt in 2004 and in particular since the cabinet reshuffle at the end of 2005, the country has taken real steps towards a policy of structural reform and integration into global trade. An influx of technocrats and decision-makers, often from the private sector and linked to the business world, has meant that reforms have been planned with the overall goal of improving the investment climate.

The government's strategy was characterised in terms of the introduction of clear procedures for investment and a broad programme of economic liberalisation. The elements of the programme can be summarised briefly as:<sup>1</sup>

- Reductions in tariffs and simplification of the tariff structure. This process started in the 1990s following Egypt's accession to the WTO in 1995. The average import-weighted tariff fell by 50% in the 1990s. There were further substantial tariff cuts in 2004. The system was simplified with the elimination of specific duties, a cut in the number of tariff bands from 27 to 6 and elimination of some distortions in duties.
- Customs procedures were simplified and customs service fees abolished.
- New impetus was given to the stalled privatisation programme.
- The income and corporate tax regimes were reformed.
- Rules for foreign investment were streamlined.
- Steps were taken to liberalise finance and banking.

Equally important, these reforms took place in the context

of bilateral trade agreements, most notably with the European Union. The EU Association Agreement — signed in 2001 but ratified in 2004 and involving substantial tariff cuts shortly thereafter — put economic performance high on the political agenda.

Although impressive results have been recorded (GDP growth, increases in foreign direct investment, imports, fiscal revenue, etc.), the question of if and in what way the reforms have influenced relations between private investors and the Egyptian government remains open to debate.

To understand to which extent and in which way these institutional reforms have had an impact on the investment climate, and in particular, on relations between private investors and the Egyptian government, we need to consider the way investors perceive these changes. More specifically, we intend to highlight the way in which culture provides reference points and taken-for-granted assumptions for Egyptian investors that they employ in interpreting the changes taking place and assessing the actions taken by political decision-makers.

When carrying out fieldwork, we used an ethnographic approach. This consisted of going into the field and conducting interviews to understand how appropriate the institutional changes currently under way are within the representations given by Egyptian investors of what constitutes a "good investment climate". This approach allowed us to analyse how the respondents interpret the changes as well as the way they are implementing them. We also aim to highlight how Egyptian investors give "meaning" to their action when cooperating with the government, and more generally, how effective cooperation is organised in an Egyptian context.

<sup>1</sup> For an analysis of these initiatives, see Demmelhuber (2008), El-Mezlawy (2006) and an unpublished UNIDO report for the Industrial Modernisation Centre in Cairo.



Across cultures, representations of relations between individuals and groups, legitimate methods of exercising power, and also methods of cooperation, vary noticeably (D'Iribarne 1989; D'Iribarne et al. 1998). These representations, which are largely implicit, form the foundations for institutional functioning, but also serve as reference points for actors in the course of their actions. We will therefore employ the notion of culture specifically in terms of the framework of meaning in each society that shapes conceptions of the way people should be governed. In other words, this does not refer to culture in terms of customs and values or shared identities, but rather to implicit representations that underlie the practices and discourses of people in terms of organisation and cooperation. The merit of this kind of approach lies in its capacity to clarify the conditions for "effective cooperation" in an Egyptian context and the way that this affects the adaptation of institutional changes of the investment climate in Egypt.

One way of understanding this analysis is to look at discourse as a means of grasping underlying representations and taken-for-granted assumptions. According to which reference points or underlying images do people formulate criticisms and give opinions about the various changes taking place? In order to do this, approximately twenty interviews were carried out in October 2007. Thirteen of the respondents were Egyptian (investors, representatives from public authorities and consultants) and seven were of various nationalities, all representatives of French companies operating in Egypt. The respondents were asked about their views on the institutional changes affecting the investment climate, the difficulties encountered and the drivers of effectiveness observed. Interviews with Egyptians were carried out in Arabic and English. Interviews with representatives of French companies were carried out in French. The majority of the interviews were

recorded and then transcribed literally. All the quotations below in inverted commas are comments made by the respondents<sup>2</sup>.

In this report, our goal is to recognise not only the opinions themselves, but also the representations that feed these opinions, and more specifically the cultural dimension of these representations. In this way, we are not carrying out a simple diagnosis of the investment climate in Egypt or discovering if the respondents have positive or negative opinion of what they are talking about or even if they are telling the truth or not. It is more to assess, regardless of differences in opinion and points of view, the common criteria that the Egyptian respondents use to express an opinion. By mentioning the particular type of cooperation that characterises relations between private investors and public actors, each of our respondents implicitly mentioned the shared conception of a well-ordered society which prevails in Egypt and which underlies the conception of a "good" cooperation. Nevertheless, by interviewing investors and key decision-makers in Egypt, it is also possible to have a better understanding of the way in which the reforms in Egypt have changed investor perceptions in a way that a non-ethnographic study would not be able to do.

The interviews carried out with representatives from French companies served, by means of differences in opinion given, to put into perspective more effectively the specific issues raised by some of the Egyptian respondents. Finally, the analysis presented in this document does not aim to establish in an exhaustive manner all of the reference points that determine the Egyptian context of meaning. Rather, it aims to show the way in which certain particular elements of cultural representations can interfere with the implementation of effective reforms in the Egyptian investment climate.

<sup>2</sup> Quotes translated from Arabic are indicated by \*

## 2. Standard solutions for common dysfunctions

Many economic reforms have been undertaken since the 1990s under different governments, but none has been successful. The respondents stated unanimously that the reform policy taken on by the Nazif government since 2004, constitutes a turnaround in economic life in Egypt. Significant changes have been observed in government policy, and these have had a great influence on the investment climate in Egypt. Increasing levels of local

and foreign direct investment have been one of the direct results of these noticeable improvements in Egypt's investment climate. In order to have a better understanding of the scope and impact of these reforms, it is useful to look at the difficulties and dysfunctionality of the system that investors in Egypt previously faced and the solutions put in place, as they were evoked by our respondents.

### 2.1. Clearly identified dysfunctions

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The interviews were able to identify different issues with the investment climate existing before the reforms. These can be summarised under three headings: the lack of any clear system, centralisation of power, and payments demanded by officials.

#### ***Confusion prevails***

One of the problems outlined by our respondents is the lack of precision that formerly characterised the investment climate in Egypt. This relates to various areas. Firstly, the lack of clear rules specifying the steps to take when conducting business was highlighted as one of the major difficulties. The lack of a "system", at various levels, is often used to describe this problem, and various interviewees made unfavourable comparisons between Egypt and other countries:

"Before, there were things you can't imagine, there was no system, you can have an asset which stays on the book for 20 years. The way they have created the rules of accounting, oh, you have long stories," stated an Egyptian economist.

"The difference between us and the "khawegua"<sup>3</sup> is the "system". They can implement a system and as a result, people respect it. The best example of this is Motorola Egypt, which is owned by a Korean company. I've noticed that this company is among the best Egyptian companies. The Korean have established "a system", the workers have a "system", so they work like clockwork" explained an Egyptian investor. \*

"There is a difference in mentality between us and the French....The biggest difference between us and the French is that in France everything is systematic. Here we are lacking a system," noted an Egyptian representative of a French company.

"The difference between us and Tunisia for example, is that Tunisians want to succeed, there are no intermediaries, there are no interventions, they have 'a system'" commented an Egyptian entrepreneur\*.

According to the respondents, the lack of system is associated with the confusion generated by the personalisation of decisions, which does not allow a long-term perspective

<sup>3</sup> Egyptian term for foreigners.

on the evolution of the investment climate. Decisions taken can change from one day to the next if the decision-makers change. An Egyptian investor comments on this in relation to the misfortunes of a foreign company in Egypt:

"[Company A] bought a company [an Egyptian businessman]. One or two weeks later, the customs duties fell from 100% to 45%, the guy went crazy, nobody knew the rules, the change had been made because there had been a change in the government. He said, OK, there's a change in government but there hasn't been a change in the party. There needs to be more stability in decisions for a minimum 6-year period".

An Egyptian lawyer cited by Jean Claude Delaunay (1992: 24) provides an overview of certain negative aspects of his experience of negotiating with the Egyptian administration:

"Here in Egypt, an agreement is not an agreement in the Western sense of the word. Imagine that after drinking litres and litres of tea, you agree with the Egyptian authorities and you finally make an agreement. You go home. You are happy. But in 90% of cases, you will get a call the next day to suggest adding this or that. The new proposal has a different content to what you had decided the day before."

With regard to the same problem, the MD of the Egyptian subsidiary of a French company explains that the lack of a stable decision process complicates running businesses in Egypt:

"When a negotiating partner or decision-maker is replaced, you find yourself back where you started because those taking their place are not committed. It may not be the same negotiating partner. For example, if the governor is replaced, you may find that it is the successor or even the minister who makes the decision in the end. Therefore, it can be very complicated because the person looking after discussions does not have the authority to sign an agreement. The contract comes later.

The problem is that the negotiating partners you have on paper are not the ones who decide. This is not an issue specific to Egypt, but in Egypt it is rife."

The multitude of decision-making bodies can lead to conflicts, which only exacerbate the instability in the investment climate. An Egyptian representative of a French company commented:

"The privatisation process was badly managed in the BOTs and there was no transparency. The government is working with international consultants and there is political pressure. These are ongoing struggles between the Ministers and the army. The conflicts are settled by the President. There are laws; there are Ministers who have their national projects. In the ...sector, there are new projects. The Minister is OK but there is still conflict with the governor on the subject."

Another Egyptian executive highlights:

"There is a predominance of personal relationships in working relations – I will try and keep you happy.....There are positive and negative aspects. When there is a personal relationship there are problems and this opens the door to the informal.....When there is a lot decision-making face to face, there is the risk of it becoming informal."

This ambiguity is exacerbated by the abundance of regulations, which at times contradict one another. This leads to varying interpretations of the procedures to follow and highlights the arbitrary nature of the implementation of decisions. For example, there are new laws, but without the necessary ministerial decrees to accompany them, and this prevents the implementation of certain reforms. The new laws do not supersede the old ones.<sup>4</sup>

"Often the problem is that there are many laws that are voted in but which are not applied, or declarations of principles which are not later implemented. It's like having a chair with no legs. There is no implementation," noted an Egyptian consultant.

<sup>4</sup> For example, Law no.83 (2002) does not relate to the standard control measures in place, but allows for implementation of specific economic zones which are exempt from bureaucracy and leaves the rest of the economy under traditional control.

“On the one hand, we are suffering from an excess of regulations and on the others a lack of them. We do not know how to regulate. The interventionist State regulates a bit too much and in a contradictory manner. Market logic (...) requires very clear regulation: we cannot have a market economy without having regulation of the financial sector, trade instruments, bills of exchange, the auditing professions and distribution of financial information. The question is not whether we regulate more or less, but that we know how to regulate,” commented an Egyptian banker, cited by Eric Gobe (2007: 256).

A French investor comments on this subject:

“In all legal systems, in order for them to function effectively when a new legal regulation is established, it is explained in the document that all other previous regulations are substituted by the new one (particularly if the new regulation proves to contradict the preceding ones). In Egypt, this is not the case. Therefore, in general, people end up having two or three regulations that contradict each other. There have been new legislations promulgated recently, but the preceding regulations have not been tidied up. So, these documents pile up without the preceding ones being cancelled, therefore in many cases, they don’t go anywhere.”

Later on, he goes on to say:

“Egyptian people do not even imagine that this can be done any other way. They would undoubtedly be annoyed if they had regulations that they could not work around. Therefore, the problem remains a big issue.”

To summarise, this lack of clear rules, the array of decision-makers and uncertainty about who takes decisions create a considerable amount of unpredictability. Investors do not know how quickly initial decisions will be made. They cannot be sure about the stability of future decision-making and therefore it becomes difficult to calculate likely returns. In addition, the

multiple and conflicting points of decision hibernating within the system mean that it is difficult to come to an agreement with political actors about the investment regime. It is hard to align interests when it is not clear with whom one should be trying to align.

### ***Centralisation of power: The gap between “big” and “small”***

Not surprisingly, in the face of such uncertainty, investors seek to find reliable partners in government who can deliver the decision-making they seek. But this, in turn, creates new difficulties in the investment climate. In particular, if the respondents’ perspectives on how the system operates are accurate, it systematically favours large firms over small. Our respondents have been insisting for a long time that clientelism disrupts the development of a healthy investment climate in Egypt. The centralisation of power is seen as the factor responsible for the bureaucratisation that characterises administrative institutions and is also a reason for clientelist relations developing. The image given by our respondents to describe how the hierarchy at the centre of clientelism works is of that of the “Malek<sup>5</sup>” or “Pharaoh”, who has absolute decision-making power:

“It is a traditional state, you have the “Malek” who has the support of the Army, the public doesn’t play any role,” states an Egyptian investor.

“There can be different points of view but at the end of the day there must be one dominant opinion, in general it is that of the chief. It is he in the end who must take responsibility for the decision,” said a top executive of an Egyptian company.

“The structure of power. The Head of State, the “Pharaoh”, and then you have the police, the justice system, and the army and then much lower down, the engineers (Ministers) and below that, you have the people. It is a question of management,” commented an Egyptian consultant.

<sup>5</sup> King.

The centralisation of power is often embodied in the bureaucracy of Egyptian public administration. Centralisation of power and lack of accountability further undermines predictability:

“The concentration of decision-making power within the administration means that everything is in the gift of the government. The administration is all-powerful and everything that is not explicitly allowed by a particular piece of legislation is forbidden until there is proof to the contrary. The administration can turn a blind eye to infringements but at any time they can intervene to stop people’s work and severely reprimand them. This is how the Egyptian administration maintains its overall power in relation to the business world and the Egyptian population. They are the ones with the power to give or refuse to give (...). Businessmen in particular do not know beforehand what their rights and duties are and enter into an inextricable maze of laws and regulations,” commented a lawyer, quoted by Gobe (2007: 263).

Such centralisation and the obstacles it poses to speedy decision-making is not, however, a problem-solving of the public sector interject. Foreign investors, who have criticised the centralisation of power for a long time, comment on this:

“I arrived in April and I started arbitration proceedings. I have to meet the Prime Minister to tell him about our problem. Regulation is based on hierarchy. The role of governor is an important one, he maintains is responsible for security and takes all the decisions.....We have good relations with our clients, the problem in Egypt is that governors are ex-generals, so it is not easy to talk “shop” with them, and that’s an issue. They cannot understand town planners. They are ‘Rais’,”<sup>6</sup> stated a Canadian director.

Centralisation of power and the need to establish good rela-

tionships with power holders creates a bias against small enterprises and those investors that have not developed links with the relevant authorities. In this way, it is only the “big” investors that have privileged relationships with political decision-makers who can benefit from the opening up of the Egyptian economy. Only big investors have the relationships with government needed cope with the centralisation of power (Henry and Springborg 2001; Gobe 2007).

The comments of people interviewed particularly focus on the “disconnection” between the top of the hierarchy, which represents the political decision-makers, and their “rich friends”, and the rest —the “small” investors generally represented by small and medium-sized businesses that have trouble covering the costs created by the vagaries and bureaucracy of Egyptian institutions. This is what an Egyptian consultant had to say:

“The country’s economy is split into two different countries: one country with a stock exchange, banks, ministers and the GAFI<sup>7</sup> and investment opportunities, and then you have another country where there is greater obscurity. SMEs, for example, have many problems, as if they were not part of the private sector. The private sector is made up of friends, X.Y...etc. The GAFI, the stock exchange and investment is for foreigners and the rich, but the rest of the people are only involved in national insurance, social security and grants, which they [the government] want to charge them.”

Later, he adds:

“It’s not easy for X<sup>8</sup> to meet one and a half million small entrepreneurs, but it is easy to meet 20 large investors, that would take a week at most, but that isn’t a good reason to do nothing for SMEs! We have different institutions that are just organisations in the hands of the government and a tool for the rich. Small entrepreneurs do not trust these institutions. For them, these are struc-

<sup>6</sup> President.

<sup>7</sup> GAFI, the General Authority for Investment and Free Zones, is the principal governmental authority concerned with regulating and facilitating investment. Its activities are discussed in more detail below.

<sup>8</sup> To keep the confidentiality of our information, we have anonymised references to Egyptian institutions mentioned by respondents.

tures that collect money, people have to go to Y, which is a member of the Federation, to pay them money, but what does Y provide for them? Nothing.”\*

Another Egyptian executive comments on this subject:

“Don’t ask me about my opinion on that [.....], they make me angry. I tell you, I don’t know what they’re doing. I’ve never seen anything of what they do. They make a lot of noise but I’ve never seen them do anything. Only God knows. They have been making a stir for five or six years. I said to them once that I wanted to see the 5000 projects that they are helping, and asked for a list and to tell me what they had done with each one....When the industry modernisation programme was implemented by the European Union it was to help SMEs, but now they don’t work with them, they work with large businesses. But why help “big” investors? They can help themselves. SMEs need to be brought up to date. The X is no use - if only it could do something to help. If you ask them, they say they have done all they can. I’m on the outside and I haven’t heard that they’ve done anything.....I’ve had meetings with various people from the X and they haven’t done anything.....Five or six years and nobody remembers the programme.”

One of the criticisms against this hierarchical operation is the disparity between how the “big” and the “small” are treated. There are no regulations that apply to everyone. Only “friends” or the “privileged” can profit from the relational rents derived from being at the top of the hierarchy. Although the most powerful can exploit the dysfunctions of the Egyptian institutional framework to their advantage through their social capital, the owners of small businesses who pay a high price for the Egyptian bureaucracy are in fact implicitly discriminated against. In a system like this, it is “Fahlawa”<sup>9</sup> and “balataguya”<sup>10</sup> that have the power and it is the law of the strongest that prevails:

“I could have all the necessary papers to open a business

and while I’m waiting for an answer other people are opening businesses without having to do anything. “Fahlawa” and “baltagua” are the only way to survive,” explains an Egyptian entrepreneur.

“In this country, there are the little people and the big people. In general the people with money are the “baltaguya”, the big ones crush the little ones; the large eats the small.”

In a set up of this kind, laws and institutions no longer hold any credibility and there isn’t even the smallest amount of confidence in a good investment climate:

“The subject of governance is a meaningless topic of conversation that people keep talking about. If governance exists, it is between them. They associate with their friends and consult each other on things. By this I mean the committee of politicians linked to the National Democratic Party, existing ministers and a few of their friends who are big businessmen. Ok, they sit down, talk amongst themselves and then they have participated in and represented the private sector. The notion of transparency means you can do what you want. Yes, of course this impacts on the investment climate, but only for people in high places,” commented an Egyptian consultant.

“There is an issue of trust. We are scared of everything. We place our trust in people and not in laws,” noted an Egyptian entrepreneur.

“The reforms carried out only relate to the rich and to foreigners. But it doesn’t belong to the rest of the people; they do not feel it concerns them (.....) Dialogue is only carried out between people with power [those in control of the solutions and the conflict / ahl alhal we alakd] and not between everyone,” explains an Egyptian consultant.

<sup>9</sup> Resourcefulness, smartness– it is the art of adapting oneself to circumstances in a pragmatic way and managing difficult situations, using skills and stratagem. This term is similar to ‘metis’ (what the Greeks call practical intelligence), as discussed by Detienne and Vernant (1974).

<sup>10</sup> “Banditry. A “Baltaguy” is a “henchman” or a “thug”.

**“Paying under the counter”: the normal way of working**

Another issue associated with the operation of government prior to the recent reforms was corruption. Our respondents talked about corruption as being the standard *modus operandi* in Egypt. Corruption is the result of the various dysfunctions that investors in Egypt come across. It is inextricably linked to the imprecision and bureaucracy that characterises Egyptian institutions, as well as clientelism brought on by centralisation of power and the personalisation of decision-making. In fact, due to the chaos created by the lack of clear rules for organising the economy, “paying people under the counter” seems to be the most effective solution to “sort things out”.

Once again, this leads to unpredictability:

“All the tax employees put money in their pockets; they use to get paid under the counter...The result is that the taxes money that should go the government, they took it. Before, People use to play with their books... The tax guy comes and asks to pay x, they would say you read the book but wallahi [in the name Of God] I think you didn't understand...The tax guy would ask for 1000 for example, they would ask him how to arrange the books to avoid paying taxes? They keep bargaining. It is unbelievable, the taxation was not real, it has never been real... On both sides, on one hand the payers who are playing with the books and on the other side the taxation people, who play with the procedures. You can have a paper from them with their stamp saying that you have paid taxes and then you receive another claim that changes the payment... Allah, but I have your approval that I paid? No, No, we looked at the file again and we think you have to pay something....It was so confusing and “malakhbata”<sup>11</sup> so what to do? You have to pay under the counter,” commented an executive from an Egyptian company.\*

“The aid money we receive increases corruption because there are no effective control measures! When there

are no regulations, when there is no “accountability”, when money arrives somewhere, we have no way of knowing how it is spent. Nobody can know!” commented an Egyptian consultant, who went on to say: “The government is corrupt. Everybody knows it. All these institutional reforms serve Jamal Mubarak (the President's son) and his friends. Corruption is eating away at the country,” commented an Egyptian consultant.\*

“There are other sources of corruption: complicated laws, if the laws themselves are not clear and precise, it is not clear how to go about doing things. A large proportion of the customs corruption is because of a complicated laws,” commented an Egyptian consultant.\*

According to our respondents, the fact that corruption is present in the highest power structures systematises corruption as a normal *modus operandi* in Egypt:

“There is a lot of corruption within the cement and metallurgical industries. Corruption can reach such levels that the government itself cannot keep it quiet any more. That's it, that's enough, there is a problem with the cement industry and there is a problem with metallurgy, too....The greatest monopoly of the metallurgical industry is held by the Z, one of the closest allies of our king, the President. We are told that this sector is not being privatised because specialised knowledge is needed in this field. You don't know anything about it, you are ignorant! But no, we know plenty!” commented an Egyptian consultant.

This comment highlights the dual impact of the system on the investment climate. On the one hand, it can represent the cost suffered by many firms as “under the counter” payments become habitual. On the other hand, and perhaps more damagingly, it enables some enterprises to benefit from government favours and privileged access to resources and opportunities at the expense of other enterprises.

<sup>11</sup> Chaotic.

Favours are given to “big” parties and “friends” for “important” projects, by negotiating with top officials and various ministers, which does not help to promote the emergence of other ways of working:

“X is involved in big projects. He has a budget of 450 million euro, which is a lot. X was blocked; he couldn’t work for 4 years because of political conflict. When you put down a lot of money and there is bureaucracy and corruption with many institutions wanting to take control of the project, there is the issue of cross-cutting. This is not uniquely linked to the Ministry of Industry, but also the Ministry of Health and the Ministry of Finance. They prefer to have a dispute that achieves what? They argue over who is going to take the money, but nobody thinks about the impact of this money. How did they resolve the conflict? They turned to their friends, the symbols of the private sector, like the Director of X. Which businesses benefit from this? There have certainly been reforms and there have been companies that benefited from them, but these reforms should have happened earlier, they should have been on a larger scale, meaning it is not enough that a limited number of people benefited from X’s money. Now that they are no longer hungry, they are saying, OK, we will increase the number of beneficiaries,” commented another Egyptian consultant.

“People cannot find the money for food or education....they see the government robbing all around them, why should people work, what is going to make them work?” asks an Egyptian entrepreneur.

Nevertheless, some of the respondents rejected the word “corruption” because it relates to money that reaches small-scale public officials for various services. They describe

money received “under the counter” as a way of distributing wealth. They also talk about “compensation” with the purpose of “facilitating” work:

“Why have employees of property tax offices gone on strike? They want the same salary as people employed by the Ministry of Finance because they have a low salary and the others have high ones. If we as a government managed to increase people’s salaries to a human and acceptable level, corruption would be eradicated. Prices in Egypt have increased considerably, we cannot go on like this. When I say this, people get annoyed with me but that’s how it is. How do people eat? I can only say that that is what corruption is, it’s compensation – what does compensation mean? The small guy who takes 50 or 100 or 200 pounds under the counter manages to increase his salary. I can’t call that corruption. There are poor people and a person that takes 50 or 100 pounds is someone who is poor, because they don’t want to overhaul people’s salaries. This situation is going to go on and on....” noted an Egyptian consultant\*.

Prior to the reforms, the poor investment climate was a disincentive to investors because of the slowness and unpredictability of government decision-making. It favoured some firms, which had privileged access to government, but operated against others, and in particular, against the small and medium-sized enterprises that did not have the right contacts or influence. The respondents, however, were reluctant to characterise day-to-day payments as corruption, seeing them rather as an effect of a system in which government officials were paid very low salaries. The respondents were more likely to refer to the influence of some firms with the highest levels of government in terms of corruption.<sup>12</sup>

<sup>12</sup> It is important to distinguish between “small-scale corruption” affecting the relationships between citizens and the administration and “large-scale corruption” which affects relations between companies and the State.



## 2.2. Perceptions of the changing investment climate

The respondents reported a big change in the investment climate in recent years. This started with the arrival in the government of ministers coming from business, as discussed more extensively in Abdel-Latif (2008). The influx of Ministers in the government from the business world, who were aware of the current economic issues that Egypt faces, was seen as a turning point in government policy (see Appendix 1). Everyone saw the new ministers as being responsible for the dynamism observed in investment in Egypt:

“It was easy to change the system because the new one is better and easier. In addition, the government hired different calibres, which makes so much difference, on every level in the ministries. Before a Minister could stay Minister for 20 years, now things are completely changed... A lot of them are from business background, they know what to do, they are well educated...and this has definitely made a difference. At the government committees, they hired top management people, a high calibre instead of people who use to be very bureaucratic, limited in their thinking,” explained a top executive from an Egyptian company.\*

“There has been a change in quality within the Ministries. The ministers have been well selected and follow clearly

outlined paths,” noted an Egyptian representative of a French firm.

The new government has implemented a series of standard reforms (see Box 1) for the well-known dysfunctions identified above. As can be seen in this box, which is taken from the Egyptian government’s own presentation of its investment climate reforms, these were characterised very much in terms of institutional reforms along the lines recommended by the World Bank and other development agencies. In the first instance, we will look at the solutions put in place from the perspective of the interviewees. We will see that the dysfunctions that characterised operations previously have not completely disappeared but are on the decline. There are greater relationships of trust between political decision-makers and investors.

Then in the next section, we will examine the way in which these reforms have been interpreted and adapted by the main parties involved in order to explore the avenues for sustainable reforms. These reforms are fiscal reform, the introduction of clear procedures, and the development of a single authority for investment decisions and greater business participation in policymaking.

### Box 1 Investment Climate in Egypt

“The Government of Egypt (GOE) is undertaking a series of versatile amendments towards reforming and improving business and investment climate in Egypt. The government strategy is strongly committed to streamlining investment procedures, dismantling bureaucratic obstacles, and liberalizing business. Towards the realization of its goal, the GOE undertook a series of reforms regarding its policies as well as its institutional frameworks to pave the way for an improved investment climate and a more developed business environment in Egypt.

It is indispensable that attracting more Foreign Direct Investment FDI is becoming a highly-developed profession that requires the existence of appropriate and integrated national as well as regional institutions and structures. Furthermore, FDI attraction unquestionably requires a supportive business environment and a community of qualified and professional people with the skills and knowledge to attract FDI flows within the highly competitive international context.

New set of government policies, investment laws, and guarantees have been introduced with the purpose of fortifying and revitalizing the investment environment in Egypt. On one hand, Egypt’s proximity to international markets and the rapidly-growing demand for certain

industries, locally as well as worldwide, play a vital role in encouraging exports and improving productivity. On the other hand, new investment laws and government regulations have recently eased international trade barriers and allowed for more competition through bringing foreign investment flows into Egypt, as well as increasing competitiveness of Egyptian businesses to meet international standards and compete in the global markets. As a result of international trade agreements, Egypt enjoys a wide range of market access to North America, China, Europe, North Africa and the Middle East, with its central location bridging the three continents, Europe, Asia, and Africa.

As part of the coherent and comprehensive framework set off by the new ministry of Investment, a number of exceptional incentives are being granted to companies in particular for their purchases of stakes in public sector enterprises, and their endeavour for administrative restructuring and financial modernization."

Ministry of Industry:

[http://www.investment.gov.eg/Moi\\_Portal/en-GB/Investment/](http://www.investment.gov.eg/Moi_Portal/en-GB/Investment/)

### **Fiscal reform**

In order to improve the investment climate in Egypt, one of the reforms most frequently cited by our respondents is fiscal reform and the restructuring and significant reductions in customs duties:

"Since 73 there has been an obvious move towards an open economy, "Infitah,<sup>13</sup>" and businessmen are now welcome. We have gone from a planned economy to one that is more liberal. There has been opposition and there was lot of resistance to privatisation at the start, but Nazif's government has moved privatisation forward. He has offered lots of facilities to private enterprise and has made public enterprises move forward!" noted an Egyptian investor.

"The most important reform is that of the legal fiscal environment. The issue of taxes is completely resolved. They have respected World Bank criteria," commented a French Director of an Egyptian branch of an Egyptian company.\*

"From the Egyptian side, government reform, the reduction in taxes and customs duties has been very encouraging for French investors. The Ministry of Investment has gone to great lengths and has greatly improved the climate, and also significantly simplified things," commented a French investor.

In other words, privatisation, and tax and tariff reforms have increased transparency, predictability and the speed of functioning of government. These changes were noted and appreciated by Egyptian and foreign investors alike.

### **Clear procedures**

Alongside fiscal reform, our respondents cited the clarification and simplification of the procedures required for investing and managing investments as a key element that explains the huge improvements in Egypt's investment climate. An Egyptian consultant made the following comment on this subject:

"There have been a series of laws (to encourage investment), but the biggest reform is that of the procedures. They have facilitated procedures relating to registering and starting up activities. The period of time necessary to start an activity has been reduced, rather than talking of months, six to seven months, we are now talking 10 days, and this is seen as an important reform....There has been a great amount of work to facilitate the procedures and as a result, the level of investment has increased. There has been a large increase in the level of direct foreign investment, which is very important.

<sup>13</sup> "Infitah is the official word used by Egyptians to talk about the "openness" of the economy as opposed to the era of Nasserism.

There has been real enthusiasm about investment which is reflected in the growth rates.”\*

“I think that the increased levels of investment translate in part to the level of trust in the new investment climate and also as a reaction following seven years of corruption. The things that have improved investment are on the one hand clear procedures implemented by the government, and on the other, that the corruption crisis is on its way out. Together these two things have led to increased investment,” noted an Egyptian investor\*.

“Regarding Egypt, we cut so many things in red tape, with the clarification of the procedures... For example, the tax system has been much improved and it is definitely going to encourage the investors, it becomes very clear now especially for foreign investors who have a straightforward way of doing things,” commented a top executive of an Egyptian company.\*

### **One-stop shops**

Aside from clarifying and simplifying the investment procedures, our respondents also highlighted the role played by the reduction in administrative bodies involved in the investment process. As an executive from an Egyptian company explains, since the tax system was reformed, having one or two administrative bodies to deal with and pay taxes to has neutralised the consequences of uncertainty that investors previously had to face:

“The tax system has been improved now; at least you know there is one or two entities you deal with instead of being lost between so many administrations.”

One of the institutions seen as the most effective example of a single entity promoting investment is GAFI (General Authority for Investment). GAFI is the sole body that investors have to deal with in order to register their investment projects and have them approved. It takes the form of a single window, which according to our respondents, has LARGELY contributed to improving the investment climate in Egypt:

“GAFI has allowed procedures to be facilitated. It implemented the ‘One stop shop’ which has got rid of the big-

gest impediments faced by investors,” noted an Egyptian consultant.\*

“With GAFI they have set up a single counter, a one-stop-shop, the time taken is counted; there are clear criteria for people who have complaints. There have been great improvements and the proof is that there have been big investments, and there have been enormous investments this very year,” explained an Egyptian investor.\*

“The way things worked in the past have been put into question, and there have been reforms. For example one of the biggest reforms is that of GAFI, which is a single committee: GAFI looks after everything relating to investment,” commented an Egyptian representative of a French company.

### **A participative decision process**

The three preceding areas of change just described referred to the standard investment climate issues of the speed of action (a single window, etc), clear procedures, simplified rules and a reduction in the weight of the state in the economy. Equally important in the minds of investors, however, was the issue of the government’s willingness to involve business in policy making. Improvements to the investment climate have frequently been associated with the government’s efforts to involve investors in the decision-making process. Whilst they criticised a past where decisions were dictated by the top of the hierarchy, our respondents highlighted the important role of discussion and participation in decision-making in the progress seen with the investment climate:

“We used to hear about government decisions in the newspapers...Now things have changed. The government gives us the opportunity to think things through and discuss them, and the proposals are studied. The government is doing all it can to protect investment,” explained an Egyptian investor.\*

“Now the government listens and responds... Now there are discussions and disagreements,” pointed out an Egyptian executive from a French company.

“The investment climate now is much better than it was three years ago: in participation process, in decision making, policy...It is not important that there is a problem as long as you are participating in the solution of that problem, to have a problem and that you are isolated or disconnected from the participation in the solution and you are not consulted and you are not part of the process, it is very frustrating for investors... So, right now, people are more involved, they get involved in defining the problem, offering the solution, proposing the solution and participating in the solution,” commented a representative from public administration.

“What is different today is that the government gives us the opportunity to have discussions and to make suggestions,” commented an Egyptian investor.

A representative from an Egyptian investment regulatory body sums up all the reforms implemented in the following passage:

“It’s important for a good investment climate to have better governance. To achieve this we have Ministers who understand business. We have changed the taxes system and the customs duty system, it is a dramatic change, it was a revolution of the mindset, we have clarified the procedures and we have involved investors in the decision making...”\*

A reading of this passage and of the full gamut of the remedies proposed by our interviewees for overcoming the dysfunctions identified in the Egyptian investment climate might appear to confirm the theory that to improve the investment climate it is sufficient to implement universal rules for good governance, such a clear procedures, a single organisation as, and participative decision-making. In this case, the dynamic results seen in Egyptian investment can only be the result of the effective application of universal formulae. However, on closer examination, the interviews reveal that the dynamics at work in the changes that have taken place are much more complex than simply implementing standard rules, as will be seen in the next section.

### 3. The reforms viewed from a local perspective

To get a better idea of the challenges of the changes described above, we will now analyse both the way in which our respondents have commented on the reforms put in place and the way they have interpreted the conditions for effective cooperation between the government and investors necessary to maintain progress. This analysis of the way in which investors interpret the reforms within a particular framework of meaning allows a greater understanding of the impact on investors and the strength and weaknesses of the reforms undertaken so far. In this analysis, the focus is on the issues of transparency, dialogue and the institutionalisation of the “intermediary” role in relations between private investors and public actors.

We will demonstrate how de-articulation of three elements has increased the levels of trust between private investors

and the government by promoting changes in interest and managing uncertainty:

- By making procedures transparent, the levels of corruption have decreased whilst also controlling the conditions on which flexibility is permitted for the management of uncertainty;
- Implementation of a “permanent” dialogue between private investors and the government has played a critical role in aligning interests between both parties.
- The institutionalisation of the role of “intermediary”, which is an informal cooperation mechanism used traditionally in Egypt, has enabled the simultaneous achievement of transparency in procedures and the fluidity in processes needed for the alignment of interests.

#### 3.1. Fighting for transparency: Which “system” are we referring to?

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We have already observed that the discussions surrounding corruption make clear that it plays a significant role in Egyptian society. It is very well established and, although it is criticised, it is often seen as a product of the injustices of Egyptian society, and in many quotations it was viewed as a means of redistributing wealth where there are no other mechanisms to do so. Therefore, when our respondents were asked about their opinions on combating corruption and clientelism, their answers were fairly uninspired. They preferred talking about fighting for transparency rather than combating corruption. In other words, they identify an underlying problem (lack of transparency) and the solution (greater transparency) rather than corruption, which they present as a symptom of this underlying problem:

“I have a very strong belief that the fight against corruption is simply the fight for transparency. Instead of saying we are fighting against this, I prefer to say that we are fighting for transparency. Because to think that fighting against corruption means catching someone every day by using more policemen, it doesn’t change things on the ground. I think it is more around transparency, if the government agencies manage to install transparent systems and procedures; that would take off most of the problem,” commented a director of an Egyptian regulatory body.\*

“The issue is not the corruption...For me better governance, it means transparency and the communication of the information to ensure equity for players involved in business,” explained an Egyptian investor.\*

“We operate under transparency; we only work with the companies that are transparent, that show their investment books, they are legal with their books, operative in the light not in the dark... We work here with the formal sector, we are here to support the formal sector and to encourage the informal to formalize” explained a director of Egyptian public administration\*.

This reference to “transparency” as a necessary component required to clean up the investment climate in Egypt, as was noted above, was often linked to implementing a “system”:

“Now, there is a system, things are being operative in a more transparent way than they were five years ago; there is greater transparency in land allocation, in getting permits... All this is done in a more transparent way today and this reduces the vulnerability of the personal relationship because when it is a transparent system, if you are doing nothing wrong, if you are doing nothing illegal we won’t have problems but if you have special relationship with somebody who is giving you something which is out of the... you will have problem... But there is still room for improvement always,” commented an Egyptian company.

“There is a system now; it is the most important change. To have a system reduces the vulnerability of investors,” explained a representative of a public regulatory body.

But, what are the attributes of such a system? In this respect, it is constantly said that what is needed is to create a “clear” and “flexible” system. Whether talking about institutional changes already implemented or about what still needs to be done boost investment, emphasis is placed on the importance of having a “flexible” system with a few clear steps:

“These laws generally aim to carry out the procedures, organise the market, improve the market more effectively whilst ensuring that everything is carried out in a flexible manner,” noted the head of an Egyptian company.\*

“There need to be clear steps to follow. If there are no clear stages explaining what to do, there is no way you

can succeed,” noted an Egyptian investor.\*

“There are rules and through this process we try to shorten it, instead of having a process with 20 steps, the process is becoming two steps. If the government manages to implement a transparent process? Yes! Clear requirements? Yes! Minimise steps? Yes!” explained an Egyptian executive.\*

“In terms of customs duties – there used to be 27 articles and the difference between the amount of duty owing between the 2nd article and the 26th was huge, which opened the door to corruption....When they amended the law they reduced it from 27 articles to just six and things became clearer, and did not allow for people to cheat and steal, for example,; shifting something from one article to another. In this area, corruption has decreased. It hasn’t eradicated corruption completely, but it has reduced it,” noted an Egyptian consultant.\*

Here, we see clearly that a reduction in the number of regulations reduces the scope for corruption because discretion is reduced. But this does not necessarily mean that all discretion should be or has been eliminated, as we will see below. One of our respondents made the following sarcastic comment on the subject: “In the past, we know that we need to bribe but we don’t know who we should bribe, now things are clearer, we know the person we should bribe to get our business done.”

This juxtaposition of “flexible” with few and clear steps is an important indication of how investors view the investment climate reforms. Few and clear steps could be taken to imply an inflexible rule-bound approach, which is one well-developed strategy for controlling corruption. If public actors (and private investors) have no discretion on the application of the rules, then the scope for corruption is reduced, if not eliminated. Flexibility, on the other hand, implies discretion. The investors are not against discretion: they merely look for transparency in the application of this discretion.

In fact, the advantage of having a clear system with few regulations, as is described by our respondents, is above all

that it noticeably reduces the arbitrary nature of relationships between business and the state by implementing clear regulations that apply to everyone, without exception.

“We came a long way... the local connections is still quite important, the process [of reform] cuts some of the existing red tape, There is a process one can see, you need to get this approval, if you get this approval, you move to this approval, before there was no process, if your project has been approved, it means you will have gas allocation, if it wasn't approved, it means you are not going to take gas allocation,” explained an executive of an Egyptian company.\*

“Now there is a system, nobody can come in because of connections, or because he does something which nobody else can do,” commented another executive of an Egyptian company.\*

“Now we have a system with clear control criteria for everyone... We have people working with us there who tell us what is right and what is wrong and help us to develop the project. One always needs support,” commented an Egyptian entrepreneur.\*

Changes in the tax system are seen as a successful example of the new systems put in place to reduce arbitrariness in relationships. According to some of our respondents, by reducing bureaucracy through greater control measures, the system becomes more flexible and corruption is reduced.

“It was clearer in the sense: Before, you have your tax percent and we keep the file for ages. It was very bureaucratic, the goal of the tax guy was to keep the file with him in order to find mistakes which allow him to attack the investor... and now you still have your tax

percentage but they will check randomly,” explained a person in charge of an Egyptian regulatory body.

“The government decreases the taxes, it follows the American system, they put the responsibility on you, we believe you, we believe you, you are not hiding profits but if we discover that you are manipulating the books, you will be severely punished, we had a huge campaign telling people, a new era will open with the tax authority,” commented a top executive of an Egyptian company.

In this way, clear procedures are not seen as new constraints, but more as a means of “facilitating things”, “helping” and “supporting” investors:

“Now, you don't need to take the Ministry to court because you can solve the problem with the offices of the Ministry... There are systems to resolve conflicts with the administrations before you reach the court but when you reach the court, it is hard... A lot of laws, ministerial decrees have been made to help investors. This has changed the need to go to court but when you need to go to court, you go to court,” explained an Egyptian director.

“Our institution with its procedures is facilitating the work with private sector. We help start-up, new factories. We support upper Egypt,” explained a person in charge of an Egyptian regulatory body.

From this perspective, we have a better understanding of the fact that the moral condemnation of corruption based on a Universalistic ethic relating to general principles going beyond personal relationships has no meaning in this context.<sup>14</sup> Within a context such as Egypt, people are loyal to the group, their family or to their main network of interests. Acting in an “honest” or “ethical” way implies that you

<sup>14</sup> D'Iribarne (2000) distinguishes in “business ethics and globalisation”, a contribution in the dictionary of ethics and philosophy, at least between two types of ideals, two major branches of ethics. In the first, there is the good man. He relates this to a law promulgated by a great religious founder, that we follow a code of honour, or that one respects the principles seen to conform to universal reason, that you must show that you are pure, dignified, and conform to the demands of a transcendental ideal. The relationship to others provides the subject, not its source (according to Aristotle “the good man must be sure to gather his gifts”, Nicomachean Ethics 1965). On the other hand, according to the second type of ethics, you must be proud of the groups you belong to, family, clan, brotherhood, or interest group. If before members of a given group we can prove that we are particularly available, in time, assets, even in terms of their own life, anything is allowed in terms of people who are external to this.

are being loyal to your own people rather than to general principles. Therefore, combating corruption has taken a different form. It has more to do with protecting people in positions where there is the temptation for corruption from the pressure of their group, so that they can show them that if they refuse their requests, it is not due to a lack of loyalty on their part, but because they cannot do anything else without getting into serious trouble. On a more general level, the biggest challenge of implementing clear procedures is to cover all activities that one can do without being suspected of disloyalty.

Therefore, it is very relevant to read a comment made by the Director of GAFI, under the section of the GAFI website devoted to the organisation's Mission:

"I believe, on the long run, better indicators, due to a package of facilities entwined with transparency, will soon become noticeable," Dr Ziad Baha Eddine ([www.gafinet.org](http://www.gafinet.org)).

This being the case, if the system's transparency is guaranteed by just a few clear and precise regulations, the question that remains is whether these impersonal regulations have managed to triumph over inter-personal systems?

Although at first glance, the government's strategy in terms of implementing clear procedures may lead one to think that the system has managed to neutralise the logic of inter-personal (particularistic) systems and introduced universal rules, a more in depth examination of the interviews shows a more complicated situation. In an attempt to clarify this issue, we will analyse how our respondents define and characterise the conditions required for effective cooperation between the government and investors. We will start with a foreign perspective on the performance of cooperation between the Egyptian government and private investors and then we will tackle what Egyptian investors see as an "effective" cooperation process. We will concentrate in particular on the role served by dialogue as a privileged mechanism to align interests between private investors and the government in Egypt.

## 3.2. A solution exists for every problem: dialogue.

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### ***Avoiding conflict***

Although the reforms put in place by the government have received positive comments from foreign investors, there are still certain aspects that remain particularly disabling for them. Our foreign respondents talked at length about their frustration with the lack of clear mechanisms for managing conflict. In this respect, the French investors that were interviewed, who due to French tradition are most used to direct confrontation as a means of resolving conflicts, see the Egyptian attitude as a deliberate strategy to avoid conflict.

"The general climate between French companies and the Egyptian government is good (...). It does not spark conflict; we continue to work together on a daily basis with our Egyptian partner in an excellent climate. On the

other hand, this does not allow us to resolve problems. And since Egypt does not like solving problems, it is not clear... The issue is always to avoid generating a conflict," commented the director of a French company.

"Our partners are no different to any other. But as you can see, it is generally the case when making decisions in line with procedures that are not necessarily clear and above all it is rarely a system of decisions by means of confrontation or by putting yourself forward. People don't put themselves forward because they are scared of it; they want to avoid conflict... So, often decisions are made by consensus, and as a consensus is hard to achieve, it takes a long time for decisions to be made," noted a French investor.



“It took me months and months to understand that my supplier didn’t want to work with me any more. They never said it to me openly, but there were delays in deliveries, promises weren’t being kept and one day I had a meeting and I demanded to know what the problem was. They kept on repeating a song about not trying to find a solution to every problem and so I told the three men in front of me that they were rude in Arabic (which is very insulting in Egypt). They all got up at once and left together,” commented a French entrepreneur.

Other respondents explained that Egyptians found conflict uncomfortable because they are “amenable”. Therefore, they always want to avoid conflict because they want to keep their partners happy at all costs:

“I don’t think it is conflict avoidance but people try to please you. People don’t like to give you bad news. You can ask somebody if he can do a job he would say yes and then you come back and the job is not done, he cannot say no I don’t know how, I cannot do it because it is not my skill... You can ask for directions and you get lost, because they can not say they don’t know and they want to help you, and you get lost,” explained the head of an Algerian company.

“It’s hard in Egypt. Egyptians are very kind all the time and they’re amenable and hospitable, but it traps you, because they sidle out of their responsibilities and you can never get hold of them, it’s crazy” commented a French entrepreneur.

It emerges that the Egyptian attitude to conflict is seen sometimes as a deliberate way of avoiding their responsibilities and at other times as proof of Egyptian altruism, seeking in any way possible to keep their partners happy. Rather than reducing this to a simple opposition between “opportunism” and “altruism”, we will attempt to discover, by means of the comments of our Egyptian respondents, the logic that underlies an effective cooperation process.

#### *Ongoing dialogue is a necessity*

Many of the respondents clearly interpreted the implementation of a dialogue mechanism as a new strategy adopted by the government in the process to “align interests” with investors:

“Before, the attitude was: for problems that aren’t resolved, we’ll appease people without actually acknowledging whatever the issue is and without providing a solution. Now things have changed, there is a plan and a long term strategy....We can feel it in the way that problems are resolved, the conversations have changed, the government is conscious of changing things....to take the interests of investors into account. This has happened thanks to the new ministers, who were businessmen before,” explained an Egyptian representative of a French company.

“Now the government is listening and responding.... Now there are conversations and disputes, now there are ‘respectable’ laws. If we don’t agree, we can ask for the law to be changed, and if the law is “respectable”, we just have to follow it,” commented an Egyptian executive.

“An interesting thing about the new government is that they have implemented various discussion bodies, GAFI, IDA, GOFI<sup>15</sup> to manage relations between investors and facilitate their work,” commented a foreign investor.

In the same way, it is important to highlight that the importance given to dialogue as the favoured method of regulating cooperation is also mentioned by people who are critical about the Egyptian government. An Egyptian executive who criticised the Egyptian government did not place the foundations of effectively regulating relations between people in implementing formal institutions, but in setting up effective mechanisms for discussion:

<sup>15</sup> Different regulatory institutions

“Kifiya’s<sup>16</sup> slogan is above all a slogan of passive resistance and it does not propose a positive alternative. The second thing is that Kifaya is supposed to be a movement based on the lowest common denominator between various large and **varied currents of opinion, normally you must develop more effective mechanisms for dialogue to bring about an agreement and formulate ways of working more effectively!**” commented an Egyptian executive.

A first glance these remarks may lead one to think that the importance given to dialogue is not particularly Egyptian. People everywhere need to have discussions in order to reach agreement. However, the way that our Egyptian respondents talk about dialogue reveals its specific function within an effective cooperation process. In Egypt, there are no ways of coordinating interests that are separate from the relationship that is formed between people. Whereas cooperation methods found in different forms in industrialised countries do not require privileged links to be formed between institutions and people<sup>17</sup>, in Egypt neither the requirements of a profession, nor the standards set out by the market, are given great importance. Good personal relations were not only mentioned as being an added bonus or a useful tool essential to professional relations, but were seen as a fundamental ingredient for effective cooperation. As an Egyptian consultant comments below:

“Where conflict occurs they always try to resolve problems **in a friendly manner** and then the government decides that it is important to continue to negotiate and have dialogue with different partners to facilitate the application of procedures.”

In this respect, a top executive of an Egyptian company explains that:

“The resolution of conflict is never easy... The juridical system has problems everywhere but here I think it is becoming **easier and easier**... There are still a lot of problems with juridical system but where you need not to go to the juridical system, it is becoming **easier and easier with ministerial decrees, facilitators**... They are eliminating a lot of things before you reach the juridical system. Now you can solve a lot of conflict before even getting into legal system, once you get into the legal system, it is complicated. Apart from that, now you **can solve problems by facilitating the process and making things clearer and easier so it is about having a friendly environment where solving problems can be managed without reaching a conflict** but once you reach a conflict, the resolution of conflict like everywhere it is dependent on how good your lawyer is and how good his lawyer is.”

In this way, the process of changing interests through dialogue between the Egyptian government and investors is so much more important that we cannot appeal to supposedly objective ideas of what is good (relative to technical or economic rationality) in an attempt to overcome this diversity and the fact that no representatives of the general interest exist in deference to which particular interests can be subordinated. An Egyptian comments on this subject:

“Better governance, a great debate which has no relevance. I am convinced of it. I am convinced that there are slogans that appear all of a sudden, which are brandished and grow and people start talking and saying Transparency, Globalisation, and conferences are organised... **All problems have a solution and to get to it requires discussion**. But the problem is that if you leave a problem for a long time, the solution is harder to find, there is no miracle cure, you can’t press a button and solve the problem,” noted an Egyptian consultant.

<sup>16</sup> This is the name of the Egyptian movement for change, a coalition whose stated goal was to stop current president, Hosni Mubarak, who was 77, from seeking a fifth consecutive mandate at the presidential elections in September 2006.

<sup>17</sup> In France, people feel they have duty to “do their job” whatever their personal relationships are with people with whom they do business. In this reference to “professions”, being a professional means “doing one’s job” and they are judged according to this. The norms of a profession set out what is “logical”, “normal”, “not dishonourable”, or the opposite. In Anglo-Saxon countries, references to a market and respect for the laws of the market imply non-discriminatory treatment of suppliers and clients, which limits the influence of personal relationships

In this way, it is necessary to define continually what has to be done and how to do it. Dialogue is a great tool to combine with the reality on the ground to “find solutions”. The progressive integration of existing facts on the ground that must be taken into account in order to arrive at a decision is seen as being achieved through a process whereby each person, when giving their point of view, makes clear what they are concerned about:

“In our negotiations with the government to have the “land” for our project, we followed all the stages step by step. The steps were not definite; we had negotiations to define them in a precise way. There were discussions at all levels and afterwards the governorates became scared of gridlock. It was on this basis that the project was stopped. There was discussion and long exchanges....The problem was resolved after this and there were no further discussions, the discussion was closed,” noted an Egyptian representative of a French company.

“It is easy to work with the Egyptian government as a part-owner of hotels. Cooperation with the government is organised and routine. **There are procedures to follow, the regulations are set by the government and when they are respected, cooperation is easy.** There is always discussion that leads to a solution. The government appoints a specialist that we have discussions with,” commented an Egyptian investor.

In the same way, an Egyptian representative from an Egyptian company commented:

“It is clear that when there is a contract between two parties, there are problems during its implementation. There is a procedure; we don’t live in a perfect world. We don’t believe everything that is said; sometimes power is abused but when Egypt signed the trade treaties, it created

a sort of “kouyoud” restriction. **You must work with the reality on the ground, which is where the importance of discussion comes in.”**

Dialogue is what allows different partners to be “heard” and to feel like an important part of the decision process, whilst working with constraints on the ground. In such a situation, involving everyone in discussion is a way of managing different points of view and making the system more flexible to “facilitate things”. The importance of discussion is even greater when used as a means to reduce the gap between the “top” and the “bottom” and allowing for varying interests to be accommodated: “One relies on the exchange of opinions throughout the process, moving progressively towards a situation where everyone is very aware of what is important for their partners, and to eventually reach a compromise, a “solution”.<sup>18</sup>

For foreigners, not used to the Egyptian way of doing things, this kind of process might appear as a rather frustrating means of avoiding conflict. Prolonged negotiations prevent any clear or immediate resolution of differences. For Egyptians, in contrast, a continual process of ‘adjustment’ between partners enables them to avoid open conflict and eventually arrive at an agreement.<sup>19</sup> An Egyptian consultant comments: “We don’t like conflict, we need to have ongoing discussions. There is a solution to every problem and it is through discussion that we can find it”. On this subject, an Egyptian executive explained, “We don’t resort to conflict because we cannot have different opinions, if we don’t have the same opinions, we cannot cope, that’s why we need to dialogue all the time to find a solution.”

From this perspective, the Egyptian attitude towards conflict is shown in a different light. It is sometimes seen as a deliberate way of escaping responsibility and at other times as proof of the altruistic nature of Egyptian people. It is in fact just a reflection of a particular idea of “effective” cooperation

<sup>18</sup> This raises, however, the question of the extent to which the alignment of interest between private investors (in this case the Federation of Industries) and public actors can be judged to be in the broader public interest. As the 2005 World Development Report notes, “A good investment climate benefits society as a whole, not just firms. And it embraces all firms, not just large or politically connected firms” (World Bank 2005: 15). Transparency and public accountability might be the clearest route to containing the problem of “perverse alignments”, but it is far from clear whether either pertains in Egypt.

<sup>19</sup> It is very different from the French or American approach to conflict resolution and can, therefore, lead to frustration and misunderstanding.

in an Egyptian context. This is principally determined by the importance given to pragmatically changing the circumstances and permanently changing interests in a mutual way, leaving little place for direct confrontation. This does not mean, however, that there are no differences in opinion in Egyptian society; it is the way that they are managed that is different:

“The investment climate now is much better than it was three years ago: in the participation process, in decision making, policy...It is not important that there is a problem as long as you are participating in the solution of that problem. To have a problem and be isolated or disconnected from the participation in the solution and not be consulted and not be part of the process, is very frustrating for investors... So, right now, people are more involved, they get involved in defining the problem, offering the solution, proposing the solution and participating in the solution,” noted an Egyptian director of a regulatory body.

*An Egyptian consultant explains:*

“The existence of mechanisms for discussion, an interaction between the differences in my opinion and yours is indispensable and involving people in dialogue until we reach a point where one opinion prevails towards the end or we voluntarily reach a consensus.”

In a process of this kind, avoiding conflict is at the expense of a “long and continuous” discussion process, which allows everyone’s opinions to be taken into consideration. Getting along does not in any way prevent open and firm discussions of interest, but it does imply that participants agree to engage in a long process of mutual changes and avoid any pretensions of putting forward an “objective” view of things (i.e. one which claims superiority to the views of others). The dialogue defines the legitimacy of certain ways of arguing and justifying positions. Ongoing discussions between the government and investors are more than simply a means of making agreements; it is what allows them in an Egyptian perspective to control uncertainty and to work with the constraints of the situation. On this subject, the Minister for External Trade and Industry is particularly eloquent: “all

parties should bear in mind that the world moved on while we were negotiating. [...] This means that the carrots and sticks offered by the EU must also evolve to keep pace with this reality.” (Rachid 2007: 23). It is this type of approach that allows them to progressively integrate their diverse interests and points of view to reach case by case compromises that are approved by all parties. The decision as to who wins and loses is justified by reference to what is reasonable in the light of external constraints, not who has the most power.

This process is clearly highlighted by one of the Egyptian investors interviewed. His quote summarizes the two main functions that a dialogue should fulfil in order to ease the decision process: First, it allows everyone to be listened to and to give an opinion. The involvement of everyone in this dialogue allows people from different hierarchical positions to feel considered and respected. Second, the expression of different opinions allowed by a dialogue should be seen not as a way to find the most “rational” solution, but rather as a way of getting to know the constraints on the ground and the different interests. As the constraints of the situation as well as the interests change, it is important to keep a permanent “dialogue”.

“All decisions are now passed by us. Firstly, 90% of what we say is taken into consideration and secondly, nothing happens without us being consulted: **‘The word is our word** and the council is our council’, there are no decisions that happen without us. After this, **whether or not they take our advice into consideration is another matter**. It has to be said that we are looking at the problem from our own perspective and **we haven’t always got the whole picture**. For example, the law on taxes has been changed slightly. In terms of customs duties, there have been committees on this and 95% of our requests were taken on board.... In the past, there were decisions that you came across by chance in the newspaper, but now this doesn’t happen any more because there are businessmen in the government. **Now we are involved in decisions and you get a response to everything**. 90-95% of decisions are taken by the Industries Federation, so much so that there are no political dimensions or international conventions that

are not taken into consideration. Everything that comes out of there has been thoroughly studied. In our line of work, **it is very important that people are listened to**. The committees listen and then make a decision. Sometimes the minister will intervene, and we have to respond and there is a discussion. As long as there is discussion within the Industries Federation, there is no opposition. We give our point of view so that there are no international conventions or government policies that are missed; that are as good as it gets, everything that comes out of there has been well researched. ...**Yes, there are disagreements, but they are differences in opinion!**"

Here we see clearly that the interviewee accepts that advice might not be followed, but a hope is expressed that well-informed advice will be considered carefully.

As a result of what we have seen above, the participative decision process promoted by our respondents as the favoured tool to improve the investment climate far from fulfils a universal function. By analysing the comments of our respondents, we can see that if they appreciate the implementation of discussions with the government, it is

because of the opportunities it offers to align interests and to adapt to the constraints of the situation. In fact, it gives fluidity to the system put in place by linking the management of interests with management of relations between people. In the first instance, dialogue allows simultaneously for a reduction in the pressure to submit to new formal regulations and for a closing of the gap between political decision-makers and investors in Egypt. Secondly, with the lack of transcendent referents in the regulation of relationships between people, dialogue is what allows people to work in an intelligent manner within the various constraints of the situation. This is how the implementation of systematic dialogue between Egyptian investors and the government allows people to benefit from the positive aspects of the "Fahlwa" — the art of adapting oneself in a pragmatic and intelligent manner to circumstances and managing difficult situations, while neutralising "arbitrary" issues in the relationship, which could damage the cooperation process. Lastly, managing uncertainty, which is necessary for a good investment climate, is not provided by formal regulations, which cannot be overridden, but by the capacity to establish ongoing dialogue between investors and the government.

### 3.3. Institutionalising the role of intermediary : GAFI

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In the investigation of what is seen by investors as a good basis for collaboration with public actors, one element that warrants a mention is what our respondents said about GAFI (see Appendix 2). In the first instance, GAFI is an institution that investors must deal with in order to register their investment projects and get them approved. Investment in general, including in free zones, whether Egyptian or foreign, is managed by GAFI, which has gradually become an agency that promotes and facilitates investment (see Appendix 2). This is the role accorded to it in the official version of the Egyptian government's investment climate reforms. At the same time, GAFI has very quickly become involved in other areas. As well as being the single window service for investors, it also plays the role of regulator when conflicts arise.

Comments made by the former GAFI director are very revealing about the process by which GAFI's role has developed. For GAFI, taking on the role of effective regulation body was only possible thanks to a move towards a common cooperation method in Egypt. It was by taking on a parallel the familiar role of "intermediary", well established in Egypt, that GAFI gained its reputation as an institution that regulates relations between the government and investors:

"I am no longer the boss of the GAFI but when I took over the GAFI, the biggest challenge was to transform GAFI from Investment Policeman to Investment Facilitator...GAFI was built around an idea of Policeman, GAFI is built to give taxes to investors, when

you are built by thinking that your role is to give investors taxes, you need to develop an institutional attitude of Policeman, to develop rules to make sure that you are not abused... It took over a year to bring GAFI to **be a Policeman rather than a regulator**. So when my mandate was to transform GAFI from being a Policeman to being a facilitator for investors... This policing approach is not what you require... And I think that by and large GAFI has become very much for investors **a facilitator**, It's an intermediary... **GAFI is perceived like someone who is here to solve problems. It interferes also to resolve conflicts between investors and government.**"

When our respondents talked about GAFI's role, they highlighted its role as "facilitator", which as we have seen above is a central part of the process of managing relations between public actors and private investors.

GAFI is seen as a "facilitator" because of its involvement in resolving problems and in playing the role of "intermediary" between the public authorities and private investors. In some cases, this need to play an intermediary role arises out of the unevenness of the transformation of various instances of the state in Egypt. In fact, GAFI often pleads the business case when conflict arises with governorates (the regional political authority) and by means of its ministerial powers it stops governorates from blocking the activities of enterprises through the charging of penalties. Companies then receive compensation. This being the case, however, the steps taken to "facilitate" or to "find solutions" to problems as they arise go back to the question of dialogue. GAFI therefore presents itself as an institutional body for "dialogue"

between investors and the government:

GAFI has discussions with investors. An Egyptian investor comments on this:

"GAFI is becoming less and less bureaucratic, they discuss everything with investors. It is no longer an authoritarian institution as it used to be. Its role is to facilitate the work of investors and to provide them with a service."

GAFI also has discussions with the public authorities. An Egyptian representative of a French company comments on this subject:

"Generally when penalties occur or if there is a problem with the governorate, we approach GAFI and generally they agree with us....GAFI responds quickly, and at the same time they don't rush people. Their next step is always to go and see the governor to resolve the problem in a friendly manner. GAFI is an 'intermediary' between the two parties."

On this subject, Nicolas Hopkins (1995), commenting on the political culture in Egypt, stated that the acute nature of hierarchy in Egypt leads to a key political process: resolving conflicts by resorting to intermediaries. He explains that when a conflict occurs between two people, they look for a person, or a group of people, with considerably higher status than those involved in the conflict. The intermediary intervenes and eventually enforces a solution, or at least manages to find a compromise for both parties. They then use their status to ensure that the agreement is respected (see Box 2).

**Box 2: The role of the intermediary in resolving conflict**

“These informal mechanisms for resolving conflict are known under various terms - jalsat’arab, majilis’urfi, majlis al-arab – which infers that there is an Arab way of bringing about justice and that this process goes against official justice and the government (see Davis’s study on Libya, 1987). Some of these terms, such as majlis al-arab, are generally used to refer to local informal councils, particularly in urban areas as referred to in Tekce, Oldham and Shorter: “The community (Manshiat Nasser in Cairo) set up a local government system to resolve conflicts, which was managed by a traditional chief (umda) and supported by a council of elders called “the Arab council” (majlis arabe).”. These councils met periodically and their role was both to resolve conflicts and manage community relations. According to the authors, these councils were even more effective in resolving conflict because it was enhanced by the fact they didn’t need to involve authorities external to the village. Harik even refers to the villagers’ opposition to external interference during the elections, before concluding that questioning village autonomy in such a way would always provoke a reaction (1972: 235).”

Hopkins (1995: 37)

In addition, the role of “intermediary facilitator” is a common one in economic life in Egypt. Given the bureaucracy of Egyptian administration, they often appeal to mediation from a lawyer or a consultant who personally knows this or that decision-maker who can help them move their case forward. It is common to find people who have retired from the judiciary or the civil service who set up their own businesses to sell, in the same way as lawyers or legal advisors, their real, or theoretical, skills to achieve a particular decision, or particular level of decision. (Jean Claude Delaunay, 1992). The role of “intermediary, who either represents the company in order to complete their bureaucratic tasks or helps foreign investors to manage the constraints of doing business in Egypt, is widespread. An Egyptian investor explains the importance of this role:

“The greater number of foreign investors come with a local partner who facilitates their work and helps them to get their business done... It is vital to have local partner, an intermediary.”

On the same subject, the director of an Egyptian company states:

“Foreign investors need Egyptians to facilitate their work

and fulfil the role of intermediary by cooperating with Egyptian people. Life becomes much easier, and they minimise their problems”.

Egyptian investors also share this opinion, as an Algerian consultant explains:

“Egyptians are good at it. The Khawaga<sup>20</sup> need an ‘intermediary’... I can have a job done for 24 pounds because I am part of this culture and I know the prices; if you have a khawaga coming and if I ask him to pay 200 pounds, he will think it is the value of the job and he will pay. I am not saying it is normal or not, but I think you come to a country, we want to do a business, you need an intermediary because you need somebody who knows the language, the culture... These people, they consider it is their capital because here you can not do **much if you don’t have relations** so **your relations** it is your capital, you sell it... This is usually applies for small people... If somebody cannot pay for the little things to get what he needs done, he will forever have problems in running the business, to get the business started... But sometimes it is a very small amount of money and sometimes it is big money... **That’s a job of**

<sup>20</sup> Foreigners

**a facilitator, that's what foreigners do; they pay a facilitator to do this job."**

A French investor comments:

"The fact is that relationships are a very important element of doing business in Egypt and in many countries in the Middle East. If you don't go through a contact, you have no way of finding the right person, who will be there on the day that you eventually want to make a decision (because you can't find information in newspapers or in the law (...)). We are in a country of intermediaries and above all of people who want to have the exclusivity of representing a business....The job of representing foreign businesses is a profession in itself in Egypt."

It is useful to note that at first glance, this subject may lead one to see the connection between GAFI and that of the "intermediary" as a form of corruption that is damaging to the investment climate. Is not GAFI an intermediary institution that favours exceptions to the rule to "settle" problems and in this case, damaging to the investment climate? In other words, the underlying question is: if the goal of the reforms is to bring about more transparency in the procedures is, what exactly is the link between GAFI and the role of the intermediary hiding?

It is important to highlight that one of the key success factors for GAFI is linked to the implementation of an "investment guide". According to GAFI's director, this guide has enabled improvements to GAFI's operations because it specifies in a clear, precise and concise manner the steps to follow to manage an investment project. This constitutes a clear and unique benchmark for both employees and for investors. By neutralising the negotiation process around unclear regulations and the arbitrary nature of relations, this investment guide appears to have been successful in reducing corruption.

"I had a very nice experience, I did this because I wanted to really put in practice this beliefs I had and among all the things that we did, I always think of this one as being the most effective. It is really one thing I am proud of ... This is produced by what we call a real

process... For every service, it provides users, examples for the project you submit; you find how long it takes, how much to pay and what the rules are... You open every service; you find exactly the same thing, documents, times, fees, procedures; documents, time, fees, procedures. Every employee in GAFI uses the same book... In the past, everybody had its own book, now all the employees have the same book...**and this reduces the amount of corruption because there is no space for negotiation, there is no space for saying actually I still need from you this paper...** The investment guide is called the rule book!" explained the director of GAFI. He later added, "They respect the book because they wrote it. We ask every department to write what they say and to say what they write... We spent almost one year doing this job."

Although GAFI are seen to have facilitated relations between investors and the government, this is not because they have allowed exceptions to the rule or that they have favoured one group over the other, but because they have implemented clear procedures that correspond to Egyptian expectations of what a good regulation system is, as described above. GAFI's operations are therefore part of the attempt carried out to establish a new system with the goal of neutralising the arbitrary nature of relations. GAFI supports a clearer system while also guaranteeing dialogue, which is indispensable to the adjustment of interests. An Egyptian consultant comments on this:

When seen from this angle, the fact that our respondents see GAFI as an effective institution is because in their eyes it has fulfilled the role of "intermediary" facilitator, which is essential for cooperation to run smoothly in Egypt. GAFI supports or facilitates the work of investors, not by means of the old method of favouritism, but by making the regulations clear and neutralising the arbitrary nature of relations. This connection between GAFI and the "intermediary" is even more important in the sense that they helped to accommodate the implementation of clear regulations by being in constant discussion with the government, which also corresponded with expectations of investors in terms of an effective cooperation process. By borrowing the familiar image of the "intermediary", our



respondents expressed their proximity to the institution, while being aware of the conditions for effective cooperation within Egypt. Once again, we must state that the institutional reforms adopted and the creation of an institution like GAFI has not replaced an inter-personal system with a system of impersonal regulations. Institutional innovations like GAFI show how an institution can be made to fulfil different specific functions from those foreseen at the start and to correspond to local expectations. By attributing GAFI the role of intermediary, the Egyptian government and Egyptian investors have merely institutionalised a form of cooperation that works and conforms to the rules of regulation for relations between people that prevail within Egypt. It is in this way that Egyptian investors have placed their trust in GAFI as a regulatory body for their relations with the Egyptian government.

In conclusion, the comments of our respondents show that the reforms have improved the investment climate because they have reduced the dysfunctions outlined above and also fulfilled local expectations of what an effective cooperation process should be. In fact, GAFI and the willingness of the government to dialogue with business demonstrate the government's good intentions. Actions speak louder than words – but, as argued above, transparency and simplification enabled this shift in behaviour.

Moore and Schmitz have argued that the shift in investment climate is about attitude and confidence:

“Relative to the business climate, the investment climate (a) is more about intangibles – confidence, uncertainty, how (potential) investors feel about prospects of a good return on their investment – than about measurable costs; and (b) derives more directly from the reality and perceptions of the relationships between business and those who exercise political power. What largely makes the investment climate is the extent to which different groups of actual and potential investors perceive that those who hold political power are on ‘their’ side.” (2008: 17)

We can define this relationship more precisely. The fight for transparency, through the implementation of clear and few regulations has reduced the consequences of arbitrary relationships. In addition, by institutionalising dialogue between investors and the government this has led to greater levels of trust and improved control of uncertainty. Finally, GAFI has embodied the hinge between the two elements by guaranteeing a unique combination of transparent regulations and ongoing dialogue between the various parties.

## 4. Challenges for sustainable reform of the investment climate

It has been argued that the way in which apparently “universal” reforms of the investment climate have been introduced into Egypt corresponds to the specificity of the local

environment, and, generally speaking, this has met with the approval of investors. But, how stable are these reforms?

### 4.1 Change remains a delicate issue

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Although on the whole our interviewees view the government’s reforms positively, the fact remains that they still expressed various reservations. These reservations were particularly related to the fragile nature of the process. One issue that was frequently mentioned by our respondents concerned the role of particular leaders in the implementation process. The comments they made established a direct link between the success or failure of particular reforms and the role played by those piloting them. In this respect, when criticising a government project, an Egyptian entrepreneur attributed responsibility for its ineffectiveness to the director, who was managing the project according to a clientelist strategy:

“On the other hand, we don’t understand anything about X it’s a system based on cronyism, **you should see how the director behaves, he’s always stonewalling**...They give money to their friends, who don’t have any need for it, SMEs don’t get anything, I don’t want to talk about X any more, I don’t know what they’re doing; I’m becoming allergic to it.”

In a system with flexibility and the capacity to apply rules according to specific situations, to what extent does its effectiveness depend upon particular key actors? And, are these key actors introducing flexibility mostly in order to offset systemic weaknesses? Another Egyptian investor attributes the fact that the government took into account the

requests of the Chamber of Industry that represented his business to the dynamism of the Chamber’s president:

“There is no industry committee for Y industry but there is a Chamber of Industry for Z, which supports us and which carries out the requests of the Federation of Industries. The Chamber is a member of the Federation of Industries. The president of our chamber is a very active, dynamic and influential guy. It’s a good way for our hopes and desires to be heard; he’s good and active.”

The same theory is used when it comes to assessing if governorates are functioning effectively. The governor’s personality is seen as a determining factor in how effective the services given to the community are. An Egyptian consultant comments on this:

“It’s the same thing with the governorates. There are governorates that work well because the governor demands it. You need a minimum of control and you mustn’t leave things in a state of total anarchy. The governor of region x, a very poor region, managed to implement a cleaning system that you wouldn’t even find in some of the rich suburbs of Cairo. It all depends on the governor’s personality; he’s the one who gets things in order. You need to have control, you need

both, you need to take the reins and have the words and you also need control, control is crucial. In Cairo there needs to be 4 governorates and each governor must effectively establish order in his region.”\*

It would appear that sustainability of change is often linked to whoever is leading it. In this respect, an Egyptian consultant attributes the effectiveness of an institution like X to its director, while also expressing his worries over what happens when a new director arrives:

“I think this institution has fulfilled its role over the last two years, even though its director A is leaving. **I don’t know if his replacement will be any good or not.** A was good. He worked hard for two years and then he said, right, I’ve done what I had to do and now I want to relax. He is a respectable man, that’s great. There are certain people about whom opinions can diverge, **but there are people about whom opinions rarely differ, and A was one of those.** I hold him in great esteem and I really respect him. I get the impression he’s a cultured man who understands things and doesn’t place importance on titles. For him the position that he has doesn’t have any value in itself. He said, ‘I’ve finished what I have to do, it’s enough, I have to go’. For some people the position they have changes them for life and there are people who don’t see the position itself as important. A is one of the second group. He recognised the position and respected it.”\*

In other words, A was seen as a good leader because he did not regard himself as more important than the job he occupied and he set a good example for his collaborators. Other respondents expressed concerns about these changes being open to challenge because of different levels of commitment to the reforms according to the locations and the type of people concerned:

“They cut all the red tape? No. Some red tape still exists with all government agencies with the exception of IDA and some places where they recruited qualified people. In other places, where the recruitment is done with the old public sector mentality, especially with governorates, utilities companies, police... public sector” noted a top executive of an Egyptian company“.\*

“They have improved the tax law, it is supposed a good thing but you still have the same way of collecting taxes... You **may have laws but behind it, the people are the same.** You have to make law and also to train people to change their attitude because the problem is in the people, it is not in the law,” explained an Egyptian entrepreneur.\*

“If you are trying to combat corruption, you don’t press a button and it goes away, like for example saying that we’ll implement a law on money laundering, then you have the law – what do you do next? **The law exists but it’s not real — like a chair exists; it is there but it has no legs, what do you do?**” noted an Egyptian consultant.\*

“Bureaucracy still exists and the government is trying to eradicate it. The idea of having a single window and a single day is good. There are good ministers managing the Ministries with a private sector mentality. They are really good, but the rest of the employees and the old type of politics still need to be updated,” commented an Egyptian investor.\*

In addition, let us remember what our respondents said about the fact that the dynamics at work in improving the investment climate in Egypt are a long way from simply involving the application of new regulations. The changes at work appear to be linked mainly to minute changes between, on the one hand, the implementation of procedures to make the system more transparent, and on the other, maintaining the positive potential for interpersonal mediation by institutionalising mechanisms to “facilitate” cooperation between the government and investors. In this context, the issue at hand is working to achieve a fair balance for everyone.

**“The experience is important because it helps striking the right balance...** Sometimes we need to go to the extreme to find a balance,” commented the head of a company.

“Right now, I see that we are giving a lot of benefits to foreign investors and we ought to always work **on striking the balance** so that we don’t give the foreigner better package

than the local investors. Foreigners are very welcome here,” explained the Egyptian director of a regulatory body.

Just what a fair balance is, of course, very much varies according to the perspective taken by the respondent. The reforms may that benefit create an investment climate that is desirable from the point of view of business, may just favour business, or big business (reproducing the bias against small firms discussed in Section 2. This issue was raised in the 2005 World Development Report:

“A good investment climate is not just about generating profits for firms—if that were the goal, the focus could be narrowed to minimizing costs and risks. It is about improving outcomes for society. Many costs and risks are properly borne by firms. And reducing barriers to competition expands opportunities, spurs innovation, and ensures that the benefits of productivity improvements are shared with workers and consumers. A good investment climate is one that benefits everyone in two dimensions. First, it serves society as a whole, rather than just firms, including through its impact on job creation, lower prices, and broadening the tax base. Second, it embraces all firms, not just large or influential firms” World Bank 2005: 16).

This issue was raised by one of the respondents:

“I must tell that there is a big flow of Investment and FDI over the last years, however people in the streets heard a lot and read a lot about the investment’s increasing but they don’t see its impact on their lives ; we still have a big problem of unemployment, education, social care... It is a paradox, if these problems are not addressed, that would great a big gap between the world of investors and the people... Our biggest challenge is to tackle theses issues,” commented a director of a regulatory body.

Finally, the positive comments made by some of our respondents highlighted the fact that by the very nature of the changes, the process of adjustment must be long-term. At the same time, in a context where there are no “transcendent referents”, the ongoing dynamic is to “clarify” the new “limits”

between those things that are already fixed and the areas where there is still freedom to determine the outcome:

“To attract more investors, we need to upgrade the system, we use to set up units which help but now instead to have units that help, we need to change the system and the mentality, of course, it is still a long process and we have already made progress: for example, the procedures, process of reforms, the requirements... We reduced the procedures let’s say from 100 to 50, we need to go down to 20,” commented an Egyptian investor.

“Problems have been tackled based on secure legal foundations, you don’t get the impression that this is a temporary remedy for the problem, it is a sustainable solution. Problems come up again if the law is not amended, and this is where the situation can remain difficult,” noted an Egyptian consultant.

In this way, what is most important is that even though the situation is not perfect, there are “visible” steps that have already been taken towards this and the most important thing to do is to stay on the same line of “adjustment”, as described above:

“We cannot change everything in one day, at least **steps were taken in this direction** and we see the impact of these steps, step by step, inchallah, we get there,” explained a top executive of an Egyptian company.

“Nobody will tell you that things are 100% sorted, but there has been an improvement. Nothing is perfect, nothing is perfect,” noted an Egyptian corporate manager\*

“We have to get rid of the bureaucracy, the government achieved a lot but we have to achieve more,” explained an Egyptian investor.

“Now **the law is better, but that doesn’t mean that corruption is over**. There is still corruption but it’s less widespread. We must work on two levels: firstly, we need to sim-

plify procedures and facilitate them and implement an e-government and new technology to facilitate things, but you can't do everything on the Internet. In Egypt, we have made a start, but we need to carry on."

These different weaknesses in the investment climate

mentioned by our respondents raised the question of the durability of the reform. In the next section, based upon the factors of success as well as the weaknesses analysed above, we will explore the conditions for a sustainable reform of the investment climate in Egypt.

### **4.2. The road towards effective, sustainable cooperation: more regulations or more relationships?**

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If the difference between good and bad cooperation is universal, there are many types of good and bad cooperation. At the same time, if building a common interest between private investors and political decision-makers is an essential ingredient for improving the investment climate, each culture offers specific benchmarks or categories for assessing the situation according to the strategies adopted. It is not only inter-personal issues at stake, but also the systems and procedures that shape the activities of everyone involved. The Egyptian example shows that, like everywhere else, it is important to cooperate, to listen, to have dialogue, to share information, to have clear regulations. But it is truly when you move from discussions to action that the universal gives way to the concrete and the local. Therefore, both the theoretical and the general perspectives must be represented to translate them into practical measures and well-defined procedures. This move from a declaration of principles to the implementation phase is often carried out through a trial and error process which helps those involved to adapt their reforms and to tailor them to the locally recognised conception of "good cooperation".

We must remember that the point of the reforms of the investment climate in Egypt was principally to neutralise clientelism and to combat arbitrariness in relationships. The way that investors have commented on the reforms leaves us to believe that it is not a case of substituting personal relations by formal rules. In fact, the interviews showed that it is not "transcendental bodies" that regulate relations between people, but trust in good relations that people maintain with others that prevails. In this case, assessing or

interpreting a particular situation is not based on "general principle" (often called slogans), but is rather based on trust in the person we have "good relations" with. In this way, some of our respondents felt that corruption does not even merit being characterised as an issue of local culture; it is largely outside opinion that stigmatises it. The challenge then for a good investment climate in Egypt can be set out as follows: How can clientelism be neutralised, while respecting local conceptions of what an effective cooperation process is?

The drivers of change, as well as the areas of weakness, highlighted by the respondents as they commented on the institutional changes under way show that the process taking place is not one of radically separating formal regulations from personal relations. In this respect, the fact that some of our respondents chose to use the words "we are fighting for transparency" is enlightening in many respects. "Clear" procedures that are "few" in number have reduced arbitrary relations. These procedures were well received by our respondents because they have allowed people who were in positions where the temptation for corruption or populism existed to be protected from pressure from people around them. In fact, they have allowed them to prove that if they refuse offers, it is not due to a lack of trust on their part, but because they have no other option.

In the same way, people affected by the reforms have set up common ways of operating in terms of personalised relationships, such as using "intermediary facilitators" or "ongoing dialogue" to mitigate the "cold and rigid control" of

impersonal regulations. At the same time, the institutionalisation of informal cooperation mechanisms has supported the adjustment of interests and control over uncertainties in accordance with local ideas about effective cooperation. Therefore, the demand for effective operating procedures is not sacrificed to the pursuit of good relationships. Thus, it is the use of an ideal image of “good cooperation” traditionally found in Egyptian society that makes certain reforms welcome.

If promoting private investment and its growth depend on the way in which private investors see the actions of political decision-makers, the criteria for judgement will differ from one country to another. If in all cases compromising on “interests” is a prerequisite for private investors and political decision-makers working together, the attempts of each party to enter into sustainable relationships

of trust can also vary from country to country. The Egyptian example shows that criteria formulated by investors to “have trust” in the government’s actions does not have its foundations solely in the implementation of formal regulations that cannot be overridden, but by the capacity to establish ongoing dialogue between different parties. Uncertainty is managed by the capacity to be engaged in ongoing dialogue and not by long-term planning.

As a result, the challenge for sustainable reforms of the investment climate in Egypt does not lie in a trade-off between more rules and more personalised relationships, but rather on the capacity to make detailed adjustments between the implementation of procedures making the system more transparent and to the preservation of the positive potential for interpersonal negotiations.

## Conclusion

It is commonly recognised that interpersonal and universal regulations must govern cooperational relations between public actors and private investors to improve investment and guarantee economic growth. The investment climate reforms undertaken in Egypt in 2004-05 could be presented in this light. The Ministry of Industry's own description of the reform process, cited in Box 1 above, focuses on new laws, streamlining, dismantling bureaucracy, etc.

From this perspective, the influence of society (social relations, culture, political institutions) on how these relations operate and on their impact on the economy seem just as hard to contest as to determine. As a result, the dominant way of thinking is linked to highlighting the importance of implementing the "right institutions" in developing countries in order to improve the investment climate.

This paper has investigated the way in which the investment climate has changed in Egypt by combining two approaches. On the one hand, it has utilised some insights of the Public Action and Private Investment research programme at the Institute of Development Studies — particularly the distinction between business climate reforms, aimed at reducing the costs of doing business, and investment climate reforms, which are more directed to the degree of confidence that investors have, and the level of uncertainty that they face, about government claims on future income streams.<sup>21</sup> One of the arguments elaborated by Moore and Schmitz is that investment climate indicators are hard to quantify, given that they relate to trust between political actors and private investors. This leads to the second distinctive element incorporated into this paper — extensive interviews with key respondents in Egypt, that were designed to understand the way in which investors understood and represented investment climate issues. This was done in order to investigate how investors and

public actors situated their understanding of investment climate reforms within the context of a more general conception of a well-ordered society and the proper bases for relationships within such a society.

This combination of approaches and methodologies enabled the investigation first, to go beyond simple explanations focusing on the opposition between on the one hand developed countries with universal regulations to also create crucial "institutional" trust for a good investment climate, and on the other hand the developing countries characterised by particularist relations between private investors and the State, which favours an investment structure that is seen as damaging for a "good" investment climate. At a general level, operations of this type are labelled pejoratively as "crony capitalism". Investors in these countries depend on privileged links with the governing elite and do not demonstrate an interest in competition, transparency or rationality as they develop in an environment where authoritarianism and corruption are omnipresent. The issue for these countries is to substitute particularist relations for formal institutions in order to ensure a minimal level of trust for the investment climate to run effectively.

Second, this combination of approaches also enabled a better understanding of the relationship between business climate reforms and investment climate reforms. It is not simply the case that reductions in bureaucracy and simplification of procedures are irrelevant for the investment climate (the confidence of investors in the "good faith" of the state). Rather, the introduction of business people into the state apparatus in 2004-05, in conjunction with the bureaucratic reforms and simplifications of rules and procedures and rules, changed the investment climate. Furthermore, what might appear to be limitations to the government's

<sup>21</sup> the distinction between business climate and investment climate is elaborated by Moore and Schmitz (2008: 16).

reforms, particularly with respect to the development of intermediaries such as GAFI, were seen to be important elements of the new relationship between private investors and the state that accorded with the respondents' general sense of how relationships should be managed.

In order to move forward the understanding, and more specifically the influence, of the culture as a “framework of meaning” in how relations between private investors and public actors operate, we have attempted, by means of the Egyptian example, to understand the local representations which give conflict and cooperation between individuals or groups their proper form and the process by which these representations influence how cooperation between the Egyptian government and private investors operates.

The Egyptian example shows that on first sight, reforms made in the investment climate confirm the theory that it is sufficient to apply universal principles such as fiscal reforms, clear procedures, and a single decision-making body to improve the investment climate. However, once we move away from theoretical discussion and speak to the people involved about the process by which they have managed to implement these reforms, their answers reveal the changes undertaken as well as their specific creation of “effective cooperation” and the local conditions for actors entering into relations of trust even at the lowest level. In this respect, there are two areas worth mentioning:

Firstly, the Egyptian example shows that the reforms were only implemented effectively because they were taken on by Egyptian investors in a way that conformed to the local idea of “good cooperation”. In any situation, it is only possible to cooperate if you have a certain level of trust in your partners. However, the foundations of this trust vary between cultures. In the Anglo-Saxon world, a great deal of importance is given to the contract, which forms the basis of regulating relations of cooperation between both individuals and organisations. In other hand, in France, it is assumed that everyone, unless proved otherwise, operates as a “good” professional, freely interpreting the duties of the job they have been assigned to do in conformity with to the requirements of their profession. In Egypt, it is by demonstrating that you are working as transparently as

possible, that you are capable of having “discussions” and that you take your partner's constraints into consideration, that you are seen as trustworthy. What is important for relationships of trust between individuals is valuable for group relations. In this way, the Egyptian investors interviewed, whether they were positive about the government or criticised them, did not see the issue of effective cooperation with the government as symbolising the same thing as “signing the contract” or “division of tasks”, they implicitly put together relationships of trust with the state's capacity to clarify their intentions as clearly as possible and having discussions with them in order to adapt to their constraints.

Secondly, the Egyptian example shows that the issue for developing countries is not to substitute particularist relations for formal universal regulations in order to improve the investment climate, but as far as they can to find institutional procedures that conform to the local idea of “good” cooperation. In this respect, the GAFI example is particularly enlightening. GAFI was seen as an effective institution by our respondents because it had responded to local expectations in order to form relationships of trust. Its capacity to establish clear regulations while institutionalising the role of “inter-personal” negotiation, which was normally carried out by means of an “intermediary” had an impact on two levels. This enabled investors to accept the government's implementation of new procedural regulations while being reassured about the flexibility of the system guaranteed by the role of facilitator that GAFI fulfils. GAFI succeeded in meeting the challenge of profiting from the positive aspects of inter-personal negotiation whilst also neutralising possible negative consequences.

It appears as a result that we can achieve improved cooperation, fight against corruption and improve the investment climate without waiting for radical and deep-rooted reforms of the institutional framework of the country in question. At the same time, the opposition between interpersonal relations that are damaging to the investment climate and institutional trust, and an indispensable element for effective economic operations, does not seem able to take into account the institutional innovation issues



occurring in developing countries. The Egyptian example shows that the condition for private and public actors forming relations of trust and cooperation even at the lowest level is that everyone has at the very least the need to be treated in line with a shared idea of good cooperation. In addition, in light of the differences in the idea of cooperation in different cultures, the intentions as well as the

expectations that shape trust relationships as well as credible institutions are different from one country to the next. In this way, special attention must be given to looking at the underlying local issues of success and failures of current institutional improvements in developing countries, in order to clarify the conditions to improve the investment climate in these countries.

## Appendix 1: Institutional Framework for Investment

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“A new **Ministry of Investment** came into office in July 2004 to oversee investment policy, coordinate among various ministries with investment-related areas of responsibility, and provide dispute settlements services for investors. The new ministry supervises the Capital Market Authority, the Egyptian Insurance Supervisory Authority, the Mortgage Finance Authority, the privatization program, and the General Authority for Investment and Free Zones.

**The General Authority for Investment and Free Zones (GAFI)** is the principal governmental authority concerned with regulating and facilitating investment, and stands ready to assist investors worldwide. GAFI is currently broadening its scope from the traditional regulatory framework into a more effective and proactive investment promotion agency. In coordination with the World Bank’s Multilateral Investment Guarantee Agency (MIGA), GAFI has been able

to undergo serious changes in facilitating and promoting investments into Egypt through its Research and Market Intelligence, Promotion and Facilitation, and investor after-care bodies.

Triggered by the new government’s key objectives, GAFI represents Egypt’s sole “One Stop Shop” for investment, which aims at easing the way for investors worldwide to take advantage of the opportunities in Egypt’s promising emerging market. GAFI makes emphasis on various investment opportunities that lie ahead in distinct business sectors throughout the Egyptian economy. With this purpose, GAFI holds its responsibility through developing communicational campaigns and assisting its image accentuating the improved investment climate in Egypt worldwide.“

Source: [http://www.investment.gov.eg/MOI\\_Portal/en-GB/Investment/Investment+Institutional+Framework/](http://www.investment.gov.eg/MOI_Portal/en-GB/Investment/Investment+Institutional+Framework/)

## Appendix 2: The General Authority For Investment and Free Zones (GAFI)

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“As one of the arms of the Ministry of Investment, GAFI is the investor’s partner in Egypt. It is the sole governmental authority concerned with facilitating investment procedures, assisting investors, and promoting the Egypt’s potential sectors abroad. Since its establishment in 1971 GAFI has maintained its leading role in servicing the business community in Egypt, and is broadening its scope to positively influence Foreign direct investment in Egypt.

### **GAFI: A New Philosophy**

#### **The Mission:**

GAFI, the body under the Ministry of Investment responsible for investment procedures and assisting investors in Egypt, has a new management philosophy with a clear mission: to become the facilitator, service provider and promoter to attract investments, achieving this through capitalizing on the expertise of a group of well-trained, highly motivated professionals.

Strategic Directions

Broaden GAFI’s role from a regulatory body into a proactive investment promotion agency.

Build and project a positive image reflecting the country’s strategic directions and GAFI’s new directions.

Develop/enhance an interactive working relation with different bodies affecting the investment climate in Egypt. Develop people’s skills as being the main asset behind success.

Decentralize authority and empower people for the prompt/timely decision making.

Commit to full transparency in our policies and procedures.

Incorporate an after care mechanism that develops “servicing investors” culture.

#### **GAFI: Steps on the Route of Change**

During its scope widening process, GAFI is undertaking a series of steps as follows:

**First:** GAFI adopted the One-Stop-Shop (OSS) mechanism that was inaugurated in April 2005, the OSS mechanism allows GAFI to be the investor business partner through the

following services:

GAFI assists investors in a variety of ways and acts on behalf of investors with regards to governmental agencies. All licenses required for the establishment and operations of a project are procured by GAFI on behalf of the investors within 72 hours.

GAFI assists investors in site selection and land acquisition, whether for agricultural, industrial or touristic activities.

GAFI certifies the production start dates.

Simplification and shortening of internal procedures – an ongoing dynamic process.

The One Stop Shop has been established in GAFI’s headquarter in Cairo and will be applied in Assiut, Ismailia, and Alexandria with the aim of facilitating bureaucratic obstacles facing investors.

Second: Cooperation with international organizations aims at restructuring GAFI to transform it to an investment promotion agency. Each is involved in one of the promotional activities that fully integrate with the others to assure a proactive suitable strategy.

#### **MIGA:**

The Multilateral Investment Guarantee Agency in Cooperation with GAFI is undertaking a technical assistance to Egypt that encompasses international best practices and incorporates a design to ensure the creation and implementation of an investment promotion unit (Egypt Invest Program-EIP) within GAFI capable of competing internationally for FDI in keeping Egypt’s economic development policy objectives and priorities. MIGA’s technical assistance will include:

- Development of GAFI’s investment promotion strategy
- Development of a detailed institutional business plan for GAFIPA
- Development of sub-sectoral strategies
- Development and implementation of market intelligence coupled with intensive staff training
- Development and implementation of market proactive promotion program coupled with intensive staff training
- Development of promotion materials
- Development of sales techniques and proactive promotional campaigns

- Development and implementation of a policy advocacy and after care program coupled with intensive staff training.
  - Implementation of a monitoring and follow up program over a 3 year period by MIGA to ensure alignment and effective implementation of the above activities.
- MIGA is also undertaking a comprehensive investment climate assessment under ministry of investment supervision.

#### **ANIMA:**

The ANIMA program, a 36 months-project, funded by the European Union, is part of the MEDA co-operation program between the European Union and 12 partner states to the South and East of the Mediterranean (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, Turkey).

The program aims at increasing foreign direct investment in the Mediterranean through:

- Developing a co-operation between European investment promotion agencies (EU IPAs) and Mediterranean agencies (Med IPAs)
  - Promoting the Mediterranean region as a whole
  - Building a network linking Med and EU IPAs:
    - Training, transfer of knowledge, and exchange of experience (capacity building)
    - Economic intelligence, project identification, contacts (networking)
    - Data bases, comparisons, regional studies (benchmarking)
- Fleishman-Hillard (FH):
- As part of GAFI's ambitious reform plan, GAFI is embarking

on full-fledged communication campaign that will help in communicating these reforms to the key stakeholders mainly investors both local and foreign. FH is providing GAFI with international communications and public relations services, which are the main pillars of Egypt's image building process.

European Union programs:

-Trade Enhancement Program

The program aims at improving the performance of the Egyptian commercial representative offices to be able to efficiently promote investment and become an essential part in the Egyptian investment promotion strategy.

The program will differentiate between proactive promoters and reactive promoters so as to build professional capacities in both areas.

-The Institutional Twinning Program

The program aims at technically assisting institutional capacity building in all fields.

The program will be carried out in GAFI, ministry of tourism, and the post services authority.

Third: Restructuring GAFI's department to carry out its investment promotion role, through focusing on:

Research and market Intelligence that provides sectoral/ sub sectoral analysis, potential opportunities, targeted investors, and targeting messages.

Promotion and Facilitation

After care for benefiting existing investors.“

Source: [http://www.investment.gov.eg/MOI\\_Portal/en-GB/Investment/The+General+Authority+For+Investment+and+Free+Zones+%28+GAFI+%29/](http://www.investment.gov.eg/MOI_Portal/en-GB/Investment/The+General+Authority+For+Investment+and+Free+Zones+%28+GAFI+%29/)

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