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EXPANDING HORIZONS IN DEVELOPMENT: THE RISING ROLE OF THE PRIVATE SECTOR



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IN DEVELOPMENT:
THE RISING ROLE OF THE PRIVATE SECTOR**

Disclaimer

The *Expanding Horizons in Development 2016* report is a major output of the Egyptian Corporate Social Responsibility Center (ECRC) Project, executed by the Industrial Modernization Center, affiliated to the Ministry of Trade and Industry, Egypt, in cooperation with the United Nations Development Programme (UNDP).

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FOREWORD

The Expanding Horizons in Development: The Rising Role of the Private Sector report is the second edition of the UNDP report launched in 2007 under the title of Business Solutions for Human Development. The 2007 Report was the first ever report to analyze corporate social responsibility in Egypt with recommendations on how to best promote private sector development to accelerate Millennium Development Goal (MDG) achievements. As we embark on a new global development framework, namely the 17 newly endorsed Sustainable Development Goals (SDGs), the 2016 Report comes at a time where we are revisiting how the private sector can engage in society to address issues related to poverty, youth unemployment, energy etc.

We would like to thank the United Nations Development Programme (UNDP) and acknowledge its efforts in supporting the preparation of this report which was prepared by a team of independent authors within the framework of a joint project of collaboration between UNDP and Industrial Modernization Center (IMC), namely the Egyptian Corporate Responsibility Center (ECRC). The ECRC was established in 2008 following the 2007 Report, as Egyptian partners expressed the need to have a place that acts as a knowledge hub for global knowledge and expertise as well as capacity building around issues relating to corporate engagement, corporate social responsibility, corporate governance, sustainability and social investments. As of 2014, IMC/ECRC expanded their programs towards sustainable CSR policies through several initiatives such as Creative Egypt, the first registered trademark for the Egyptian ethnic and handicrafts products launched in 2015, which aims at promoting Egypt's heritage and creating a sustainable model that focuses on the development of "the poor" at the "base of the pyramid", other activities of the ECRC include collaboration with AUC, IFC and UNDP on a women on board initiative to promote greater participation of women at the executive level and an initiative tackling work in the area of sustainable finance launched with the Arab African International Bank.

Looking at this year's edition, we can see new trends and new forms of engagement such as social entrepreneurship and angel investors as well as more attention to compliance and to anti-corruption. Moreover, private sector expertise and innovation has been acknowledged as key to tackle a range of global, multilevel and cross-sectoral challenges. The report deals with how best business can drive sustainable development, economic growth, employment, industrialization, innovation, production, and consumption patterns. In a nut shell, the report calls for inclusiveness, sustainability and partnerships that can directly benefit the poor such as involving them in business processes as producers, consumers and owners. Furthermore, companies are encouraged to place responsible practices and sustainability objectives at the heart of their strategies to better align their efforts with the broad global development agenda. A crucial means for supporting change is cooperation and partnership as it recognizes that complex challenges require integrated responses, garnering resources and know-how from all stakeholders.

We believe that this publication can play a catalytic role in kick-starting a policy dialogue around how business in Egypt can further engage in development and contribute to the advancement of the SDGs.

We would like to thank our main partner in the production of this report the UNDP and thank Ford Foundation, CARE International, Mansour Group for their contribution to the production of this report.

Industrial Modernization Center



ACKNOWLEDGEMENT

We would like to thank the United Nations Development Programme (UNDP) in Egypt as well as the International Modernization Center (IMC) and the Egyptian Corporate Responsibility Center (ECRC) for taking the lead in publishing a new edition of this timely report. This is testimony to their acknowledgement of the fact that the private sector continues to be the greatest untapped resource in building more equitable and sustainable societies. In particular, we would like to give a special thanks to Anita Nirody, UN Resident Coordinator in Egypt and UNDP Resident Representative in Egypt, and Ignacio Artaza UNDP Egypt Country Director.

We extend our heartfelt thanks to our strategic partners; CARE Egypt, Responsible and Inclusive Business Hub MENA, the Ford Foundation and Mansour Group for their generous financial and technical contributions to this report. In addition we would like to thank Ahead of the Curve for making their qualitative data on trends in responsible business in Egypt available for the purposes of this report.

This report would not have been successful without the dedication and support of its authors, who represent a mix of young researchers, development professionals, as well as members of the private sector and academia. Report authors include: Salma El Sayeh, Senior Analyst for Research and Advocacy, Ahead of the Curve; Fadi Ghandour, Founder of Aramex and CEO of Wamda Capital; Mohamed El Kalla, CEO of CIRA, Co-Founder of Ahead of the Curve, Chair AmCham Sustainability Committee; Ahmed Hassanein, Associate Dean for Undergraduate Studies and Administration, School of Business, American University in Cairo; Sara El Sayeh, Projects Manager, Responsible and Inclusive Business Hub, MENA and Nahla Zeitoun, Assistant Resident Representative, Poverty Team Leader, UNDP Egypt, contributed a chapter on the Post 2015 Development Agenda and its links to the private sector.

Special thanks go to our readers for taking the time to review and provide critical feedback on the content of this report: Dr. Noha El Mikkawi, Regional Representative for the Middle East and North Africa, the Ford Foundation; Ghada Abdel Tawab, Program Officer for Social and Economic Rights, the Ford Foundation; Sherine El Shorbagi, Director of IMC Sustainable Development Technical Assistance; and Nahla Zeitoun. Of course, we would be remiss if we did not give a special acknowledgement to those who provided research support, including Imane Helmy, Program Assistant, UNDP Egypt; Hoda Mahmoud, RIBH MENA; and Karen Fanous, Intern, Ahead of the Curve. Thanks are also due to Mai Abdelrahman, UNDP Program Officer for assistance in coordinating report design and production. A very special thanks goes to our technical editor, Nihal Sharara for tirelessly working with me and putting in the endless hours required to finish this report.

Finally, we would like to end by thanking all of the companies in Egypt who were kind enough to share their stories with us and as a result, with the public. The role of the private sector is critical in building Egypt's future. We are grateful for all of those taking on the responsibility of that role.

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ACRONYMS & ABBREVIATIONS

AAIB	Arab African International Bank
AUC	American University in Cairo
BCtA	Business Call to Action
BOP	Base of the Pyramid
CAPMAS	Central Agency for Public Mobilization and Statistics
CDA	Community Development Association
CER	Corporate Entrepreneurship Responsibility
CSR	Corporate Social Responsibility
ECRC	Egyptian Corporate Responsibility Centre
EFSA	Egyptian Financial Supervisory Authority
EGX	Egyptian Stock Exchange
EJB	Egyptian Junior Business Association
ELIIP	Emergency Labor Intensive Investment Project
ESG	Economic Social and Governance
FCO	United Kingdom Foreign and Commonwealth Office
FDI	Foreign Direct Investment
GAFI	General Authority for Investment and Free Zones
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIM	Growing Inclusive Markets Initiative
GOE	Government of Egypt
GRI	Global Reporting Initiative
GSB	Growing Sustainable Business Initiative
IDSC	Information and Decision Support Center
IFC	International Finance Corporation
ILO	International Labour Organization
IMC	Industrial Modernization Centre
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
SDGs	Sustainable Development Goals
SFD	Social Fund for Development
SMEs	Small and Medium Enterprises
TICO	Technology, Innovation and Commercialization Offices
UNCAC	UN Convention against Corruption
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organization
WB	The World Bank
WHO	World Health Organization

1. Approach

It is easy to view Egypt today in terms of the seemingly insurmountable development challenges that it continues to face. Despite outward appearances, however, there is much to be hopeful about, and much of this hope lies in the potential of Egypt's private sector to both initiate and contribute to the sustainable growth and development of Egypt. Much has changed for Egypt since the UNDP *Business Solutions for Human Development* report was issued in 2007. Egypt is not only at the start of a new era defined by the uprisings of 2011 and 2013, but it is also in an era that is largely defined by the existence of the largest youth cohort in its modern history. While the Egyptian government continues to push to develop an inclusive and sustainable society, every policy maker, activist, private sector leader and academic will need to remember that at the very heart of all that has happened and is happening in the region is what Navtej Dhillon and Tarik Yousef refer to as the "generation in waiting"¹ – something that we need to be deeply mindful of as we think of the equally pressing issues of national security and political stability. Youth economic empowerment is a core element of the overall stability of Egypt moving forward and, for now, remains at the heart of our current development issues.

While the importance of market expansion has been argued by many to be of paramount importance to the countries of the Arab region, not enough has been done to support this. In a recent 2013 publication called *The Economics of the Arab Spring*, Malik and Awadallah stated: "A singular failure of the Arab world is that it has been unsuccessful in developing a vibrant private sector that survives without state crutches, is connected with global markets, and generates productive employment for its young."² With the current unprecedented youth bulge mentioned earlier and a generation that is fighting for inclusion, slow private sector growth is not an option, and neither is private sector non-participation in sustainable development. While the purpose of this report is to look at the varying ways in which the private sector can positively contribute to society, both in the way businesses choose to manage themselves and in the way they choose to interface with society, it is important to note at least once in this report, that creating an overall environment supportive to the *growth* and *expansion* of the private sector is critical to Egypt's future.

1.1. The Private Sector: An Integral Part of the Development Equation

Before considering the role of the private sector in development, it is important to take a step back and draw attention to the sheer economic power of the private sector today. Companies like Walmart, Exxon-Mobil, Chevron, Apple, HSBC Holdings, IBM, Allianz, and General Electric are included among the world's largest economies. The world is home to corporations that make revenues that are comparable to the economies of nations the size of South Africa, Austria, New Zealand, Kuwait, and yes, Egypt. Furthermore, according to the IMF, the private sector accounts for over 60 percent of GDP for most countries, and is the main source of jobs for citizens worldwide. With regards to Egypt, the private sector is credited with creating approximately 70 percent of jobs in the country, the bulk of those jobs existing among small and medium enterprises.

Of course we can blame many of society's modern day ills on the very companies who have created the immense wealth mentioned in the paragraph above. We can say that capitalism is the source of some of our most daunting problems like pollution, climate change, the abuse of cheap labor, and the uneven distribution of wealth, among others. For decades, the evils of the private sector have been cited and while they cannot be denied, the narrative of profit maximization and self-interest is becoming a tired one. Where that model of business does exist, as John Mackey and Raj Sisodia argue in their book *Conscious Capitalism*, we need to remember that at its core, capitalism is about value creation and today, it is often about multiple layers of value creation that go beyond basic profit maximization to solving serious societal challenges in ways that are both profitable and sustainable.

1 Dhillon, N. & Yousef, T. (2010). *Generation in Waiting: The unfulfilled promise of young people in the Middle East*. Washington, DC: Brookings Institution Press.

2 Malik, A., & Awadallah, B. The Economics of the Arab Spring, *World Development* (2103), p.1 <http://dx.doi.org/10.1016/j.wprldev.2012.12.015>

As much as it is important to highlight the business models that have served us badly, considering the sheer economic and technological power of the world's private sector, it is equally important to celebrate and highlight the business models that are doing it right because these will continue to exist and play an integral role in shaping the future of our world. Marc Gafni is the cofounder and director of the Center for World Spirituality and he eloquently pointed out to Mackey and Sisodia the impact that capitalism and business can in fact have on human wellbeing:

*"Lifting people out of poverty was never the conscious intention of business; it was the by-product of a business well enacted. Now business is awakening to itself becoming conscious. It is recognizing that it is a force with enormous power and responsibility. By becoming conscious, it can do what it does even better. It can create more community, more mutuality, and paradoxically, more profit, by engaging everyone in the system."*³

The age of the Internet that allows for constant access to information combined with incredible advances in technology and an overall betterment of human wellbeing across the globe has also led to a heightened awareness of our collective responsibility to make the world a better place now and for future generations. This has also led to the evolution of business and the role that it too can play in making this world a better and more sustainable place to live.

It is important to recognize that in some cases, multinational corporations are able to source and allocate equal or greater amounts of funding to social development issues than bilateral and multilateral aid organizations are able to. For example, between 2011 and 2016 Walmart⁴ was able to raise and allocate more funds to gender projects than that allocated by the World Bank⁵ for equivalent projects over the same time period (Box 1). This example demonstrates the potential benefit, capacity and added value of the private sector as a major stakeholder and partner in sustainable development.

Box 1: Walmart Foundation Women Economic Empowerment Initiative

Since 2011, the Walmart Foundation has mobilized USD 110 million for its Women Economic Empowerment initiative, exceeding their goal of USD 100 million two years ahead of schedule. Besides its own money/ grants, Walmart sourced USD 11.24 billion from women-owned businesses with the target of reaching USD 20 billion by the end of 2016. So far, these funds have been used to train 540,102 women in retail supply chains worldwide, with the goal of training 1 million women between 2012 and 2016.

"these programs have helped 180,423 women in the U.S. to gain the skills needed for employment; enabled 13,295 women in eight countries to receive retail training; contributed to the training of 297,655 women in agriculture around the world; and provided 48,729 women in factories with training to develop the skills they need to become more active decision-makers in their jobs and in their families. The factory training has been implemented in 82 factories in Bangladesh, China, El Salvador, Honduras and India." (the goal is 150 factories)

Their empowerment initiative also includes "launch[ing] a dedicated women-owned product marketplace to:

1. Implement a women's empowerment program to train 60,000 women in 150 factories and processing facilities producing for top retail suppliers in industries with high percentages of women.
2. In emerging markets, train 500,000 women in the agriculture value chain.
3. Empower 200,000 women through job training, education, career counseling and mentoring in the United States.
4. Train 200,000 women for their first jobs in retail in our emerging markets through partnerships with NGOs, public schools, multilateral institutions and universities.

As a benchmark for comparison, in terms of funding amounts, over the same time period between 2012 and 2016, the World Bank Group implemented 124 projects, with a total budget dedicated to women and gender issues of USD 13.88 billion (keeping in mind that 2013 witnessed the most spending on gender by the World Bank Group with a total of 44 projects).

3 Mackey, John and Sisodia, Raj, *Conscious Capitalism: Liberating the Heroic Spirit of Business*, (USA, Harvard Business School Publishing Corporation, 2014), pp. 22.

4 <http://corporate.walmart.com/news/news-archive/2015/04/22/walmart-highlights-progress-in-2015-global-responsibility-report>

5 http://www.worldbank.org/projects/search?lang=en&searchTerm=&themecode_exact=59

Finally, a quick glance at the top 10 US Foundations by total giving provides a glimpse of the levels of finance available to, and expended, by foundations born out of the corporations or business leaders in the advancement of global sustainable development issues.

Table 1: Top 20 US Foundations by Total Giving⁶

Rank	Name/(state)	Total Giving (USD)	As of Fiscal Year End Date
1.	Bill & Melinda Gates Foundation (WA)	3,320,725,374	12/31/2013
2.	The Abbvie Patient Assistance Foundation(IL)	853,356,401	12/31/2014
3.	The Bristol-Myers Squibb Patient Assistance Foundation, Inc. (NY)	811,433,684	12/31/2013
4.	Johnson & Johnson Patient Assistance Foundation, Inc. (NJ)	711,632,110	12/31/2013
5.	Merck Patient Assistance Program, Inc. (NJ)	686,800,564	12/31/2013
6.	Genentech Access To Care Foundation (CA)	680,278,040	12/31/2013
7.	Pfizer Patient Assistance Foundation, Inc. (NY)	668,050,404	12/31/2013
8.	GlaxoSmithKline Patient Access Programs Foundation (PA)	599,953,667	12/31/2012
9.	Ford Foundation (NY)	560,335,883	12/31/2013
10.	Lilly Cares Foundation, Inc. (IN)	503,299,479	12/31/2014

2. Context

Over the years, the private sector has proven itself to be a major stakeholder in the development arena, worldwide. Today, the role of the private sector in development has evolved from a previously profit-driven motivation to one characterized by a more nuanced recognition of the valuable and comprehensive contributions that can be made to national and local development. The private sector plays a critical role in development, through the provision of jobs, goods and services that help improve peoples' lives. Growing global recognition of the role of the private sector in development acknowledges its increasing contributions to poverty alleviation, inclusive growth and environmental sustainability. Moreover, worldwide initiatives have demonstrated the private sector's ability to promote positive change by harnessing innovations and competencies, and engaging in interlinked development activities in fields targeting improved health, education and food security.

With regards to Egypt, the numerous challenges resulting from the successive political, social and economic changes since the January 25th, 2011 revolution have created the perfect environment for the private sector to expand the scope of its participation in development. This expanded role goes beyond simple job creation, to a more complex perception of the quality of the jobs to be created. The private sector is uniquely positioned to create *decent* work opportunities, promote *green* jobs, and participate in *sustainable* poverty alleviation initiatives.

Before discussing the nature of private sector engagement in addressing Egypt's current developmental challenges, and the different roles that it has played and can play in the future, it is important to briefly highlight the rapidly shifting socio-economic conditions within the country over the past five years.

2.1. Socio-economic Conditions in 2010

While Egypt's economy was generally resilient in the face of the global economic crisis of 2008, it nevertheless did have a detrimental impact on certain key sectors such as tourism, Suez Canal revenues, and remittances. Furthermore, the country experienced a sharp drop in foreign direct investment of some 38.7 percent in 2008/09.

Addressing these challenges, the Government of Egypt (GOE) increased its public investment through fiscal and monetary policies designed to boost economic activities and offset declines in private spending. These policies appear to have contributed to increasing the GDP growth rate from 4.7 percent in 2008/09 to 5.1 percent in 2009/10; stabilizing the budget deficit to between 7 and 8 percent; and decreasing inflation to 11.7 percent. These improvements were

⁶ <http://foundationcenter.org/fundfinders/topfunders/top100giving.html>

reflected in the upgrading of Egypt on a number of global indices: Moody's changed its rating for Egypt from negative to stable in 2009, and the World Economic Forum also raised Egypt's position in its Global Competitiveness Report by 10 positions to 70th out of 133 countries in 2009/10.

However, despite these macro-level improvements, Egypt continued to face various socio-economic challenges, including problems with the educational and health sectors, high unemployment, and increasingly wide income disparities. Although the country experienced a period of economic growth of nearly 6 percent between 2004 and 2009, the poverty rate also increased from 19.6 percent in 2004 to 21.6 percent in 2009.⁷ Egypt was experiencing a period of 'growth with poverty' where gains in the economic arena did not translate into social gains, primarily 'due to corruption and lack of political reform'.⁸

2.2. Socio-economic Conditions in 2015

As mentioned above, the January 25th, 2011 revolution, and subsequent political transitions, set in motion a period of political and social instability that had a significant negative impact on Egypt's economic growth, including exacerbating existing structural imbalances. Political instability led to decreased investment, savings, and tourism revenues. The GDP growth rate declined from 5.5 percent in December 2010 to 2.2 percent in December 2012. The Egyptian pound lost over 4.5 percent of its US dollar value in January 2013 (falling by more than 10 percent overall since the revolution). Burdened by fuel and food subsidies, the budget deficit doubled to 15.8 percent in 2013/14, while foreign reserves dropped by USD 14.6 billion. Social indicators like the unemployment rate and the poverty rate also increased. The unemployment rate rose to 13.3 percent, and the national poverty rate increased from 25.2 percent (21 million) in 2011 to 26.3 percent in 2013 (CAPMAS, 2014).

Egypt's recovery remains fragile, with an inflation rate of over 10 percent and an increasing public debt to GDP ratio of 97 percent. A quarter of the population lives below the national poverty line and an equal number hover just above it, making them very vulnerable to economic shocks. The latest poverty map of 2011 indicated that Upper Egypt (particularly the governorates of Qena, Sohag and Assiut) continues to have the highest poverty percentages coupled with low educational attainment and low public investment in basic services such as education and health. Limited economic growth has not yet produced enough jobs, and unemployment disproportionately affects the country's young, with people between the ages of 15 and 29 representing over 70 percent of the unemployed. All of the challenges outlined above, along with the impact of global financial and food crises hindered the achievement of Egypt's MDGs.

There appears to be a more positive outlook following the presidential election in 2014 and Egypt's Economic Development Conference in 2015. Egypt's GDP is expected to grow to approximately 4.3 percent in 2015/16, boosted by several major infrastructure projects. Economic growth is also expected to be bolstered by reforms to the national subsidy system, in addition to government efforts to create a more investment-friendly business environment for both foreign and local investments.

3. The Role of Egypt's Private Sector and the Current Report

Based on the above description of Egypt's socio-economic conditions, it is clear that Egypt has very little time to waste in attempting to achieve both stability and sustainable growth. Neither traditional capitalism nor traditional development paradigms are an answer anymore. Egypt needs to see a proliferation of responsible, scalable and innovative business models that are inclusive of the millions at the base of the pyramid (BOP) both as consumers and producers and that also solve imminent societal challenges at the same time. In order to address current challenges, and move forward in achieving the ambitious Sustainable Development Goals (SDGs) initiated by the UN, concerted and coordinated efforts that transcend what government or civil society alone can provide will be required. Involving the private sector as a key stakeholder in the sustainable development of Egypt is no longer something to question or debate. It is perhaps one of the most crucial parts of the sustainable development equation today.

The purpose of this current report, *Expanding Horizons in Development: The Rising Role of Egypt's Private Sector*, is to inspire the diverse stakeholders engaged in developing Egypt to think creatively about the varying roles that the private sector can play in solving Egypt's most pressing development challenges.

⁷ World Development Indicators <http://databank.worldbank.org/data/home.aspx>

⁸ *African Economic Outlook 2010* (OECD, AfDB, UNDP).

Chapter One of the report highlights the growing recognition of the role of the private sector in development, charting the UN's evolving frameworks for engaging the private sector, as they have moved from a focus on compliance to an evolving focus on inclusive market growth. Detailed information is also provided on the evolution of UNDP initiatives targeting the private sector in Egypt, including the UN's post-2015 development agenda.

Chapter Two of the report explores corporate community engagement in conceptual terms, including an analysis of the trends in terminology associated with private sector engagement in development. The chapter explores the shifts in definitions, perceptions and corporate community engagement practices over time, and provides recommendations to the private sector on how to scale up and improve their community development engagement.

Chapter Three addresses the current status of corporate compliance in Egypt by assessing the current Egyptian ecosystem, including an examination of the management of labour relations, the different aspects of good governance and ethical performance, and environmental compliance. Recommendations for future development directions are provided.

Chapter Four addresses the complex issue of corruption, including its detrimental impact both on the development of the kind of supportive environment that is a prerequisite for private sector growth and expansion, as well as on sustainable development at a national level. The chapter charts the costs of corruption, demonstrating its detrimental impacts on national economies worldwide, as well as providing a more focused examination of corruption in the Egyptian context, using the housing sector as a case study. The chapter outlines current anti-corruption initiatives, as well as providing recommendations for the future.

Chapter Five provides a detailed examination of the evolution of private sector community engagement approaches from those focused on charity to those adopting the concept of inclusive business. The importance of the Base of the Pyramid is explored, not only as an underserved population group deprived of access to a myriad list of products and services, but also as a potentially profitable consumer market for those businesses prepared to develop and implement creative and inclusive business models catering to this huge and underserved market segment. The chapter highlights current GOE efforts, in terms of several sectors, which would benefit from social entrepreneurship, as well as outlining specific recommendations for the type of interventions required to support this sector.

Chapter Six focuses on the local, regional and international success stories resulting from a shift from a classical corporate responsibility perspective to a corporate entrepreneurship one. The chapter explores the different ways the private sector can leverage its experience and forge partnerships with the government, the public sector, and civil society. It also explores current obstacles faced by private sector enterprises, including limited access to finance, markets and networks, and provides recommendations regarding the types of interventions and actions required.

Finally, the Conclusion summarizes the main concepts covered by the report as a whole, identifies strategic action areas, as well as provides targeted and concrete recommendations for the way forward for the private sector, civil society, and the public sector.



1

CHAPTER

THE POST-2015 DEVELOPMENT AGENDA: WHERE DOES THE PRIVATE SECTOR FIT IN?

By Nahla Zeitoun

1. UN Frameworks for Engaging the Private Sector: From Compliance to Inclusive Market Growth

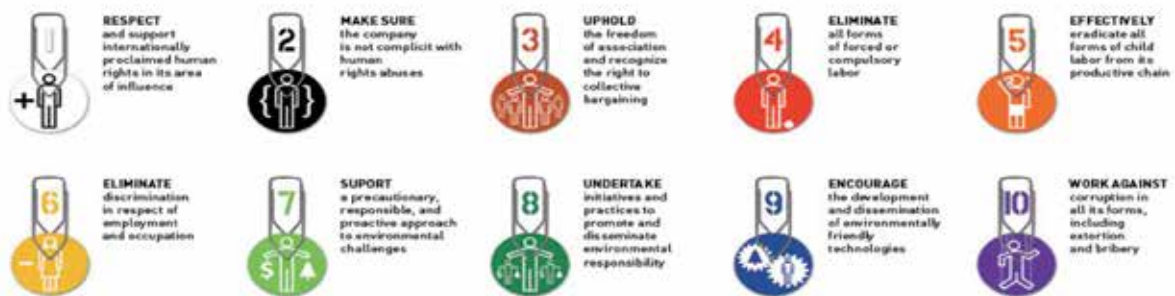
1.1. Global Compact and its History in Egypt

The early and formal engagement of the private sector by the UN began with the initiation of the United Nations Global Compact (UNGC)⁹. The ultimate aim of the UN was to support the development of a responsible business climate, where companies are responsible, corruption is minimized, human and labour rights are respected, and businesses operate in a socially responsible and sustainable manner. The initiative was launched in July 2000 in cooperation with ISO and the Global Reporting Initiative (GRI), to assist the private sector in aligning with the Ten Principles of the UNGC (Figure 1). The Ten Principles fall under four main pillars; labour rights, human rights, environmental protection and anti-corruption. UNGC Networks provide a platform for participating stakeholders to advance the principles of the UNGC at the national, regional and international level.

“We recognize that people are at the center of sustainable development and, in this regard, we strive for a world that is just, equitable and inclusive, and we commit to work together to promote sustained and inclusive economic growth, social development and environmental protection and thereby to benefit all.”

Outcome document of the United Nations Conference on Sustainable Development (Rio+20), “The future we want”

Figure 1: The Ten Principles of the Global Compact



With more than 12,000 participants from approximately 145 countries, the UNGC is considered the largest voluntary corporate responsibility initiative in the world. By mainstreaming UNGC principles in business practices, the UNGC network attempts to ensure that the private sector will benefit the whole community.

Ever since the launch of the Global Compact Local Network in Egypt in February 2004 by the UNDP and Mansour Group, both partners have been committed to promoting Corporate Social Responsibility (CSR) and the UNGC principles among a diverse range of stakeholders including the private sector, academia and various development foundations. In 2008, the Egyptian Corporate Responsibility Center (ECRC)¹⁰ project was established as a result of recommendations made

⁹ <https://www.unglobalcompact.org/>

¹⁰ <http://www.ecrc.org.eg>

in the 2007 *Business Solutions for Human Development Report*¹¹, the first report on CSR in Egypt. Today, the ECRC has become one of the leading promoters of the principles of the UNGC in Egypt.

Starting with less than 20 companies in 2007, the UNGC Local Network in Egypt now has over 90 active local members, and is continuing to gain prominence in Egypt. The UNDP continues to actively promote the network, including working to attract new members by organizing roundtable discussions through the ECRC, providing the required resources and toolkits, and organizing training events on gaps and needs identified by Local Network members.

In addition to the UNGC which promotes compliance, in December 2005, the UN launched the UN Convention against Corruption (UNCAC)¹² a UN initiative to promote transparency and good governance. The convention was ratified by Egypt and covers a broad range of measures against corruption, including domestic and foreign bribery, embezzlement, money laundering, the detection and sanctioning of corruption, as well as the promotion of transparency and technical assistance.

1.2. The Egyptian Corporate Responsibility Center (ECRC)

As mentioned above, the ECRC was designed as part of a follow up to the recommendations of the UNDP 2007 Business Report in an attempt to encourage sustainable business practices in Egypt. It was the focal point of the UNGC in Egypt, and represented a joint initiative between the UNDP and the Industrial Modernization Center (IMC) tasked with supporting companies in their efforts to implement the Ten Principles of the UNGC, as well as supporting the MDGs in Egypt.

ECRC activities include providing business development advisory services, and capacity building and training for private sector companies, with the objective of improving the national capacity to design, apply and monitor sustainable CSR policies as well as promote gender equality at the workplace. The ECRC also promotes inclusive business models encouraging major multi-national corporations to expand their sales and production operations in order to include “the poor” at the “base of the pyramid” (BOP) as employees, consumers or entrepreneurs. As of 2014, the ECRC had conducted and completed three key sector diagnostics around CSR in the following main sectors: 1) financial; 2) textile; and 3) agri-business. The ECRC is also starting to work in the area of sustainable finance, with a new initiative launched with the Arab African International Bank (AAIB) called Mostadam (case study provided in Chapter Two). Finally, in line with the Women’s Empowerment Principles (Box 2)¹³ the ECRC is currently collaborating with the American University in Cairo (AUC) School of Business, the International Finance Corporation (IFC), the UNDP and IMC on a novel Women on Boards initiative to promote greater participation of women at the executive level (Box 3).

Box 2: Women’s Empowerment Principles: Equality Means Business

Seven Principles for business offering guidance on how to empower women in the workplace, marketplace and community.

1. Establish high-level corporate leadership for gender equality
2. Treat all women and men fairly at work—respect and support human rights and nondiscrimination
3. Ensure the health, safety and well-being of all women and men workers
4. Promote education, training and professional development for women
5. Implement enterprise development, supply chain and marketing practices that empower women
6. Promote equality through community initiatives and advocacy
7. Measure and publicly report on progress to achieve gender equality

11 http://www.eg.undp.org/content/egypt/en/home/library/human_development/publication_5/

12 <https://www.unodc.org/unodc/en/treaties/CAC/>

13 <http://www.unwomen.org/en/partnerships/businesses-and-foundations/womens-empowerment-principles>

Box 3: The Women on Boards Initiative

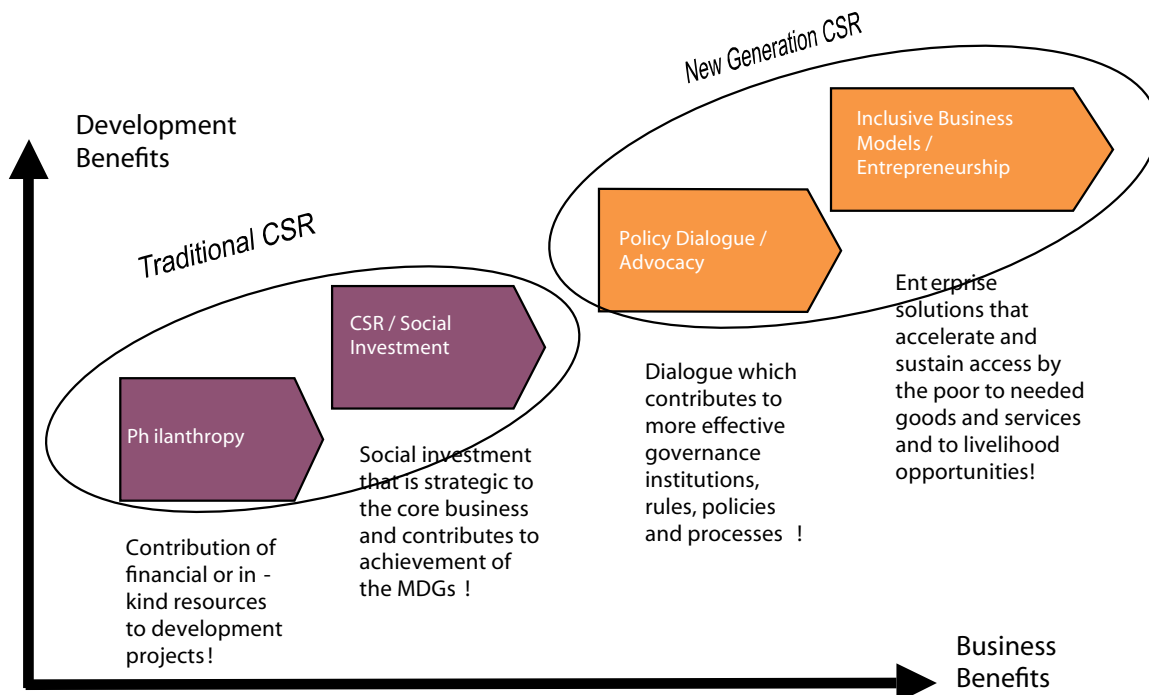
The boardroom is where strategic decisions are made, governance is applied and risk overseen. It is, therefore, imperative that boards are comprised of competent, high caliber individuals who collectively offer a mix of skills, experiences and backgrounds. Evidence suggests that boards make better decisions when a range of voices, drawing on different life experiences, can be heard. That mix of voices must include women. It is not just a gender numbers game. It is about the richness of the board as a whole. Inclusive and diverse boards are more likely to be effective boards, better able to understand their customers and stakeholders and to benefit from fresh perspectives, new ideas, vigorous challenge and broad experience. This in turn leads to better decision-making.

The Women on Boards initiative was conceived as an outcome of the Women Empowerment Principles (WEP), part of the UN Global Compact. The initiative was designed to improve the gender balance of corporate boards in Egypt and the Middle East region by sensitizing male board members to gender issues, qualifying women from different corporate sectors and outside the corporate mainstream to be appointed to corporate boards, and advocating for policy and legislative changes that institutionalize gender diversity on corporate boards. The initiative has successfully begun providing training in corporate governance and leadership to women executives from the corporate sector, female entrepreneurs, academics, civil servants and senior-level women with professional service backgrounds. Participants represent a wide range of sectors, including the banking, service, industry, health care, and education (universities) sectors; as well as from the IMC.

1.3. Promoting Base of the Pyramid Models and Growing Inclusive Markets

Even though participation in the previously mentioned initiatives is voluntary, the UN discourse in engaging with the private sector has started to take on an additional dimension. Private sector engagement has shifted from a pure focus on compliance to promoting inclusive business models and encouraging major multi-national corporations to expand their sales and production operations in order to include “the poor” at the BOP as employees, consumers or entrepreneurs (Figure 2).

Figure 2: CSR Continuum



Inclusive markets¹⁴ are markets that extend choices and opportunities to the poor as producers, consumers and income-earners. They create jobs and affordable goods and services needed by the poor. Examples include making products more affordable for poor consumers by selling them in smaller quantities with less packaging, as exemplified by Unilever's low cost, single use product sachets in Asia and Africa. The GOE's new *Sustainable Development Strategy: 2030 Vision*¹⁵ and its focus on inclusive market growth has created the opportune moment for enhanced private sector engagement, however it remains to be seen how this discourse will move from theory to practice (Box 4).

The ability of the private sector to innovate and invest in research and development can create and diffuse solutions to development challenges in different sectors like health, education and food production/nutrition¹⁶. Accordingly, the Inclusive Market Development (IMD) approach aims to engage the private sector in addressing barriers like lack of appropriate policies, limited access to finance, weak value chain linkages, capacity constraints and lack of infrastructure.

The UNDP has begun carrying out these types of initiatives worldwide, through the Growing Sustainable Business Initiative (GSB). Initiated in 2002 by the UNGC and administered by the UNDP, the GSB facilitates business-led enterprise solutions to poverty in advancement of the MDGs. These enterprise solutions accelerate and sustain access to needed good/services and livelihood opportunities. The GSB engages the private sector in innovative partnerships grounded in market-based incentives, often around new business models, to accelerate progress toward the MDGs. The GSB facilitates "enterprise solutions" where profit and incentives justify real investment and where financial sustainability is embedded in the design. A GSB project was implemented in Egypt with IMC in 2005. The project was successful in conducting several market research studies to identify BOP opportunities, including an in-depth feasibility study done for Mansour Group around the area of retail, a sector study on affordable housing for the poor, and feasibility studies around call centers in Upper Egypt, among others. The project also mapped and scoped eight key sectors where BOP opportunities are huge, namely education, health, food, water, IT, housing, waste management, and clothing and textiles. While the project ended in 2014, the UNDP is in dialogue on BOP opportunities with the IMC and with the private sector. Moreover, in 2014 the UNDP launched the Innovations for Development Lab in Egypt, through which it is exploring new methodologies to support social enterprises and the development of sustainable business ideas to address national development challenges (Box 5).

Box 4: Egypt's Sustainable Development Strategy: 2030 Vision

The Sustainable Development Strategy (SDS): 2030 Vision aims at creating a modern, open, democratic, productive, and happy society. A participatory planning approach was adopted to prepare the SDS, led by civil society organizations and the private sector, to ensure the enforcement and implementation of the policies, programs and initiatives that will be adopted to achieve SDS targets. A comprehensive monitoring and evaluation (M&E) system will be put in place to closely observe SDS execution, assess its impact and measure the progress towards achieving the main goals of the strategy and the different key performance indicators (KPIs).

SDS KPIs are available on the MOP website <http://mop.gov.eg/Vision/EgyptVision.aspx>

Box 5: UNDP Innovation for Development Lab: i4d Lab

The work of UNDP in the development of the social entrepreneurship ecosystem is not limited to supporting national entities, but also includes a number of initiatives by the Innovation Lab. UNDP's i4d Lab is exploring new methodologies and forms of engagement with national and international key stakeholders with the ultimate goal of generating innovative solutions and sustainable business ideas to address national development challenges around three main areas of work: Games for Social Change; Inclusive Design; and Social Entrepreneurship. Since its inception in 2014, over one thousand youth have joined the Lab's activities, nearly 100 ideas have been generated and 20 of them are currently being supported by the Lab and its national partners.

¹⁴ http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/IMD/

¹⁵ <http://www.mop.gov.eg/Vision1.pdf>

¹⁶ Post-2015 MDGs: What role for business? <http://www.odi.org/publications/6645-post-2015-millennium-development-goals-role-business>

In 2004, the report “Unleashing Entrepreneurship: Making Business Work for the Poor”¹⁷, was drafted by the Commission on the Private Sector and Development based on the request of UN Secretary-General Kofi Annan. The report represented an early attempt to identify and address the legal, financial and structural obstacles hindering the expansion of the private sector in developing countries. The commission drafting the report focused on how business can create domestic employment and wealth and contribute to achieving the MDGs. It discussed different ways through which key actors like government, the public and private sector, as well as civil society can contribute to improving the ability of the private sector to advance development and fight poverty by creating domestic employment and unleashing entrepreneurship in developing countries. The voices of entrepreneurs from different countries were reflected through different surveys. Best practices were presented to showcase how the private sector can engage in innovative ways to address development challenges. The report offered a portfolio of actions evolving around forming ecosystems, enforcing public-private partnership for developmental projects and improving corporate governance.

The report’s key message was how the private sector can ‘do good’ for the poor at the BOP while being profitable at the same time: by mobilizing major stakeholders to unleash the capacity of the private sector, which can make a significant contribution to development through its knowledge, expertise and resources. Finally, the report highlighted the significant role that could be played by the private sector in exploring the needs of BOP markets (4 billion people around the world have an annual income of less than USD 1,500) and tackling these needs through innovative and profitable solutions.

Following the success of *Unleashing Entrepreneurship*, in 2006 the UNDP launched the Growing Inclusive Markets (GIM)¹⁸ Initiative, to encourage private companies to adopt inclusive business models that support poverty reduction in developing countries by creating new opportunities and better lives for the poor. The GIM advisory board comprises 28 institutions from the private sector, development and academia, and has attracted partners from all over the world to work on global, regional and national reports, case studies, policy briefs and research tools. The GIM initiative provides knowledge and research tools to enhance south-south knowledge by establishing a solid web-based storehouse of empirical data and global reports on low-income countries. This database includes more than 1,000 inclusive business models from different countries and disseminates videos on southern entrepreneurs to raise awareness about profitable examples of businesses that have proven positive social impact.

Moreover, GIM has documented over 50 case studies from the south where BOP markets were tapped, profits were made and positive social impact happened, simultaneously. These cases for social entrepreneurship include 6 interesting case studies from Egypt, such as that of Kheir Zaman supermarket chain by Mansour Group (Box 6), the Siwa Eco-lodge by Environmental and Quality International (EQI), and Orascom Low Income Housing, among others.

Box 6: Metro and Kheir Zaman Successfully Adopt 100% Biodegradable Plastic Bags

One of the key objectives of the Corporate Affairs Department is to adopt environmentally sustainable practices in the areas of power consumption, waste management, water use, and paper consumption, in order to minimize environmental degradation. In line with this objective, the Corporate Affairs Department, in cooperation with the Procurement Department at Metro Market, began to examine ways to minimize environmental degradation through practical applications in 2013. They began by looking at the use of plastic bags at all 97 Metro and Kheir Zaman stores. The stores, located in eleven governorates, use approximately 80 million plastic bags per year. Accordingly, work began to convert all plastic bags to recyclable plastic bags. In cooperation with Symphony Environmental Ltd., located in the UK, the D2W technology was adopted to convert old-fashioned plastic bags into 100% biodegradable plastic bags. The D2W mark was affixed on all plastic bags to encourage competitors to adopt the same technology in order to reduce the harmful effects that plastics have on the environment.

17 <http://web.undp.org/cpsd/documents/report/english/fullreport.pdf>

18 <http://www.growinginclusivemarkets.org/>

Based on our experience with the GSB project implemented with IMC, we can confidently say that in Egypt the opportunities for doing business with low income markets at the BOP are significant and could be profitable if addressed adequately by scaling up GIM and expanding new products and services that address the needs of the poor.

1.4 UNDP'S Private Sector Strategy

In 2007, the UNDP formulated a private sector strategy (updated in 2012)¹⁹ identifying goals, objectives and approaches for working with the private sector in advancing sustainable human development and supporting inclusive market-based solutions. The strategy included the following five priority areas:

- Establishing the Policy and Institutional Framework;
- Facilitating Pro-Poor Value Chain Integration;
- Brokering Investments in Pro-Poor Goods and Services;
- Fostering Inclusive Entrepreneurship; and
- Encouraging Corporate Social Responsibility in Support of Inclusive Market Development and the MDGs.

This strategy set the framework for engaging with the private sector to enhance and leverage its role in development and in the creation of inclusive markets. It also highlighted potential partnerships with other UN organizations, the UNGC, and other key stakeholders in order to leverage additional capacities and resources to scale-up the impact. Examples of UNDP engagement with the private sector include initiatives in the environmental sustainability field, including the MDG Carbon Facility²⁰ that offers a one-stop shop of services for stakeholders that wish to develop greenhouse gas emission reduction projects; and the Montreal Protocol Programme that assists companies in converting manufacturing lines to ozone-friendly technologies. Additionally, major accomplishments have been made in improving IT and entrepreneurship skills among Egyptian youth through the Masr Ta3mal online employability portal, a result of UNDP's long-term partnership with Microsoft Egypt (case study provided in Chapter Six).

In 2008, the UNDP and the UNGC launched the Business Call to Action (BCTA)²¹ global initiative, designed to challenge companies to develop inclusive business models that have commercial success and development impact. This initiative included targets like providing access to banking services for more than 40 million people, promoting improved nutrition for 8 million children, and enhancing access to energy for 7.1 million low-income households.

1.5. John Ruggie: Business and Human Rights

Another approach towards private sector engagement in the arena of human rights was developed by Dr. John Ruggie in 2009. Entitled *"Business and Human Rights: Towards Operationalizing the Protect, Respect and Remedy framework"*²², the framework is based on three complementary pillars: 1) the role of the state in setting appropriate rules and regulations to protect human rights; 2) CSR; and 3) access to remedy (judicial and non-judicial).

This approach focuses on the integration of human rights and responsible business practice in different corporations by identifying benchmarks and principles for business. Integrating social concerns into long-term strategic plans and value chains is crucial, and can include actions like establishing a corporate human rights policy, assessing the impact of this policy on the company, and integrating these values into the business culture. Additionally, companies can go beyond this respect framework by offering goods and services to the poor and adopting inclusive business models. In this way, sustainable growth is endorsed by a shift towards transparent and accountable business models. Finally, governments should actively set human rights standards for businesses if they are seeking long-term benefits for their society.

19 <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf>

20 http://www.undp.org/content/undp/en/home/ourwork/environmentandenergy/projects_and_initiatives/mdg-carbon.html

21 http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/BCTA/

22 <http://www2.ohchr.org/english/bodies/hrcouncil/docs/11session/A.HRC.11.13.pdf>

2. The Post-2015 Development Agenda

A key outcome of the United Nations Conference on Sustainable Development, Rio+20, in 2012 was the introduction of the SDGs (Figure 3), building on the MDGs and the lessons learned from two decades of working in the development field. A common consensus was that these goals should tackle the environmental, social and economic dimensions of sustainable development.

Figure 3: The Sustainable Development Goals (SDGs)



Figure 4: Six Elements Essential to the SDGs

According to the UN Secretary General's report *"The Road to Dignity by 2030: Ending Poverty, Transforming All Lives, and Protecting the Planet"*²³, SDGs are built on six essential elements (Figure 4): dignity, people, prosperity, planet, justice and partnership.

The UN is taking steps to actively support global actions for sustainable development, confirmed by UN Secretary General Ban Ki-moon in the biannual meeting of the UNGC board in January 2015, who encouraged board members to advance SDGs and urged the private sector to join the UNGC and become part of the global solution and the global climate agreement²⁴. For the first time, the transformative universal post-2015 development agenda marked a turning point for private sector engagement in sustainable development. It became an active player not only participating in UN initiatives, but also in drafting and setting development goals. The private sector participated with the UN in identifying the post-2015 development agenda and setting the SDGs²⁵.



23 http://www.un.org/ga/search/view_doc.asp?symbol=A/69/700&Lang=E

24 <https://www.unglobalcompact.org/news/1591-01-09-2015>

25 <http://sustainabledevelopment.un.org/?menu=1300>

A series of consultations, events and task forces were organized to solicit the input of corporations, supplemented with the results of the “MY World” survey asking people to vote for their development priorities²⁶. The consultations were mainly concerned with how the UN post-2015 agenda applies to national conditions and how businesses, particularly small and medium enterprises (SMEs), can support the SDGs. Consultation results fed into the post-2015 process. “Sharing responsibility” and “delivering as one” are concepts key to mobilizing resources and delivering the ambitious post-2015 agenda.

Over the last decade, governments have joined other stakeholders in assuming a relevant role as drivers of responsible business and adopting public sector roles in strengthening CSR by creating an enabling environment, funding research and facilitating the networking of researchers in the CSR context, setting the required regulations, and building capacities for CSR in businesses, civil society and public authorities through training, internet platforms, and so forth.

2.1. Egypt and the Post-2015 Development Agenda

In 2013, Egypt conducted a series of post-2011 consultations with various stakeholders over a period of two months (from February to March 2013). The process began with a desk top review of critical UN and GOE reports, as well as thematic documents provided by donors and other UN agencies. Focus group discussions were implemented with business people, women, youth (between the ages of 18 and 29), civil society organizations, environment and population experts, NGOs, as well as both school and street children aged between 10 and 15 years from low income/informal neighborhoods. Individual interviews were also held with representatives of key government organizations, public figures and thematic experts. A total of 125 individuals participated in the meetings and expert interviews, 41 of whom were women. Some of the pressing concerns and priorities of Egyptians at the time of the consultations in 2013 are outlined in Box 7, as per the final consultation report:²⁷

Box 7: Pressing Concerns and Priorities of Egyptians (2013)

1. The **Security Situation**.

2. The **Deceleration of the Economy** and the lack of clarity regarding Egypt’s post revolution economic policy. The devitalization of the tourist industry, investor flight, and the closure of many businesses threatens the job security and livelihoods of many, and has a disproportionately negative impact on vulnerable and poor households, in terms of food security and health. Accordingly, a top priority for stakeholders is restoring investor confidence in the economy and promoting investment in sectors that have high added value and high labor content. An Enabling Policy Environment characterized by consistent government policies, no corruption, and ease of doing business was identified by the private sector as critical to promoting investor confidence in Egypt’s economy.

3. The **Mismatch of Education Outputs and Market Requirements**

The absence of creativity within the Egyptian educational system was particularly emphasized by youth who were vocal in articulating their grievances concerning the mostly theoretical content of curricula and the minimal opportunities for practical training that are available at both university and technical schools.

4. **Poverty and Regional Disparities** were mentioned as being a governance issue detracts from Egypt’s prospects for development. Addressing imbalances in the investment map of Egypt and increasing the outreach of public services and government social spending to rural and frontier governorates is seen as a critical priority as well as are reflection of the government’s responsiveness to the conditions and aspirations of all Egyptians.

5. **Uncontrolled Population growth and Environmental Degradation** is a growing concern especially because of the strain imposed on Egypt’s shrinking resources.

6. **Violence against Children** undermining the self-confidence of children and their opportunity to ultimately fulfill their potential as healthy productive adults.

²⁶ <http://vote.myworld2015.org/>

²⁷ Egypt Post 2015 National Consultation Report by Nemat Geneina, 2013

3. Conclusion and Recommendations

The private sector can play a significant role in supporting human progress and sustainable development, moving away from the role of the philanthropist providing charity to playing a proactive role, adopting responsible business practices, inclusive business models and support the creation of inclusive markets, all of which have a direct positive impact on both local communities and national economies.

It has been demonstrated that UN and UNDP engagement with the private sector has evolved over the years and the discourse which initially focused on corporate governance and corporate compliance has developed into more business engagement in BOP models, inclusive and sustainable business along with policy advocacy. However, the private sector requires an enabling environment, including accurate information about the development context, to be able to meet the challenges of eradicating poverty and hunger, creating productive and decent jobs, and fostering human development.

There are multiple ways through which businesses can support the implementation of the post-2015 sustainable development agenda. The mechanisms and approaches that are being advocated by the UNDP are outlined below.

3.1. Traditional CSR: Philanthropy Activities

Operating from within traditional CSR models, businesses can continue their philanthropy efforts by offering financial support and in-kind contributions to local communities and the poor. The private sector can also encourage employees to volunteer their time and experience in community activities. In order to maximize the impact of private sector efforts, and to ensure that initiatives are properly targeted and effective, the private sector needs to link these contributions to evidence-based research. For example, the Poverty Map identifies underprivileged areas in Egypt, identifying those in most need of development. The Social Responsibility Map, launched by the Information and Decision Support Center (IDSC) in cooperation with UNDP, is a more detailed resource which provides a list of active development projects by governorate, local unit, village or sector (health, education, potable water, sanitation, environment, among others). The Social Responsibility Map also highlights potential projects that need to be tackled and provides valuable information on cost, monitoring and evaluation, and sustainability indicators, as well as potential partners like NGOs working in the same region.

Finally, Sharek.org, a volunteerism portal launched by the ECRC in 2014, reflects the joint effort of leading private sector companies, business associations and NGOs to promote volunteerism and encourage employees to engage and address societal problems to make a difference and foster a greater sense of belonging.



Sharek.org was established in 2013 by Proctor & Gamble (P&G), PwC and IBM and targets Egyptian volunteers. It is the first Volunteer-Matching Online Platform in Egypt & the Middle East, matching available volunteering opportunities at Civil Society Organizations (CSOs) and Startups with interested volunteers from the corporate world through a social platform. It allows companies to engage employees in an enjoyable experience.

Targeted Impact:

- Promoting the culture of volunteerism among Egyptian corporate sector;
- Matching the know-how of the corporate sector with the capability building needs of the civil sector, thus capitalizing on the real assets of the corporate sector;
- Eliminating obstacles and difficulties in finding effective and impactful community volunteering opportunities; and
- Providing an arena for the Egyptian corporate sector to maximize its societal impact via volunteering.

Partners include:

- Social Fruits
- Business associations (AmCham, EBA and EJB)
- United Nations Volunteers (UNV)
- The United Nations Development Program (UNDP)
- The Egyptian Corporate Responsibility Center (ECRC)
- Industrial Modernization Center (IMC)

3.2. Core Business

The private sector can introduce the social investment dimension not as a separate, stand-alone activity, but as something that is mainstreamed through core business. Companies can build on their core competencies and resources and introduce profitable innovations in health care, sanitation, education and communication that not only benefit the company bottom line, but also improve the lives of people.

3.3. Compliance with UNGC Principles and UN Conventions:

Company compliance with UNGC principles and the adoption of responsible business practices in and of itself plays a significant role in development. Companies can create jobs and income, transfer knowledge, contribute to the sustainability of the environment and combat corruption. The UNGC provides the opportunity to harmonize the efforts of different stakeholders like UN agencies, civil society, government, and private sector, among others. The UNGC Steering Committee in Egypt, not only offers support to the private sector, but also works on increasing the number of members of the UNGC network, in order to broaden the dissemination of UNGC principles.

3.4. The New Generation of CSR: Inclusive Markets and BOP

The engagement of the private sector can be increased by moving from 'traditional philanthropy' and 'compliance' to the new generation of CSR, particularly inclusive market development and BOP market solutions. Businesses can work toward achieving the common objectives of sustainable development while remaining commercially profitable.

It is important to have open, substantive discussions with the private sector around BOP opportunities in the health, water, ITC, education, textiles and clothing, housing, and waste management sectors. These discussions can identify why the private sector is not investing in these areas, despite the huge market demand. Is this lack of social investment related to the policy environment and ease of doing business? Does this reluctance stem from a lack of awareness of the purchasing power of the BOP market, or stereotypes about the poor being a risky market segment? The UNDP is attempting to address these knowledge gaps and misconceptions by organizing innovative social enterprise boot camps with young Egyptians. These boot camps have demonstrated the great potential to be found within the BOP, and those who can make the tipping point happen are young innovative and creative social entrepreneurs.

Finally, the private sector in Egypt remains the greatest untapped resource for achieving equitable development. The private sector was heavily engaged with UNDP in the post-2015 MDG consultations out of a firm belief that it is a major actor in both the set up and achievement of development goals. Moreover, it plays a crucial role in the development process by creating jobs, in addition to innovating and providing products that can transform the lives of poor people. The message that needs to reach all Egyptian investors, whether large, medium or small, is that Egypt is a vibrant market that provides scope for operating a profitable business while at the same time having a positive impact on social problems. Businesses can make money while also helping provide products and services to the poor.

The way forward requires closer collaboration between the public and the private sector to be able to unlock the BOP market. This collaboration presents its own challenges, and requires bridging gaps in operational discourse, strategy and practices between the two sectors. A common ground must be found between governmental enterprises and the private sector, in order to enable them to leverage each other's resources and achieve real sustainable change.



2

CHAPTER

CORPORATE COMMUNITY ENGAGEMENT: CHARITY OR SOCIAL INVESTMENT?

By Salma El Sayeh

1. Defining CSR

Until recently, Corporate Social Responsibility (CSR) was *the* term used to define and refer to corporate engagement in society. CSR was initially defined in terms of economic responsibilities towards shareholders only. Within the Egyptian context, CSR²⁸ was widely used to refer exclusively to a company's community engagement in the form of charitable donations to non-profit or public sector organizations²⁹. It is important to note that there have been international shifts in how CSR is defined, and it is now defined in a broader sense.

Concepts of CSR have evolved towards more comprehensive approaches that address company economic, legal, ethical and philanthropic or citizenship responsibilities³⁰. Definitions of CSR that imply "social responsibility" as an add-on to a company's operations have been debated, with calls towards moving towards an approach that integrates social, environmental, and good governance best practices into a company's DNA³¹. Today, there are CSR definitions that reflect this kind of integration. The United Nations Industrial Development Organization (UNIDO) for example defines CSR as "a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders."

It has been argued that the Egyptian private sector has shifted away from the traditional and narrow definition of "CSR", as it embraced the "CSR is dead" movement³². While it appears that progress has been made towards a more comprehensive concept of CSR that encompasses more than just community engagement (specifically since 2007, when the last UNDP Business Solutions Report³³ was issued) a closer look at the field of corporate community engagement is required to confirm such a shift. Accordingly, this chapter presents an overview of the language and practices related to corporate community engagement adopted by the Egyptian private sector between 2004 and 2015, as an attempt to accurately answer the question posed in the chapter's title: Have we moved beyond the paradigm of CSR being charity?

2. The Revelations of Language

In order to more accurately assess whether there has been a change in the language used regarding corporate community engagement, the following two main sources were examined: 1) the trends in terms of language used across available online information about 'CSR'; and 2) the language used in reports and at awareness or networking events addressing the topic.

28 Retrieved from: <http://www.unido.org/en/what-we-do/trade/csr/what-is-csr.html>

29 Zeitoun, N. (Fall 2014). "New Generation CSR." AUC Business Review. Retrieved from: <http://www.aucegypt.edu/Business/ABR/Pages/New-Generation-CSR.aspx>

30 Carroll, A. (1991). "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders." *Business Horizons*. Retrieved from: <http://www-rohan.sdsu.edu/faculty/dunnweb/rprnts.pyramidofcsr.pdf>

31 Olson, B. (2013). "What we Mean when we Say CSR." BSR. Retrieved from: <http://www.bsr.org/en/our-insights/blog-view/bsr-and-the-state-of-csr-what-we-mean-when-we-say-csr>

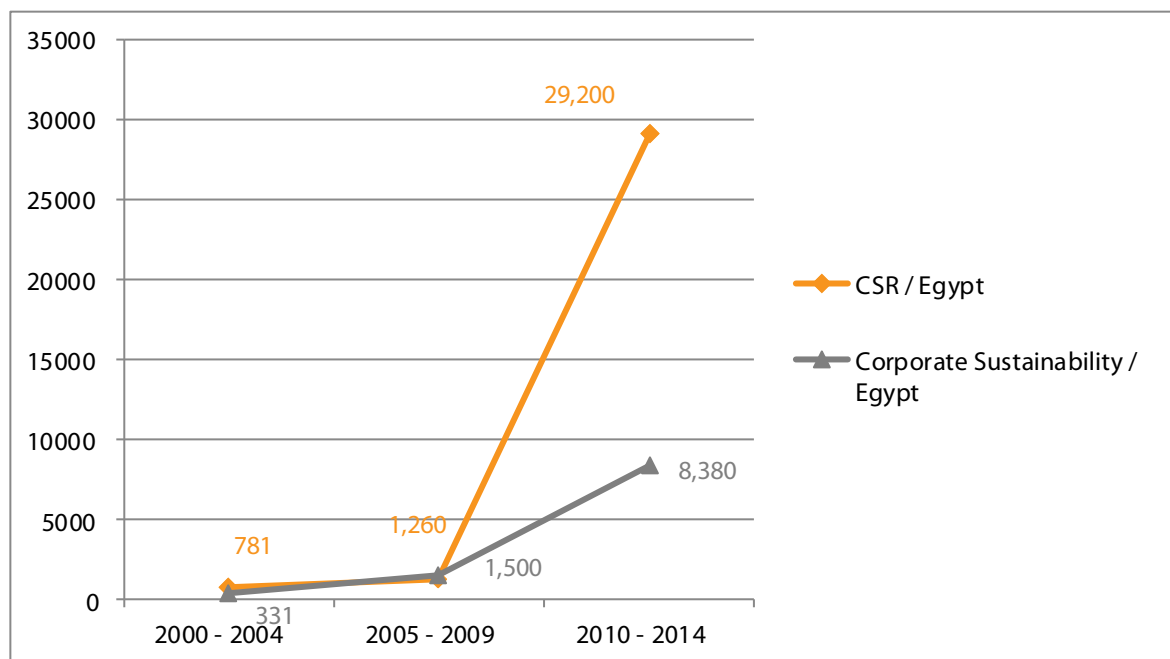
32 Zeitoun, N. (Fall 2014).

33 United Nations Development Program. (2007) Business Solutions for Human Development: Egypt. Retrieved from: http://www.undp.org/content/egypt/en/home/library/human_development/publication_5.html

2.1. Available Online Information

A simple Google search was conducted on the use of the following two terms: 1) 'CSR AND Egypt'; and 2) 'Corporate Sustainability AND Egypt' between 2000 and 2014, in order to identify trends in use over time. Figure 5, below, demonstrates the number of results identified in Egypt:

Figure 5: Term Search Results



The results reveal a significant increase in content available around CSR between 2010 and 2014. Results also reveal that the use of the term "CSR" was consistently higher than the term "Corporate Sustainability"³⁴, which typically refers to a broader understanding of corporate engagement in society; one that encompasses internal and external performance.

The number of entries using the terms, however, does not explain the meaning allocated to each term. The upcoming section explores the language used to explain the use of the term 'CSR' in reports and at networking events around the topic over the past 10 years.

2.2. Reports and Networking Events

As early as 2004, the private sector's role in achieving social justice was perceived in terms of engaging in private philanthropy, with the aim of strengthening civil society across the Arab world and in Egypt³⁵. Between 2005 and 2010, various reports and events focusing on the topic of corporate engagement in society emerged. In 2005, a report on the state of CSR in Egypt referenced the dominance of philanthropic donations as a common CSR strategy, and the limited activity beyond that in terms of strategic social investments³⁶. In 2006, Procter and Gamble (P&G)³⁷ collaborated with the

34 The Dow Jones Sustainability Index defines Corporate Sustainability as "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments.

"<http://www.sustainability-indices.com/sustainability-assessment/corporate-sustainability.jsp>

35 Bremer, J. (2004). "Islamic Philanthropy: Reviving traditional forms for building social justice" Retrieved from: http://www.csidonline.org/documents/pdf/5th_Annual_Conference-Bremer_paper.pdf

36 Shamseldin, A. (2005). "Strengthening Corporate Social Responsibility in the MENA Region: Case Study of Egypt" Al Urdun Al Jadid Research Center. http://www.ecrc.org.eg/backend/uploads/resources/Articles_Strengthening%20Corporate%20Social%20Responsibility%20in%20the%20MENA%20Region-%20Cse%20Study%20on%20Egypt.pdf

37 P&G. (2006). "Procter & Gamble-Egypt Leads the Call to Create An Egyptian Corporate Alliance For Development." Retrieved from: https://www.pg.com/en_EG/news/Corporate_news.shtml

Ministry of Social Solidarity and GIZ's Participatory Development Program to launch a call to enhance the private sector's role in achieving development through supporting civil society organizations. The call and its accompanying event had the primary vision of "...calling for a magnified partnership for development between the private and public sectors and spreading the sense of responsibility between Egyptian private sector companies."³⁸

The previous version of the *Business for Human Development Report in Egypt*³⁹, issued in 2007, also revealed that the nature of the private sector's engagement in achieving 'development' goals was mostly small-scale, scattered, and charitable in nature. During the same year, the American Chamber of Commerce launched a first of its kind "CSR Summit"⁴⁰ that called on the private sector to adopt a CSR approach that considers the impact of its operations on employees, the environment and surrounding communities. This conference was an early sign of a much-needed shift towards a more comprehensive 'CSR' approach, but not necessarily a more strategic community engagement and social investment approach.

In 2008, the "National Initiative for Corporate Responsibility Conference" was held and inaugurated by Egypt's Prime Minister at the time. According to an article about the conference, the narrative at the event was focused on the private sector's role in supporting civil society organizations to achieve development goals, and the fact that the Egyptian private sector was struggling when it came to a clear and comprehensive definition of CSR. The conference also discussed the importance of adopting a more comprehensive CSR approach; one that addresses internal and external stakeholders, and moves beyond charity⁴¹. In 2009, the "Second Annual Conference on Corporate Social Responsibility: Investment and Responsible Business Practices" was conducted. According to the event's agenda⁴², a more bottom-line oriented approach was adopted, and the language focused on a CSR comprehensive approach that contributes to global competitiveness.

A shift in the type of language used at such awareness and networking events began in 2010. The American University in Cairo's Gerhart Center, in partnership with several other players including companies like Aramex, Mansour Group, P&G and The Abraaj Group, partnered to launch a "Corporate Sustainability Capacity Building Program." The program was launched through a networking event discussing the notion of Corporate Sustainability, and included discussions about good governance, labour rights, and strategic social investments; and used the term "sustainability" as opposed to CSR. Moreover, the ECRC and multiple other players conducted a "Corporate Sustainability Forum" in 2010. The Forum included one practical session about the means by which companies could start adopting a more strategic community engagement approach; or in other words, the practical means by which companies could move away from donations towards social investments.

In 2014, the ECRC, in partnership with the UNDP, the IMC and various other players, held a conference entitled "Egyptian Corporate Responsibility and the Way Forward." The conference discussed the results of three sector-specific diagnostic studies of Corporate Responsibility. These studies explored a broader approach encompassing governance, labour rights, and environmental and social performance. The studies, however, revealed, that there remains minimal adoption of a comprehensive responsibility approach, and the persistence of a philanthropic and non-strategic approach when it comes to corporate community engagement.

In 2015, another large CSR forum⁴³ was conducted and successfully engaged a diverse group of stakeholders. Unlike similar meetings in the past, the forum successfully engaged both the usual and 'non-usual' participants from the private sector, civil society, and the public sector. The forum's narrative, however, was synonymous with that of forums conducted more than three years previously: it was heavily focused on private sector engagement in social development, regardless of ties to core business.

38 Ibid.

39 United Nations Development Program. (2007) Business Solutions for Human Development: Egypt. Retrieved from: http://www.undp.org/content/egypt/en/home/library/human_development/publication_5.html

40 Spollen, J. (December 11, 2007) "AmCham launches Egypt's first CSR summit." Daily News Egypt. Retrieved from: <http://www.dailynewsegypt.com/2007/12/11/title-amcham-launches-egypts-first-csr-summit/>

41 Egyptian Institute of Directors. (April 2008). "The National Initiative for Corporate Responsibility Conference." The Executive. Retrieved from: <http://www.eiod.org/uploads/Publications/Pdf/6.pdf>

42 "The Second Annual Conference On Corporate Social Responsibility: Investment and Responsible Business Practices." (2009). Retrieved from: <http://www.cipe-arabia.org/files/pdf/CSR09FinalAgendaE.pdf>

43 <http://www.egyptcsrforum.com/>

Table 2 below, summarizes the spectrum of terminology and approaches used by and about the private sector's engagement in society at awareness and networking events:

Table 2: Terminology Used at Awareness Events (2007 - 2015)

Year	Name	Term	Main Message ⁴⁴
2007	Egypt's First CSR Summit	CSR	Considering the impact of operations on employees, community members, and customers.
2008	National CSR Initiative Conference	CSR	The need to move away from CSR as charity, and to adopt a broader framework.
2009	Second Annual Conference on CSR	CSR	Economic, Social and Governance (ESG) performance as a means for enhancing competitiveness.
2010	Corporate Sustainability Capacity Building Program	Corporate Sustainability	A strategic approach to Corporate Sustainability is necessary for achieving social development and global economic competitiveness.
2011	Fifth Corporate Sustainability Forum	Corporate Sustainability	A strategic approach to Corporate Sustainability is necessary for achieving social development and global economic competitiveness.
2014	Corporate Responsibility and the Way Forward	Corporate Responsibility and CSR	Economic, Social and Governance (ESG) performance as a means for enhancing competitiveness.
2015	First Egypt Annual CSR Forum	CSR	CSR as heavily focused on corporate engagement in social development in general.

Based on a basic analysis of networking events conducted over the past few years, some shifts in language and topics can be identified. Discussions at events conducted between 2007 and 2009 focused on the significance of perceiving CSR as something that is broader than charitable contributions, and specifically the need to consider other aspects of responsibility and sustainability, including labour rights and environmental performance. In later years, there seems to have been a consensus that CSR is a comprehensive approach that enhances corporate performance and competitiveness. Little discussion in these events, however, focused on the notion of social investments, and the need to engage communities in a manner that is strategic, and tied to core business. This may explain the fact that by 2014, studies on the topic revealed that a charitable approach still dominates. It could also explain the fact that by 2015, when corporate social engagement was at the forefront of the discussion, the notions of strategy, sustainability, and ties to core business were not.

Undoubtedly, language and terminology affect cognition and behavior. Accordingly, the terms used to discuss corporate community engagement, and commitment to various stakeholders in general is thus significant. In their article "Terminology Matters: A Critical Exploration of Corporate Social Responsibility Terms," Baden and Harwood⁴⁵ dissect the connotations of the different terms used to describe a company's commitment's towards its stakeholders. The authors shed light on the impact of a term like CSR, and discussions that revolve around it, clarifying how they alienate SMEs, and imply a commitment to "social responsibility" as long as it does not conflict with profitability. In Egypt's case, the term CSR typically amplifies the "social" aspect of responsibility that is related to surrounding communities, and accords less attention and discourse to other aspects of the responsible and ethical obligations of companies. The engagement of local communities in a manner that is strategic, and driven by their needs and assets is also often overlooked when CSR is being discussed in Egypt.

Throughout this chapter, we chose the term "corporate community engagement" because it connotes an effort on behalf of the company to actively *engage* local communities, and to arrive at social investment programs that are relevant and strategic. We also chose the term "social investment" when specifying the kind of community engagement we refer to because it connotes a long-term approach that is designed to achieve social returns on a company's surrounding communities. It would also be worthwhile for the local community of thought leaders and practitioners to re-consider terminology used

⁴⁴ Main messages are based on the author's interpretation.

⁴⁵ Baden and Harwood. (2013). "Terminology Matters: A Critical Exploration of Corporate Social Responsibility Terms." *Journal of Business Ethics*, Volume 116(3), pp 615-627.

to discuss a company's ethical responsibilities at large to arrive at a substitute to the term CSR; a substitute that is locally relevant, and that inspires commitment and action towards ensuring the rights of a company's wide array of stakeholders.

3. Corporate Community Engagement Practices

This section discusses actual corporate community engagement practices. It is important to note that little information exists about actual practices and that available information is not consistently collected. To try and overcome this challenge, we used the Egyptian Stock Exchange (EGX) as a case study to better understand whether there has been a shift away from traditional charitable engagement, to strategic social investment. We also relied on qualitative insights available on the topic.

3.1. Case Study: S&P EGX ESG Index

Today, most large local and multinational corporations engage in some form of disclosure around their social responsibility or sustainability practices. According to a study conducted by RIBH_MENA and Ahead of the Curve to assess sustainability disclosure among stock-listed companies in 17 MENA countries, Egypt had a significant number of extensive and brief reporters⁴⁶. According to the 2014 study, extensive reporters adopt comprehensive disclosure standards such as the GRI, while brief reporters list some information about their commitments, such as compliance with quality management standards and community engagement on their websites. While this indicates a trend in terms of adopting and reporting about a more comprehensive approach to social responsibility and sustainability among stock-listed companies, it does not necessarily reflect the adoption of a more strategic social investment approach.

To dig deeper into the actual nature of community engagement practices, we turned to the *Standard and Poor's/ Egyptian Stock Exchange Economic Social and Governance Index*⁴⁷ (S&P-EGX ESG Index). The index was launched in 2008 by UNDP and the Ministry of Investment in cooperation with EGX, in an attempt to encourage listed companies to adopt a comprehensive responsibility approach. The index evaluates the performance of the top 100 listed companies on the Egyptian Stock Exchange (EGX) in terms of ESG scores, and ranks the best performing 30 companies based on ESG performance, market capitalization and liquidity⁴⁸. While the index does accord attention to "community investment" under its social performance due diligence, the traditional criteria used do not necessarily promote or encourage a progressive and strategic approach. The index assesses company community investment based on the disclosure of:

1. Explicit policy/statement(s) regarding community investment;
2. Initiatives on community awareness or education;
3. Company participation in public-private initiatives for community development; and
4. Description/Amount of total contributions/donations to charitable initiatives (health, education etc.).⁴⁹

Given the fact that these companies should be consistently reporting on their overall ESG performance, we compared the community engagement portfolio of the index's top 15 companies between 2008, and five years later in 2013. The purpose of the comparison is to try and better understand whether there has been an actual evolution in their community engagement performance away from the traditional charitable approach, and towards a strategic social investment approach. Table 3, below, summarizes the identified information.

46 RIBH_MENA & Ahead of the Curve. (2014). "Sustainability Reporting in the MENA Region." Retrieved from: http://issuu.com/ice_rihb/docs/sr_mena_study

47 <http://www.egx.com.eg/english/OverviewS-P-EGX.aspx?Nav=7>; <http://www.undp.org/content/undp/en/home/presscenter/pressreleases/2010/03/25/new-csr-index-tracks-performance-of-listed-companies-on-the-egypt-stock-exchange.html>

48 S&P Dow Jones Indices. (2012). "S&P/EGX ESG Index Methodology." Retrieved from: http://www.egx.com.eg/getdoc/fdd6f085-d88e-4072-a753-fa540d136442/SP_ESG_Index_en.aspx

49 Ibid.

Table 3: Community Engagement Portfolios of S&P- EGX ESG Index's Top 15 Companies, 2013

Company	2013 Rank	2013 Community Engagement	2008 Rank	2007 Community Engagement
Commercial International Bank (CIB) Egypt	1	A community foundation that is dedicated to advancing Egypt's public health sector. The foundation makes substantial annual donations to several health providers, and runs annual blood donation campaigns. ⁵⁰	19	Donations and fundraising efforts to support charitable organizations in healthcare, education, and social development. ⁵¹
Egyptian Transport (EGYTRANS)	2	Information not found.	12	Sponsoring a civic engagement education program; providing technical training to students of a vocational training program (Mubarak-Kohl); training and employing students in an effort to eradicate unemployment; and offering its services to charitable and educational organizations at a discounted rate. ⁵²
Amer Group Holding	3	Shareholders donated 33 percent of current shares to a charitable trust that supports the community in the name of Amer Group. Donations were used to purchase a train, and sustain a tuition-free American International School. ⁵³	–	N/A
Egyptian Kuwaiti Holding	4	Supporting Injaz; providing surrounding schools with computers; supporting the renovation of educational institutions; and providing local hospitals with medical equipment. ⁵⁴	23	Information not found in the annual report. ⁵⁵
Global Telecom Holding	5	Financial and in-kind donations; employee donations and volunteering. In Egypt, the company supported a Lego League Robot Competition for the hearing impaired, and contributed a surgical camera used for medical endoscopy operations to the Institute for Hearing and Speech. ⁵⁶	–	Information not found in the annual report. ⁵⁷
Citadel Capital (Qalaa Holdings)	6	The Scholarship Foundation continues to operate and has granted 122 academic scholarships since its establishment in 2008; subsidiary companies engage in various activities including a EGP 2 million donation to the World Food Program in an effort to alleviate hunger.	–	The firm established and endowed the Citadel Capital Scholarship Foundation with EGP 50 million. The Foundation sent 20 university graduates to study for master's degrees and PhDs at some of the world's most prestigious universities. ⁵⁸
Telecom Egypt	7	Information not found.	3	Sponsoring a television ad for the Children's Cancer Hospital; donations to several public healthcare providers; sponsoring a world cup sports tournament; sponsoring various educational conferences; sponsoring a group wedding, orphan's day celebrations, and a conference around people with disabilities, among other events; supporting the new Egyptian Museum; and sponsoring various technology related conferences. ⁵⁹

50 <http://www.cibeg.com/English/InvestorRelations/FinancialInformation/Annual%20Reports/CIB%20Annual%20Report%202013.pdf>

51 [http://www.cibeg.com/English/InvestorRelations/FinancialInformation/Annual%20Reports/Annual%20Report_2007\[1\].pdf](http://www.cibeg.com/English/InvestorRelations/FinancialInformation/Annual%20Reports/Annual%20Report_2007[1].pdf)

52 <http://ir.egytrans.com/pdf/Annual/Annual%20Report%202007.pdf>

53 <http://s3.amazonaws.com/inktankir2/amerir/Amer%20IRP%20FY13%20-%20Long%20FINAL%208.pdf>

54 <http://s3.amazonaws.com/inktankir2/ekh/2a2b9bd73a0e69710de3b6c6335bc83f.pdf>

55 <http://s3.amazonaws.com/inktankir2/ekh/7774cc68fd4eee47c1c95ce66810b86c.pdf>

56 <http://www.gtelecom.com/documents/10157/24707/GTH+-+2013+Annual+Report+-+FINAL.pdf>

57 http://www.gtelecom.com/documents/10157/24707/Annual_report_2007.pdf

58 <http://s3.amazonaws.com/inktankir2/qh/9187881a6f4a79b00b55ded74d591a83.pdf>

59 http://ir.te.eg/upload/Annual-report-2007/7-Corporate_Social_Responsibility.pdf

Company	2013 Rank	2013 Community Engagement	2008 Rank	2007 Community Engagement
Lecico Egypt	8	Donations amounting to EGP 1,152,939; with the majority being donations of goods. ⁶⁰	1	Donating goods, funds and sanitary ware to various charitable organizations. ⁶¹
Arab Moltaka Investments Company	9	Information not found in the annual report. ⁶²	--	Information not found.
Sidi Kerir Petrochemicals	10	Information not found.	6	Information not found.
Raya Holding for Technology and Communication	11	Supporting the "Triple Effect" project by hosting blood drives in the company; supporting Sharek.org to engage Raya's employees in civil society volunteerism; celebrating International Women's Day; launching the Ramadan Tamween packages project to distribute around 1,000 food bags across Egypt; launching a Feast clothes campaign where employees donated their unused clothes through Resala; buying clothes for orphans; donating EGP 2.5 million to the Egypt Support Fund. ⁶³	16	Hundreds of Raya employees donated blood to the National Cancer Institute; collaborating with the Development Services Center on a study regarding the health status of citizens in Kom Wally village in Minya; organizing check-ups in several areas, distributing free prescribed medications, 200 eye glasses, funding of 30 eye surgeries, and giving food and supplies to over 200 families; sponsoring and organizing the Ramadan Tamween packages project. ⁶⁴
Oriental Weavers	12	Sponsoring global Enactus competitions for the implementation of community empowerment projects; sponsoring the CFA Society Egypt competition and providing scholarships for program candidates; providing scholarships and monetary aid to underprivileged students in universities/institutions; donating money to organizations such as Misr El Kheir; supporting the Breast Cancer Foundation; providing medical supplies and machines to various hospitals; holding a competition in international schools for students to design a rug for OW; offering children in Kidzania a chance to design and take home their own rug; sponsoring the Downtown Contemporary Arts Festival ⁶⁵	4	Information not found.
Madinet Nasr Holding	13	Upgrading the landscape and streets around the company; collaborating with CDS to target the Saqr Koreish area for a pilot project to provide essential urban services; starting the Urban Upgrading Initiative with EGP 1 million to rehabilitate urban areas through the employment of daily labour, illumination, increasing green zones and removing garbage; initiating the Madinet Nasr Foundation to raise real estate property values in Nasr City, develop neighborhoods, increase behavioral and environmental awareness of inhabitants, and assist people with special needs and underprivileged citizens ⁶⁶	15	Information not found.

60 <http://www.lecicoegypt.com/downloads/annual-reports/LecicoAnnualReport2013.pdf>

61 <http://www.lecicoegypt.com/downloads/annual-reports/LecicoAnnualReport2007.pdf>

62 <http://www.amic-eg.com/media/Documents/8e9a8dbb-0800-4b1c-b4ad-e74026f3ed42.pdf2013.pdf>

63 <http://www.rayacorp.com/InvestorRelations/EarningsandPresentations/AnnualReports.aspx>

64 Ibid

65 <http://orientalweavers.com/annual-reports/ar13/wp-content/uploads/2014/09/OW-Annual-Report-2013.pdf>

66 <http://www.lecicoegypt.com/downloads/annual-reports/LecicoAnnualReport2007.pdf>

Company	2013 Rank	2013 Community Engagement	2008 Rank	2007 Community Engagement
Orascom Telecom Media and Technology Holding	14	Information not found.	--	Information not found.
Six of October Development and Investment (SODIC)	15	Purchasing a 1,000m ² plot of land in Ezbet Kheirallah to build a new school for children; helping Tawasol raise EGP 7 million to build and operate the school; taking part in the development process of slums; starting a project to develop Ezbet El Assaal which included renovation of buildings and making sewage connections to all houses; sponsoring the 1 st cycle of AUC's Venture Lab ⁶⁷	13	Information not found.

As Table 3 demonstrates, information is not readily available about the 2013 community engagement portfolios of four of the companies that were at the top of the index. In most of these cases, the 2013 Annual Report or an alternative comprehensive report or presentation could not be accessed on the company's website. This indicates an issue with transparency about overall responsibility and sustainability performance.

Based on the data accessed, most of the listed companies have increased the size of their community engagement portfolio. The nature of their portfolio, however, has mostly remained the same. Most of these companies' community engagement portfolios do not necessarily contribute to social development areas that are tied to the company's core business; nor do they capitalize on the company's core strengths. While these companies have expanded their understanding of traditional CSR to include labour, human rights, and environmental performance among other aspects, it seems that the nature of their community engagement portfolio has not changed. In other words, while larger local companies have moved beyond the traditional CSR approach that is solely focused on social development, they still have not moved away from the charitable or philanthropic community engagement approach.



The Commercial International Bank's (CIB) Foundation in Egypt was established in 2010 as a non-profit organization dedicated to enhancing health and nutritional services for underprivileged children in Egypt. This year, CIB shareholders increased the share of the bank's net annual profit to the Foundation from 1 percent to 1.5 percent.

The Foundation's goals include, but are not limited to:

- Supporting health and nutrition programs targeting underprivileged children;
- Renovating and upgrading government and university hospital infrastructure, purchasing medical and electronic equipment, and raising the efficiency of medical cadres;
- Providing surgical and medical treatment to underprivileged children;
- Supporting children with special needs;
- Assisting school feeding programs;
- Raising community awareness on health and nutrition-related issues; and
- Supporting maternal and family health projects through partnerships with governmental, non-governmental, and international organizations.

This year alone, the Foundation approved the disbursement of more than EGP 66 million to various governmental and non-governmental organizations, more than EGP 45 million of which have been disbursed.

⁶⁷ https://s3.amazonaws.com/inktankir2/sodic/Annual%20Report%202013_Low.pdf

The Foundation's partners include the Children's Cancer Hospital 57357, Sohag University Hospital, Zewail University for Science and Technology, and The Friends of Abu El Rish Children's Hospital Association. The Foundation's engagement with its partners includes expanding and refurbishing health care units, providing equipment, conducting health examination caravans, sustaining health care units, and supporting blood donation drives.

Data derived about the community engagement portfolios of the S&P-EGX ESP Index only tells part of the story: that of larger local companies. Little quantitative information is available about smaller counterparts. One study⁶⁸ assessing "CSR" practices among SMEs in the construction sector, however, indicates that the engagement of SMEs is focused on "economic"⁶⁹ and "legal" responsibility, with limited involvement in the community engagement aspect; defined by the paper's author as the "philanthropic" aspect of responsibility.

4. Qualitative Insights

Ahead of the Curve, the American University of Beirut and AUC partnered to conduct a study of trends in corporate responsibility practices across seven Arab countries, including Egypt.⁷⁰ The study relied on over 100 in-depth interviews with senior executives of companies from different sectors, sizes and geographic scope of operations. Twenty of the interviewed companies were based in Egypt: ten in Cairo and ten in Alexandria. According to the study results, the thinking and practices of select large and multinational corporations in Egypt regarding 'CSR' is not limited to community engagement. Rather, corporate executives, especially those who belong to large and multinational corporations that have been engaging in corporate responsibility practices for several years, now realize that change must start from within, and that according attention to internal aspects of sustainability is equally important.

While most of the companies interviewed in Egypt are involved in community engagement efforts, not all interviewed large and multinational companies engage in strategic social investments that are tied to core business (Figure 6 and Figure 7, below).

Figure 6: Companies with Community Engagement Programs or Activities

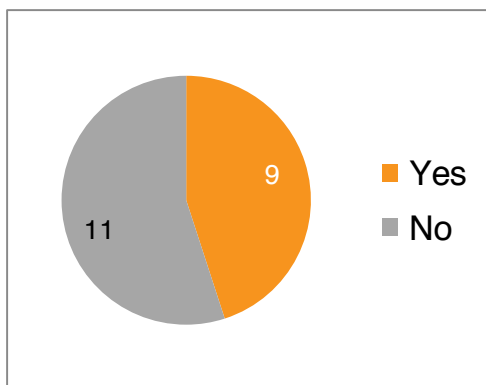
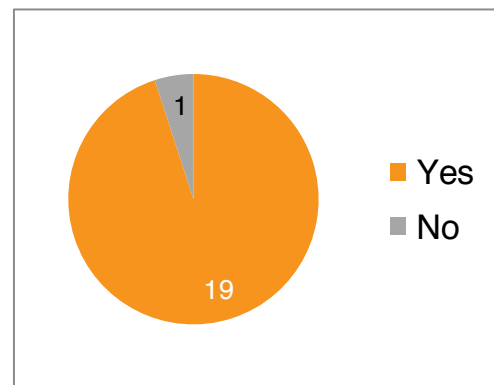


Figure 7: Companies Engaging in Social Investment Related to Core Business



68 Elshorbagy, N. (2014). The Reality of Corporate Social Responsibility in Small and Medium Enterprises." *International Journal of Technical Research and Applications*. Vol. 2 (4). Retrieved from:

<http://www.ijtra.com/special-issue-view/the-reality-of-corporate-social-responsibility-in-small-and-medium-enterprises.pdf>

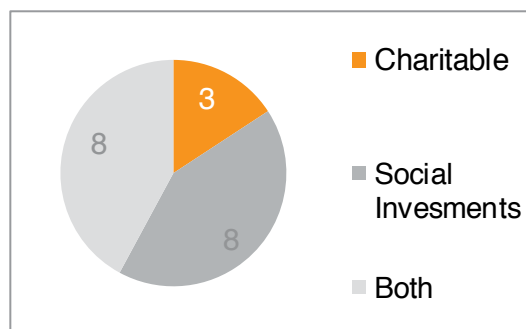
69 According to the paper, economic responsibility is defined in terms of company profitability; legal responsibility is defined in terms of complying with laws and regulation; ethical responsibility is defined in terms of going beyond the laws to act responsibly; and philanthropic responsibility is defined as "voluntary giving and service to the society."

70 Unpublished report.

Only select groups of corporations realize that social investment programs that are aligned with core business are more likely to generate returns for both society and the business itself. This was not the case for smaller companies, however. SMEs interviewed as part of the study lagged in terms of ESG performance in general, and those that engaged surrounding communities mostly did so in a charitable manner.

With regards to sector of engagement, most of the interviewed companies focused on general community development efforts, including enhancing basic physical infrastructure, education and employment. These areas of investment reflect the country's most pressing challenges. The nature of community engagement in these sectors however, was largely limited to supporting NGOs that work in these spheres. In some cases, companies engaged their employees in volunteering programs, such as Injaz, or through their own corporate foundation. Only a few companies engaged their employees in innovating new solutions or programs that capitalized on their core competencies to deal with pressing social issues. Additionally, a significant proportion of interviewed companies still engaged in purely charitable efforts, or combined the charitable with longer-term social investment activities into their community engagement portfolio (Figure 8).

Figure 8: Type of Community Engagement



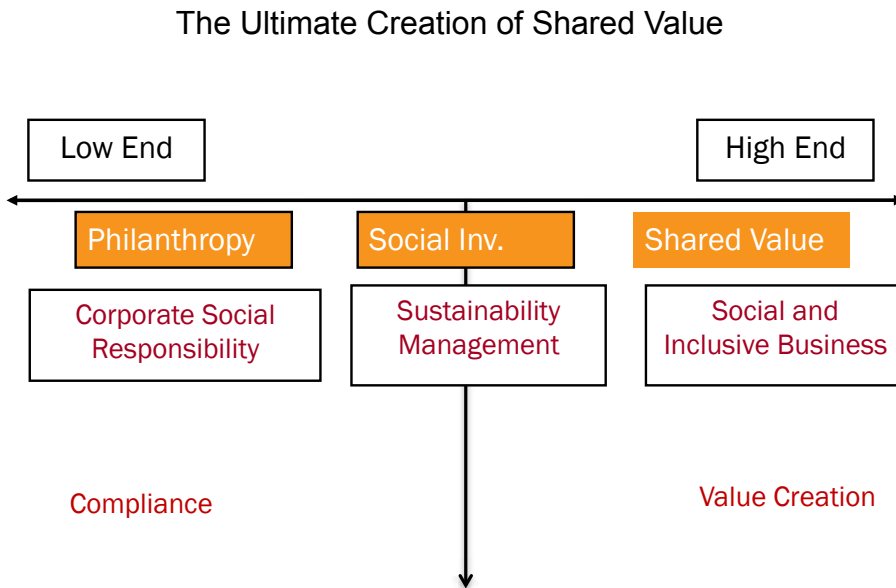
Community engagement challenges mentioned by the study's participants included:

- Difficulties faced in developing programs that create shared value, or a win-win scenario for the company and society.
- Difficulty accessing data about the country's social development agenda, which in turn affects the company's ability to strategically contribute to such an agenda.
- The fact that the government's social priorities shift, and that as large corporations, they are expected to support the government's shifting agenda. This means that their company's community engagement focus ends up repeatedly shifting directions, and its impact is diluted as a result.
- Companies that have successfully established corporate foundations also discussed the challenges faced as a result of the highly bureaucratic nature of operating a non-profit foundation in Egypt.

5. Conclusion and Recommendations

How different companies define their community engagement activities, and integrate them into their operations, indicates the type of approach towards social investment that they have adopted, whether as a conscious strategic choice, or as a function of actual practice. Figure 9 demonstrates a continuum for defining and integrating community engagement and other principles of responsibility within a company's operations. The low end of the spectrum refers to instances where companies focus on complying with laws and regulations, and "add-on" community engagement activities that are philanthropic and not tied to core business, which represents the traditional CSR approach.

Figure 9: Social Responsibility Spectrum



At the higher end of the spectrum are those companies that recognize that the different aspects of sustainability management are closely linked to company profitability and growth. At this stage, companies typically engage in aspects of sustainability performance that are beyond legal requirements, including engaging in longer-term social investment programs as part of their community engagement portfolio. The middle of the spectrum represents the corporate sustainability approach.

At the most advanced, or high end of the spectrum are those companies that realize that creating both financial and social value is the most sensible way of doing business, and thus have moved towards a shared value creation approach. The high end of the spectrum represents social and inclusive business models.

In Egypt, some companies have successfully transitioned from the traditional approach towards a more strategic one. Examples include the Arab African International Bank (AAIB), which recently launched Mostadam, a platform that rallies different stakeholders and the Egyptian banking sector around the adoption of more sustainable and inclusive business models. However, numerous companies including multinationals, large local companies, and the majority of smaller companies have not moved beyond the low end of the spectrum above. Moreover, only very few large companies are attempting to transition from to the high end of the spectrum, or an inclusive business approach that leads to shared value creation.



AAIB, in cooperation with the UNDP and the ECRC, launched Mostadam in 2013. It is a unique platform dedicated to the promotion of sustainable finance in Egypt and the MENA region. Sustainable finance refers to instilling the connection between economic, environmental, social and governance (EESG) aspects within the banking sector's core businesses, operations, policies and practices.

Vision: To empower Egypt's banking sector to become a forerunner in sustainable finance on a global level.

Mission: Developing a national model for sustainable finance in Egypt.

Goals

- Offering professional training and creating dialogue among bankers;
- Introducing new banking products;
- Encouraging sustainability reporting;
- Creating a blueprint for a national model of sustainable finance; and
- Increasing financial literacy levels.

Mostadam successfully launched its first training program entitled "Introduction to Sustainable Finance" and certified 11 peer banks, represented by 32 professional bankers, from retail and corporate functions at the middle and senior management levels. Having attended the training, participants are now Mostadam's "Pilot Change Makers" who will act as Mostadam change agents, equipped with the knowledge required to facilitate the banking sector's transformation.

Mostadam aims to contribute to the following impact areas:

- Contributing to Egypt's 2030 Sustainability Strategy, by encouraging the banking sector to facilitate the substitution of electricity with alternative energy resources;
- Enabling banks to penetrate untapped markets at the BOP, while simultaneously decreasing social and economic inequities that result from the exclusion of wide segments of society from the formal banking sector; and
- Enhancing the financial inclusion of youth; and empowering young people to start up their own businesses.

Recently, practitioners have focused on moving away from defining CSR in terms of community engagement, and on including internal aspects of responsibility and sustainability. Little discussion and practice has been directed towards the nature of community engagement, and the need to move towards strategic social investments and a shared value creation approach. A wiser approach would be to acknowledge the fact that companies, as with much in life, are evolutionary. Larger companies have evolved somewhat to understand that CSR encompasses more than community engagement; while still lagging in other areas, such as strategically engaging communities. Evolution is a patient process, and only the fittest survive. While traditional CSR is not dead yet, companies that fail to outgrow it soon could be.

It is time to start pushing for an evolutionary leap in the engagement of communities. Without this evolution, the divide between business and society will remain as wide as it currently is. The gap in incomes, access to services, and in "sustainability sophistication" will remain as wide as it is. This is not to deny the importance of internal aspects of CSR and sustainability, because truly transformational community engagement agendas can only be achieved by first engraining responsibility within the company's internal operations to ensure the protection of human rights, transparency, and minimal negative impact on surrounding communities.

Companies must revisit their approach to community engagement. Larger companies in particular have a significant role to play in terms of engaging smaller companies and members of their value chain around pooling resources and expertise to implement strategic community engagement programs and investments. There are many ways by which this evolution in practice can be encouraged, and below are some recommendations for corporations:

- **Define.** Clearly define stakeholders, and company's priorities. Without this definition process, social investments will be as broad and diversified as the many challenges that Egypt faces, and thus less likely to achieve impact on the company and on society.
- **Listen.** Listen to stakeholders. Without listening, it is highly unlikely that companies will know what their real situation is, what their real needs are, and most importantly what their assets are. Listening to stakeholders allows companies to develop community engagement programs that are relevant and efficient.

- Listening poses an added cost, but it is a necessary one. Budgeting some resources to sensing and evaluating company efforts will allow companies to learn, evolve, and remain relevant.
- **Partner.** Real partnerships that go beyond cheques and audits are essential for a multitude of reasons:
 - Partnering with **surrounding communities** will allow companies to remain in tune with their priorities.
 - Partnering with **civil society organizations** allows for an exchange of knowledge and experiences, and more importantly, allows corporations to hold their civil society partners accountable, and vice versa. Accountability is essential for the success of both sectors in today's Egypt.
 - Partnering with other, **smaller, or less advanced corporations** is necessary to ensuring a successful evolution beyond traditional CSR among all companies, and not just the corporate elite. Multinational and large local companies that are already ahead in this evolutionary process have a responsibility to educate and engage their peers, enabling them to successfully transition to the other, more strategic, more competitive, end of the spectrum.



3

CHAPTER

COMPLIANCE OR COMPLICITY: IN SEARCH OF THE EGYPTIAN MODEL

By Mohamed El Kalla

The journey of a thousand miles begins with a commitment. The journey of inclusive and responsible business begins with compliance. Throughout the historical development of corporate engagement, in both theory and practice, models that were built on core compliance from inception demonstrated a deeper stakeholder impact. While European models developed after WWII were initially focused on the management of labour rights. Subsequent models grew to encompass governance, environmental protection and ethical practice as core areas for doing business. While trends in philanthropic practice and corporate giving continued to grow in parallel, stakeholder interest was centered on mainstreaming ethical business practice and compliance as the only way to do business.

This model of evolution demanded the creation of effective regulatory systems and an expanded role for corporate engagement in sustainable development. Accordingly, through the interaction between various interest groups within the stakeholder universe, a consensus was created both in de jure (legal) and de facto (practical) terms. With this consensus came the acceptance of a specific understanding regarding the way corporations should conduct business. At the most basic level, in order to obtain or maintain licenses to operate, companies were legally required to respect the law, take care of their employees, ensure acceptable standards of quality for the services or products they provide, and pay their taxes. While all forms of social investment and policy engagement were highly encouraged, there was no excuse for not meeting the mandatory conditions set out for business practice in the wider stakeholder consensus.

Regulatory frameworks and incentive systems were created by legislators and policy makers in support of this stakeholder consensus, leading to the spread of environmental laws, labour codes, green procurement systems, and ethical sourcing frameworks, among others. In addition to the regulatory system, to a large extent, this form of evolution also impacted the various guidelines, codes, management systems and reporting tools that tackled corporate responsibility. The weighted average of corporate responsibility falls on key topics of compliance when it comes to standards, whether in the 10 Principles set by the Global Compact, or the reporting language featured in GRI, or the codes set by Social Accountability International.

In parallel, civil society and the media ensured a continued stakeholder interest, maintaining constant pressure on corporations to comply, and on regulators to increase the cost of corporate liability for non-compliance. In Europe today, the public perception of non-compliance is as a criminal liability, one that can cost billions in fines and eventually lead to business termination. Furthermore, there is an added cost of non-compliance in terms of negative impact on brands and brand values, loss of customers and disturbance across supply and value chains. It has become evident to the corporate sector that the cost of non-compliance is too high to risk, leading to the simple acceptance of the fact that in the long term, it pays off to be responsible. This reality became clear to shareholders, financing institutions, stock markets and management boards, who then went on to ensure that corporations consistently took the needed actions required to comply, measure and report back to stakeholders regarding how their companies are managed.

This chapter assess the current context of corporate compliance in Egypt, by addressing the following questions: What is the status of the Egyptian ecosystem? How are labour issues managed nationally, and how has that impacted the Egyptian corporate sector? What is the environmental footprint of corporations in Egypt? How are consumer rights as well as the quality of products and services sustained in Egypt? What is the status of ethics, transparency and governance in Egyptian corporations? Finally, the chapter will end with the provision of a road map for the future.

1. The Egyptian Eco-System

There is no doubt that policies, standards, laws, codes, guidelines, management systems and other initiatives created and mandated to address compliance aspects are necessary measures for framing and establishing industries, companies and businesses in Egypt. Regardless of their size, production level, industrial weight, ranking and magnitude, before observing and assessing the level of their applicability, validity, and enforcement, we need to observe if we are operating in the right enabling environment. An enabling environment absorbs and nurtures such policies, standards, laws and codes. Without ensuring that we are functioning in the right ecosystem, laws, codes and standards will remain a compendium of paper work that has no true impact on Egypt's overall sustainable economic performance.

The last 15 years have witnessed significant changes in how the private sector is perceived as a stakeholder in Egypt. The first decade of the 21st century, up until the eve of the January 25th, 2011 revolution, saw a very rapid cycle of economic growth and expansion. During this period, the private sector enjoyed phenomenal rates of return on investments. With a GDP growth rate at an all-time high of 7.5 percent, the sky was the limit for the private sector in 2008. The economic agenda set by the government, including its strong push towards market economics, was a key driving factor behind this expansion. While this growth was, on the whole, positive, there remained a clear downside. The private sector prioritized growth to an extent that it significantly overlooked the concerns of various stakeholders. Lack of equality, insufficient trickle-down of growth, rampant corruption, overlooked labour rights and declining consumer satisfaction were all concerns voiced by a number of stakeholders.

1.1. The Private Sector: From the Mahalla Riots to Post-2011

In the spring of 2008, an organized labour movement at the heart of Egypt's biggest hub for labour unionization, Al Mahalla Textile Complex, escalated into an extreme and violent confrontation with state security, leading to loss of life and a significant level of vandalism in the city. The Mahalla Al Kobra riots erupted after the failure of the company management and local authorities to reach an agreement with labourers that had grown weary of Egypt's privatization programme and consequent inequitable growth levels. The lack of proper stakeholder communication channels coupled with a reliance on classical hard line tactics in handling the uprising led to the unfortunate outcome.

A growing number of scholars trace a direct line from the consequences of the Mahalla confrontation to the inception of a grassroots based movement that culminated in January 2011, which would forever alter the fundamentals and dynamics of how Egyptian stakeholders interact with each other; and specifically with the private sector.

The three years of political turmoil that followed the January revolution led to a noticeable change in the Egyptian private sector. From fast growth and expansion to pure survival mode, the Egyptian private sector suddenly had to address massive issues relating to labour rights, adequate pay, corruption and support of what was seen as an oppressive political system that had little regard for the wellbeing of the masses. This was compounded by an overall state of lawlessness and a paralysis in government decision-making. The lesson taught to the private sector, while harsh, had to be absorbed by all: Regardless of the level of growth promised or achieved, and the support provided by the existing political system, disregarding the interests of all relevant stakeholders is just not good business - even if those stakeholders are disempowered.

Those businesses that had adopted more responsible models of doing business managed to survive the turmoil, while others had to re-strategize and adapt, or cease to exist. In essence, the situation provided a unique learning experience for current and future business owners, managers, operators, and, to a large extent, the general public. The fundamental shift in paradigm signified that businesses that do not act responsibly will not survive in the new Egypt, where accountability has become of the utmost importance.

However, with the rapid socioeconomic changes taking place between 2011 and 2015, some could argue that the excessive need for stability, economic growth and job creation is paving the way for a return to the old forms of stakeholder interaction with the private sector. Others insist that even if some regression is sensed on the short-term, it is still impossible to see the old dynamics coming back into play. The creation and mandate of new policies is a reflection of a strong commitment to empowerment of disadvantaged stakeholders, including ensuring that private sector growth has a trickle-down effect. These policies include the adoption of minimum pay levels, the increase in taxation and the redirection of subsidy expenditure from energy that merely benefits the business sector, to increased expenditure on infrastructure, health and education.

The only confirmed fact at this given point in time is that there is a fundamental change currently in the making. The future dynamics of how the corporate sector will end up behaving will primarily depend on how the sector will reorganize itself in the light of the boundaries and opportunities created by the various stakeholders at play.

1.2. Labour Relations

In a country with over 90 million inhabitants, issues of high unemployment, weak worker representation, low wage levels (compared to the average food basket formula), and a mismatched and poorly skilled labour force, it was inevitable that the management of labour dynamics would supersede all other issues after 2011. The way this issue has evolved and affected businesses has had a profound impact on the Egyptian corporate sector.

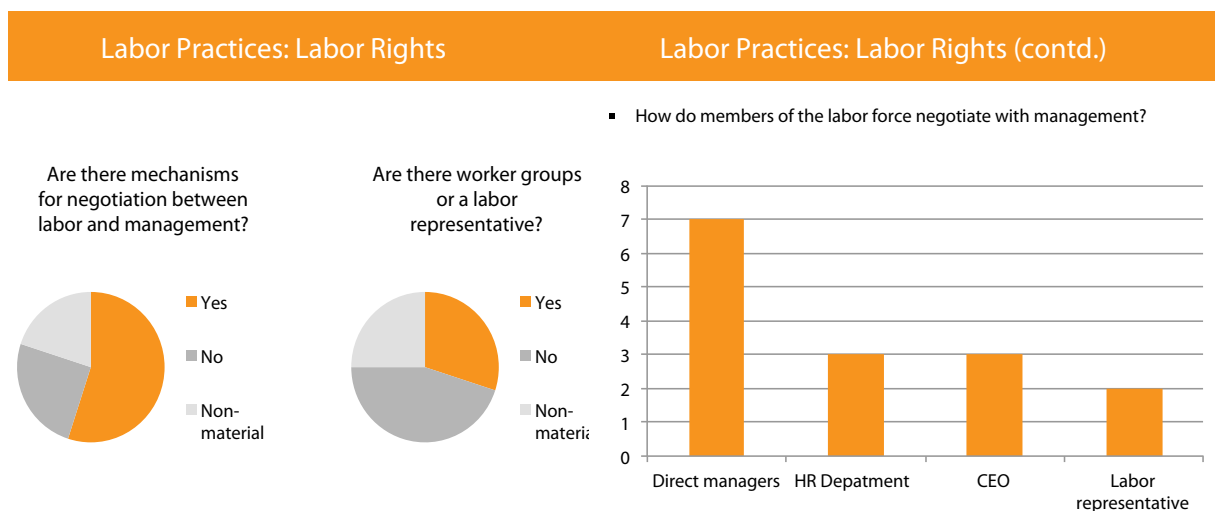
In the immediate aftermath of the 2011 revolution, labour intensive corporations experienced cases of sporadic labour strikes, in some cases extreme enough to lead to vandalism and loss of life. The lack of formalized communication channels and mistrust between shareholders, company management and workers caused a severe cycle of losses for both sides. Worker claims for enhanced pay, employee services, and bonus schemes were met with an inability of shareholders and management to comply due to rapidly deteriorating economic conditions, often leading to stalemates that took days to overcome. As an example, an HR Manager of a large Egyptian company described his experience during a labour/management confrontation following the 2011 revolution, reflecting the state of miscommunication and trust issues between labour and management post-2011, a national issue that has not been resolved to date.

“Even in companies that had implemented salary raises there was a sense of entitlement (whether or not this sense was justifiable), and a belief [among workers] that this was the time to demand more. So having already given raises did not spare us having to manage and deal with labour action, or labour demands – irrespective of whether or not they were legitimate. From one point of view, some of these demands were less legitimate, given the base that people were operating from relative to some of their peers at other companies.”

Eventually, both sides reached a formula for coexistence, as unfavorable economic conditions pressured them to reach a middle ground. The minimum wage was increased by between 50 to 60 percent and the majority of the corporate sector committed to a plan that prioritized employee retention over profitability. It was evident at this time that Egypt's deeply rooted culture of philanthropy played a big role in mitigating the worker/shareholder relationship. This was soundly reflected in the commitment of a growing number of Egyptian businessmen to continue operating in order to keep their workers employed, despite extremely restricted liquidity and a very low rate of returns on investment. This helped maintain Egypt's unemployment rate at relatively lower level than would have been expected during such turbulent times.

It must be noted that the persistent absence of institutionalized mechanisms formalizing the labour/management relationship, including effective communication and mitigation processes, poses a serious threat to the sustainability of this relationship and increases the likelihood of seeing another wave of tense relations in the future. There is a significant lack of consistency when it comes to applying mechanisms for labour/management communication. Most of the applied systems utilize the existing work hierarchy, which impacts both the independence and the efficiency of the communication process.

Figure 10: Labor/Management Negotiation Mechanisms



It is time for innovative approaches to the labour issue that bypass negative historical precedents, and rely on creating a shared common ground for business owners and workers alike. There are existing effective mechanisms to formalize the relationship between management and labour. Without these steps, the outlook for the future of labour relations in Egypt is problematic:

- Creating formal and unanimously applied forms of worker representation by redefining the role of unions and/or adopting legal frameworks that set mechanisms and guidelines for worker management communication channels that are enforceable by law. Grievance mechanisms are still mostly non-formalized, and based on non-anonymous direct contact with managers, HR managers, CEOs and/or shareholders.
- Adopting a disclosed national policy for the calculation of the minimum wage level and providing a system for re-appraisal based on a defined timeline.
- Providing training for management and leadership of the existing labour force and raising awareness of the total population on the recognized forms of worker/shareholder communication as well as their bill of rights and duties.
- Providing innovative and internationally recognized regulatory and enforcement reform to the current labour law and its relevant implementation authorities after undertaking the needed stakeholder consultation within its relevant universe.

As regards the issue of human resource development, and private sector investments in workforce training and capacity building, despite the fact that most companies claim they are investing in training employees, only⁷¹ multi-nationals and a handful of large local companies actually do offer comprehensive and world-class training programs. The absence of adequate training programs for employees is attributed to a lack of interest on the labour side, or fear of losing trained employees to larger, better paying companies, and/or very weak educational backgrounds that ensure the lack of fundamental skills for any labour force. SMEs in particular struggle to dedicate adequate resources for training schemes. The roots of the issue are clearer if you examine the current educational system that doesn't provide the quality of human resources required by the corporate sector to fuel its growth plans.

Increasingly, companies, business associations, universities and dedicated ministerial bodies in Egypt have begun focusing efforts on the upgrading the current quality of human resources in the country. A growing number of universities have started adopting programs for the enhancement of soft skills, in partnership with various representatives from the

⁷¹ Results from comprehensive research sample conducted on 20 Egyptian companies by Ahead of the Curve, the American university in Cairo and the American University in Beirut.

corporate sector. A growing number of companies have started directing their philanthropic and social investment resources towards the enhancement of education or combating illiteracy. Moreover, the GOE has adopted a national focus to rebuild the vocational and technical educational systems in Egypt to ensure that Egypt's youth have the skills required to fuel the government's growth plans. This is especially evident in the creation of a dedicated ministerial body for vocational training. While results are yet to be seen, there is a clear demonstration not only of the recognition of the importance of human resource development in fueling economic growth, but also of stakeholder intent to address this issue.

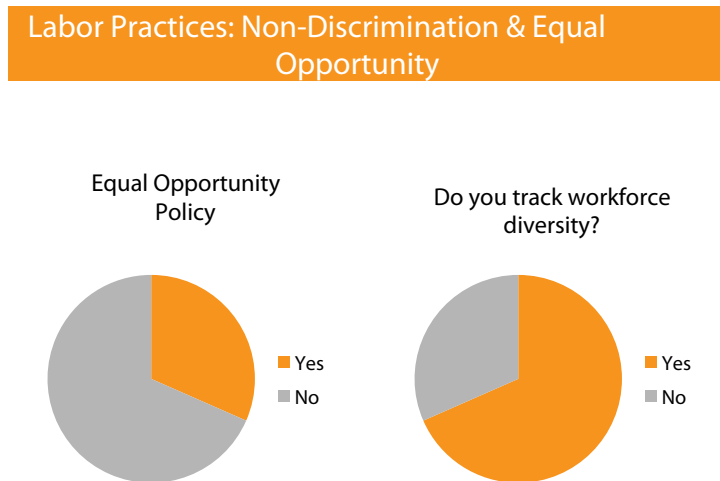
The examination of labour issues in the private sector in Egypt necessitates a discussion of both child labour and women in the workforce. Egyptian women suffer from a limiting patriarchal environment that restrains their competitiveness. While the regulatory environment ensures a set of balanced rights for both genders in theory, actual practice presents different dynamics. Women are denied access to specific types of jobs and are usually limited to specific industries or services. Women find it more challenging to secure career growth and access to adequate pay than men. A growing number of women workers are voicing their struggle with issues of harassment at the workplace as well as their inability to secure their jobs in case of pregnancy, let alone their legally defined maternity rights. It is, however, important to draw a distinction between women in white-collar and blue-collar employment in Egypt. Women in blue-collar employment suffer from a much harsher experience. However, women in the white-collar workforce have managed to secure some key gains in improving their work experience. Unfortunately, this still leaves the majority of the female workforce suffering from labour inequality on a daily basis. To make matters worse, a significant percentage of women in the labour force work in the agricultural sector, and suffer from the lack of any formal contractual structure or protective system to ensure their basic rights at the workplace. As is the case for their male counterparts in this sector, most are hired as daily labourers through third parties that are mainly informal in nature, and therefore, without any formal or official contractual procedures. Accordingly, the vast majority of labourers are not guaranteed their labour rights, social and medical insurance, or any form of legal protection. Unfortunately, this phenomenon appears to be extending to other sectors. According to an Egyptian Center for Economic Studies report on the informal sector, informal employment has risen by 45 percent in 2013 compared to 30 percent in 1998.

The issue of child labour, on the other hand, has enjoyed greater public and governmental attention than that of female employment. Several public campaigns and the introduction of regulatory reforms have increased public awareness of the issue of child labour. The introduction of a specific measure that made children's education a prerequisite to receiving government social support was one of several measures undertaken to ensure the control of the phenomenon in Egypt. It became harder to witness any form of child labour in registered businesses, with the exception of the agricultural sector. However, child labour remains abundant in the informal sector, and children in informal employment continue to have limited access to any rights or protection programs. The manager of a large agricultural enterprise in Egypt, one of the most significant sectors challenged by the elimination of child labour, had this to say on the issue:

"Frankly the [labour contractor] is instructed to only supply 14 year olds, but he still brings 11 year olds. The real catastrophe is I have a labour shortage. When I tell the farm's manager not to hire children, he replies that if he tells the labour contractor this then the contractor will not provide any labour at all."

Box 8, below, shows how capacity building and human resource development at different levels, provided through partnerships between private business and civil society, can have a positive impact on a specific economic sector.

Figure 11: Non-Discrimination and Equal Opportunity



Box 8: Case Study: Innovation for Higher Impact

With 11 million workers, the restaurant industry is the fastest-growing and second-largest private employment sector in the United States. Yet by nearly all measures, it is also the worst to work in—with endemic low wages, wage theft, disrespect, racial segregation and abuse, and gender-based discrimination and sexual violence. To address these problems, the Restaurant Opportunities Centers United (ROC) works to help the industry reach its “high road” potential by engaging employers, consumers, and a broad range of restaurant workers.

Today, ROC represents nearly 20,000 worker members. It offers workforce development programs that create career ladders from less-valued to higher-paid positions. But it also recognizes the power that restaurant goers have in transforming business practices. ROC educates and enlists “foodies,” members of the organic and local food movements, and former restaurant workers to support high road restaurants and call for policies that promote truly fair wages and working conditions. ROC also engages consumers via its Diner’s Guide app, public relations, and other efforts, such as books and films, to promote consumer demand for high road restaurants.

Ultimately ROC’s success depends on partnership with businesses. Through its employer roundtable, Restaurants Advancing Industry Standards in Employment, or RAISE, the organization cultivates a network of restaurant owners and managers that engage in sustainable business practices to benefit both employees and customers while also boosting their bottom line. RAISE members receive technical assistance, peer support, as well as opportunities to speak in public about their commitment to better business practices. ROC now works with 150 high road employers around the country, running the gamut from “mom-and-pop” businesses to some of the most visible and successful restaurateurs in the US. ROC also owns and operates its own restaurants, named Colors, where diners can experience a sustainable business firsthand.

1.3. Good Governance and Ethical Performance

Responsible business and good governance are inseparable practices. The commitment of a company to operate ethically and create positive impact has to be adopted by its most senior governing body. The structure, adherence, competency and transparency of this body will always be the corner stone to shaping the company’s impact, and ensuring its sustainability for generations to come. The direct correlation between the two practices has led to the development of terms like responsible governance. In principal, it is hard to drive a direct quantitative relationship between responsible business conduct and good governance. However, it is accepted knowledge that companies that apply good governance with clear adherence to independent and qualified boards, transparent performance, internal audit and proper stakeholder reporting are less prone to non-compliance with regulations and rule of law, ESG included. To this end it is important to correlate that good governance primarily ensures companies are complaint in their business conduct from a risk aversion point of view. Finally, the need for good governance to ensure responsible business conduct is usually higher in economies dominated by family ownership, where the issues of decision making, succession and compliance are always at a higher stake compared to publicly owned companies.

The Egyptian private sector is primarily composed of micro, small and medium enterprises (MSMEs), with limited presence of large companies compared to the total size of the existing MSMEs in the sector.

“Most of Egypt’s businesses are small-sized, with 97 percent employing less than 10 workers, according to census data released on Tuesday by state-run statistics body CAPMAS. Medium-sized enterprises with 10 to 50 employees account for around 2.7 percent of total businesses. However, big businesses with over 50 employees account for 0.4 percent of all enterprises nationwide” CAPMAS. 72

In both large companies and MSMEs in Egypt, family ownership is deeply rooted. The growth and sustainability of an alarming majority of companies in Egypt are linked to successful family succession and elimination of Key Man risks. Despite such an overwhelmingly high level of risk, the majority of Egyptian companies do not adhere to systems that ensure good governance. With the exception of listed companies, multinational corporations or those engaged in some form with foreign markets, it is quite rare to find a locally based company with a basic system for governance. A number

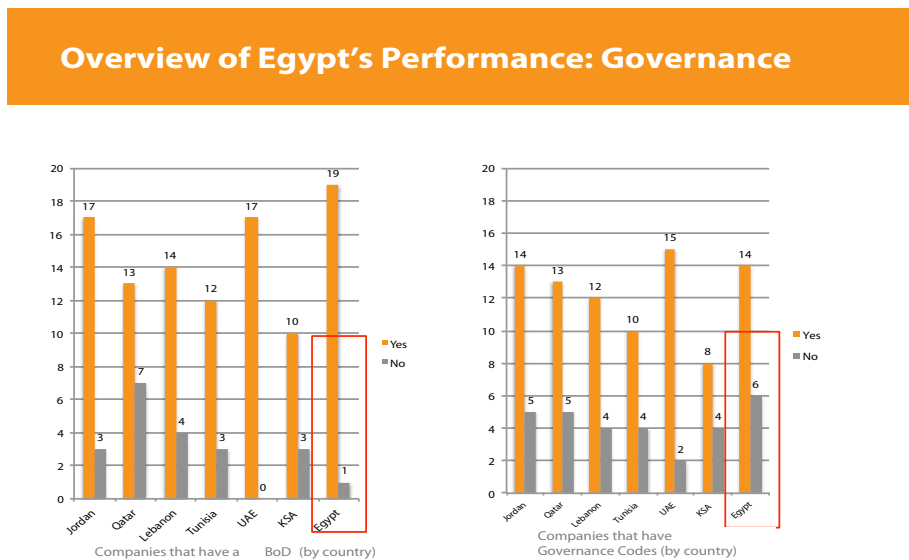
72 <http://english.ahram.org.eg/NewsContent/3/12/113642/Business/Economy/Egypt-lacks-mediumsized-businesses-as-analysts-bl.aspx>

of business owners attribute this to the cost of implementing the systems, distrust in individuals outside of the family circle, lack of compelling legal reasons, lack of proper human resources and no key man form of management. The preference is predominantly towards supporting young family members to assume leadership, by engaging them in operations, and imbuing them with a strong understanding of the business.

While the outcome of developing succession as a form of sustainability varies on a case-by-case basis, it relies primarily on the skill set of the selected family members. Even those who succeed suffer from the lost opportunity of being able to freely recruit the most qualified individuals for the growth of the corporation, rather than safeguarding their shareholding structure. In effect, the above-mentioned environment has limited Board of Director (BOD) roles and responsibilities, contributed to the lack of proper audit functions, and supported closed forms of non-transparent management systems.

When it comes to the existence of legal structures for good governance, most research finds Egypt leading the region. Still, the lack of effectiveness of these structures, in addition to the lack of adopted codes and guidelines for family businesses imposes a significant risk for the safe transition of businesses to the next generation.

Figure 12: Overview of Egypt's Performance: Governance



In a much more complaint environment compared to family owned non-listed companies, listed Egyptian corporations had to adapt to various waves of regulatory reforms imposed by the Egyptian Financial Supervisory Authority and the Egyptian Stock Exchange. Rules were placed on reporting requirements, BOD proceedings, function of audit committees and disclosure to shareholders. As a result, a growing number of listed companies are improving their governance systems, quality of board members, reporting products and disclosure tools. Despite the improving performance, two main criticisms are highlighted for these listed corporations in Egypt. Firstly, very few companies recognize their full stakeholder universe, and engagement practices are primarily focused on shareholders, clients and employees. Comprehensive engagement of all stakeholders is not prevalent, accordingly, very few listed corporations issue sustainability or integrated reports which address the larger stakeholder universe. Secondly, women have very low presence on BODs of listed companies in Egypt. While, various initiatives have been launched to allow for more women to be represented on BODs, the end impact remains well below acceptable international norms.

While, it is quite normal in all economies to witness a variance in adherence to good governance between listed and unlisted companies, the practice gap is significantly wide in Egypt. A large number of companies are discouraged from listing themselves in order to avoid responding to thorough regulations that most of their competitors don't have to worry about.

1.4. Product and Service Quality

Numerous and varied research studies undertaken with consumers, producers, regulatory bodies and industrial auditors have yet to determine why domestic markets tend to offer poor quality products, or who is responsible for this. Playing the blame game and absence of accountability have contributed to the predominance of poor quality products in the Egyptian market. Nevertheless, many producers have clear concerns about corruption, market monopoly, lack of transparency, and unreasonable industrial laws and codes that sometimes put medium, small, even large business and factories at risk. Regulatory bodies and industrial auditors are concerned about the level of producer and investor non-compliance and inability to abide by relevant laws and industrial standards, placing an emphasis on breaking and maneuvering around the law. This leaves consumers with only two options: either buying poor quality products or resorting to imported ones that are cheaper and of better quality. In light of the above, it is clear why Egyptian markets are flooded with cheap products imported from countries such as China, Turkey and Syria, that may enjoy higher sales than the equivalent domestic product.

The inability to accurately identify the challenges to creating high quality domestic products, and the lack of creative and smart solutions to these problems will result in Egypt's loss of more opportunities. Accurately identifying and understanding the challenges will inevitably present potential solutions.

How do producers and consumers define and classify product quality. In Egypt, it appears the term "product quality" means product durability, availability and definitely price range to the majority of consumers and producers. There is nothing wrong with this kind of prioritization or classification, however, product quality has many other essential features, including product short and long term health and safety impacts; product labeling of all materials and ingredients; certification and license of the manufacturing entity and product to ensure conformity, testing and evaluation of the product by authorized entities; packaging requirements; product finishing; and last but not least market control criteria and standards. Most of these factors are not taken into consideration when Egyptian producers and consumers take decisions relating to production and purchase.

Product quality is not an absolute factor embedded in products. Product quality needs a set of inputs to be attained. What makes companies, businesses and factories comply with product quality control codes and measurements is not solely the creation of laws and standards. There are three crucial factors that shape market relationship and competency: 1) pressure; 2) engagement; and 3) awareness and exposure. Numerous research findings have confirmed that there is a massive variation between export/domestic quality control codes and standards execution, and the level of implementation and adherence. The discrepancy in quality between products earmarked for export and those for domestic consumption is not the result of inadequate national industrial laws, codes, standards, criteria and monitoring systems. The problem lies in the implementing methodologies. The absence of a results-based orientation coupled with lack of pressure have allowed domestic industries and markets to lag behind their international counterparts.

Many manufacturers that are seeking business growth and global presence, and have been exposed to global markets have recognized and understood global market needs. These manufacturers adhered to the minimum standards and codes because they were pressured by their consumers and clients to fulfill all their requirements to maintain their presence and global presence. Furthermore, manufacturers realized the power and influence of consumers in global markets. These are consumer-driven markets where consumers are very aware of product value and its health and safety impact. This exposure has enabled them to properly compete with other global manufacturers and understand that transparency and competency are the main pillars of their business existence. In addition, they realized that quality has a price. This is exactly what was meant by result-based orientation.

The upgrade of a large number of domestic producers and manufacturers, most of which are large enterprises, was made possible by recognizing the importance of producing good quality products and understanding the characteristics and measurements of globally accepted codes and criteria. Some of these manufacturers have even achieved a global presence and strengthened their international market engagement.

In addition, engagement is another pivotal factor that has a substantial impact on product quality. Many of these manufacturers' clients were engaged in almost all production processes starting from materials used to waste management processes. This is the ecosystem that we need to embed in Egypt to create a healthy and self-managed industrial and market system that continuously upgrades and monitors itself. Empowering consumers and continuing to raise their awareness will make a huge difference in enforcing product quality control.

1.5. Environmental Protection

In principle, Egypt has put a growing emphasis on the protection of the environment, and increased efforts in tackling environmental issues in the industrial and agricultural fields. There is growing awareness not only in the business sector but also among the general public of the real and potential environmental drawbacks and impacts of productive enterprises. Many of the environmental issues resulting from operations in the industrial and agricultural fields have an immediate impact on communities and individuals. The problems created by these operations are often tangible, and many Egyptians have felt the negative environmental and health impacts first hand. Egyptians have been facing the consequences of chemical and toxin contamination, including that resulting from agricultural pesticide use and industrial emissions; air, water and soil pollution; land degradation; decreased biodiversity; and diminishing access to energy sources. In tandem with increased public awareness of real and present environmental dangers, the GOE has created several environmental laws and standards, and applies a very strict monitoring system. This is in addition to a great deal of research on these issues, as well as recommended solutions. The question then becomes, why does the Egyptian corporate sector continue to perform poorly in terms of controlling or mitigating its environmental impact, especially with regards to heavy industries and factories?

Egyptian corporations encounter several barriers that impede their ability to effectively address issues of environmental impact, and their ability to create workable long term solutions for their environmental problems. These barriers include financial constraints, a limited governmental aid system, lack of accepted and well-introduced implementing methodologies for industrial environmental mediation and mitigation means, a lack of human competencies, and corruption, among others.

In principal, Egyptian businesses are obliged to commit to addressing their environmental footprints in order to obey the law, fulfill their business requirements and prepare for inspections led by their various stakeholders. Available solutions are costly, and in many cases represent an extra burden on investors, which makes them unable to commit. There are a growing number of business owners and managers who are concerned and very aware of their environmental footprints. They know what they should do and they are very attentive to the benefits and returns of such environmental investments. Such solutions according to their business calculations are preserved as high cost investments that need to be subsidized by the government and other local authorities to support businessmen and investors. They do what they can afford to do, and in many cases they manage their waste through inadequate channels. In the Egyptian private sector, this is the widespread practice, and there is no formal mechanism directed by the government. This leaves businesses with no other option except utilizing such channels. In addition, many businessmen and investors are making money from the widespread "waste trade."

On the other hand, the unspoken truth is that breaking the law is significantly cheaper. A significant number of businesses are not aware of their environmental footprint and pay minimal attention to this issue. They have many reported incidents of environmental non-compliance, but they choose to handle issues of non-compliance differently. They choose to pay the fine rather than investing in actions to minimize their environmental footprint because it is "cheaper". Corruption and lack of effective implementation of the law opens the door for a comparative opportunity to evade environmental compliance.

Between 2007 and 2013, the Ministry of the Environment in Egypt, in partnership with various institutions, spent over USD 213 million in the form of grants, loans, and cost share to support more than 100 companies to comply on various areas related to cleaner production. By October 2015, only 9 factories out of 102 remained pollutants of the river Nile and they should be dealt with by the end of the month, according to Minister of the Environment. (Ministry of Environment, Annual Report 2013, Egypt).⁷³

⁷³ <http://www.egyptindependent.com/news/minister-nile-clear-industrial-pollution-end-october>

2. Conclusion and Recommendations

The political and economic changes witnessed by Egypt between 2011 and 2015 have led to a fundamental change in the dynamics of interaction among different stakeholders, specifically within the private sector. This very unique moment in history presents itself as a dichotomy of immense burden and unlimited potential. The Egyptian corporate sector should be commended for its resilience in handling an immense burden with great fortitude and instinct for survival. However, there are still serious concerns regarding the corporate sector's ability and will to grasp the chance and opt for longer-term structural reforms that would prevent not only the sector but also the whole stakeholder universe from slipping back into confrontation.

It is fairly normal that after a long period of stagnation and immense pressure, that the great majority of corporations and business owners would yearn for stability and resumption of growth and profitability. It is key at this time for corporate thought leaders, regulatory and enabling institutions as well as financial institutions to play a key role in mainstreaming the current momentum of the Egyptian private sector towards longer term structural change and reforms that will yield higher benefit for all stakeholders.

While there have been a growing number of individual attempts by several corporate leaders to create change, the current size and impact cannot generate the required momentum to ensure a wide effect on the Egyptian corporate sector as a whole. Mobilization of the corporate sector to better achieve an impactful compliance model is a long-term task that will entail a persistent and progressive structural reform plan. Nevertheless, the following 6 core areas of development should kick-start an impactful process:

- Integrating Labour Representation and Rights-Based Management

Reaching a formula for ensuring the creation of effective communication lines between management and the labour force is essential to ensure that the interaction between the two sides never regresses into the forms witnessed during 2011 and 2012. Given that the current form of labour syndication is not preferred by either businesses or labour, it is essential that both sides are consulted in the creation of a new form of syndication that is acceptable to both. The decrease in clashes between these stakeholders should not be mistaken for a solution, but rather a potential for the buildup of tension destined to explode again due to the lack of proper communication channels. Moreover, communication and sense of belonging can represent a key driver to improve worker conditions and their morale, ultimately leading to motivating the workforce for higher levels of productivity and innovation.

- Making a Bottom Line Case for Environmental Compliance

The current reform in the price of energy and the inflation in the cost of materials have paved the way for creating a business case for compliance and efficient use of materials and energy by Egyptian industries. Availing a government fund for cost sharing on capex costs for integration of energy and material efficiency modifications would encourage Egyptian corporations to co-invest. In order to ensure the growth of the fund, a rigorous program of applying heavy fines on environmental violations can be used to generate proceeds from non-complaint corporations and channel them through the fund to support compliant ones.

- Tapping into Market Opportunities through Inclusive Business Models

Ministry of Social Solidarity data indicates that the poverty rate in Egypt has increased by 25 percent. This increase in poverty levels resulted in a significant market loss for the corporate sector in Egypt, given the decrease in the number of consumers with buying power. This is an opportunity for the corporate sector to innovate by producing goods and services that are targeted towards previously neglected underprivileged consumers. Market dynamics in Egypt entail that the next business breakthrough be made on BOP markets rather than the already stretched and saturated middle class market. While suppliers already exist at the BOP market level, ensuring product quality at highly affordable packages targeting daily wage-earners will be the golden pass to tap into this market. Additionally, with the devaluation of the Egyptian pound against foreign currencies, the business model for local production through inclusive supply and value chains for non-sophisticated products stands as a potential area of innovation to decrease product costs to better compete in existing markets.

- Government Ethical Sourcing

In any diagnostic review of the Egyptian corporate sector, an evident distinction is drawn between export-oriented businesses and those operating on the local market. The former tend to abide by international standards of compliance in order to match the criteria set by the global markets or corporations they supply. However, businesses that focus on the domestic market tend to bypass compliance, believing that it is not a high priority for local clients. It is easy to disagree with the concept on a theoretical level, but in a pragmatic way corporations tend to better respond to compliance parameters when linked to a solid business case. As the largest buyer in the country, the GOE has the power to create a local business case for compliance by mandating specific social, environmental and governance parameters as prerequisites to sourcing from any local company. Green and/or ethical sourcing have a demonstrated track record of improving compliance of local markets, as evident in the European models of practice.

- Governance for All

Gaps in regulations with regards to the governance and disclosure accountability of listed and non-listed companies need to be reduced significantly. In order to ensure the evolution of the Egyptian corporate sector to the next level, EFSA and GAFI need to cooperate on ensuring a tighter form of control over the governance practices of non-listed companies. While a list of governance related regulations for non-listed companies exists at GAFI, it is usually not followed in practice.

There needs to be a thorough review of the existing regulatory environment for governance practices to ensure true implementation of good governance and corporate sustainability parameters. As a start, all unlisted companies exceeding a specific threshold of paid in capital, EGP 100 million for example, need to follow more limiting rules, similar to listed companies. This is due to unlisted companies' impact on the local economy and their extended universe of stakeholders that are under risk of being impacted by the companies' actions due to the lack of good governance.

- Further Empowerment of Consumer Protection Organizations/Watch Dogs

Consumer protection organizations exist but function with very limited resources, coverage and empowerment. In the past ten years, such entities showed little progress and barely gained the trust of their consumers. On the one hand, consumers were not satisfied in the majority of reported cases. On the other hand, social media became a more effective and responsive solution for consumer complaints. Civic engagement through social media lends itself as an effective tool for pressuring the corporate sector into improved quality, through the use of negative campaigns that impact the sales volume of the targeted companies. Both forms of institutional setup and civic watchdogs are in need of development and support to better implement their functions in a satisfactory and professional manner.

While implementing the measures listed above would enhance the enabling environment for the Egyptian corporate sector to establish more sustainable business models, Egypt's current social and economic conditions present several hurdles, including lack of resources, high inflation, the weakened buying power of consumers, and security issues. While all of these issues magnify the challenges posed to the private sector, they also underscore the vital role that responsible businesses can play in actually alleviating these adverse social and economic conditions. Finally, adhering to innovation, thought leadership, industry wide cooperation and private public partnerships are the essential ingredients for success.



جمهورية مصر العربية
بطاقة تحقيق الشخصية

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CHAPTER

ANTI-CORRUPTION

By Ahmed Hassanien

1. Introduction

Corruption is generally understood as the abuse of official power for private gain. Replacing “official” by “entrusted” in the preceding definition expands the scope of corruption from being restricted to public officials to including members of the private sector and civil society; both of whom can indeed be involved in corrupt acts that can have significant negative impacts on both society and national development. Interest in corruption arises from the fact that the phenomenon has been widely identified as one of the major problems facing societies around the world, and perhaps the biggest challenge facing developing nations.

Corruption has been estimated to cost the global economy more than USD 1 trillion annually, a high price to pay in a world where billions of people live in poverty. The World Economic Forum estimates the cost of corruption to exceed 5 percent of global GDP, which puts the annual cost of corruption around USD 2.6 trillion, while the World Bank estimates that over USD 1 trillion is paid in bribes annually. These estimates clearly exceed the GDP of most developing countries, rendering the fight against corruption a priority for developing and developed nations alike.

From the perspective of developed nations, reducing corruption in developing countries would serve a double purpose: 1) it could significantly diminish developing nations’ reliance on foreign aid, reducing demand on donor nations; and 2) it would further ensure that donated funds serve the projects they were intended to serve at reduced costs, again reducing demand for funds from donor nations. On the other hand, from the perspective of developing nations, reduction in corruption rates could build trust in the government, assist in attracting more foreign direct investment (FDI), while ensuring a fairer distribution of wealth.

This chapter provides a brief definition of corruption, and discusses its impact on development. Estimated costs of corruption will be reviewed, and the roles of the various players to combat it (public sector, private sector and civil society) will also be discussed. The impact that corruption has had on the housing sector in Egypt will be discussed as an example of how corruption can derail efforts to provide services to the low-income sector. Finally, recommendations for combatting corruption in Egypt will be highlighted.

2. What is Corruption?

Over the last decade, a significant amount of research has been conducted by international, local and independent organizations to try to understand the phenomenon of corruption, and to quantify its impact on national growth and development. Several types of corruption have been identified: generally classified as political, economic, administrative (petty) and grand corruption. This discussion focuses on the latter two. The main differentiation between grand and petty corruption is that the former happens when corruption has infected the decision-making and rule-making bodies of a state, while the latter is concerned with the day-to-day practices of individuals working in an organization.

Grand corruption involves defining governmental objectives and decision-making processes at the highest levels of government to serve the private interests of the decision-maker (or his/her affiliates, family or friends) rather than the public interest. On the other hand, administrative or “petty” corruption refers to corruption of lower and middle level public employees, and involves the use of their limited position to advance their social and economic status at the expense of public interest. Petty corruption includes issues such as bribery, extortion, facilitation payments,

embezzlement, conflict of interest and favoritism/nepotism which can all significantly hinder the ability of the private sector to operate with confidence, and seriously discourages FDI. For example, favoritism (*wasta*) and nepotism are a discouraging phenomenon cited by many qualified young Egyptians, who argue that they cannot secure jobs that they are qualified for unless they are well-connected. Others argue that this contributes to the potential for a 'brain-drain', where qualified Egyptians seek employment outside of the country. Given Egypt's demographics (where half the population is under 30 years of age), and a high youth unemployment rate, it is clear that favoritism, where it exists, can negatively impact a large number of young Egyptians.

Petty corruption has been related to poverty and high illiteracy rates, and the scale of its spread and acceptance in Egypt and much of the Arab world can significantly impact development and growth. Bribery, for example, has had several impacts on the Egyptian economy. The presence of complex laws and regulations, coupled with vague and needlessly-prolonged application procedures, compounded by lax law enforcement and a cultural acceptance of bribery has resulted in what has been estimated at an additional 20 percent tax on doing business here. The interface between the public sector and the public at large is where most petty corruption takes place, and provides willing civil servants with the opportunity to extract bribes and supplement their income.

With regards to the private sector, SMEs, the back-bone of the Egyptian economy, are most affected by the prevalence of bribery, for the reasons outlined below:

1. In many cases SMEs operate on very limited budgets that render the cost of corruption unaffordable, resulting in their being at a disadvantage compared to other parties in the private sector with deeper pockets.
2. The prevalence of bribery has allowed the unregulated growth of the informal sector, estimated to constitute between 65 to 70 percent of the national economy. Clearly, informal enterprises operate in the absence of the rule of law, and many continue to operate by virtue of the bribes they pay to inspectors and law enforcement personnel. Informal enterprises, by definition, pay no taxes and thus have a lower cost structure than their formal counterparts. Additionally, their employees are mostly day-laborers who are not under contract and thus enjoy no benefits such as paid leave, social security or health insurance, further lowering the cost of doing business for informal enterprises and rendering law-abiding SME's uncompetitive.
3. There are multiple loopholes in the taxation system in Egypt, where much is left up to the judgement of the individual tax assessor. This is mainly due to the fact that the tax authority does not typically go through income and expense bills but usually estimates a figure mainly based on averages. If corrupt, individual tax agents can significantly reduce the amount of taxes due, further skewing the balance in favor of operating in a corrupt manner.
4. Large enterprises are in a better position to reduce the impact of a corrupt public servant, by leveraging their network base or contacts with high-ranking public officials. Large multi-nationals can reach high-ranking officials and alert them to any corruption-related difficulties faced in the major projects they are typically involved in. SME's, on the other hand, don't have such leverage and would most likely be penalized if they were to complain of government corruption publicly. Furthermore, SMES typically do not have access to the kind of high-ranking officials that would be able to remove the bureaucratic or corruption-related obstacles they might face.

The lost revenues from uncollected taxes, enabled through bribery, coupled with the additional costs arising from much of the working population having no social security or health insurance is prohibitive to sustainable and equitable development. Not only has bribery skewed the market for the private sector, it has also deprived the nation of revenues that could have been directed towards development projects that could create much-needed job opportunities for aspiring young Egyptians. It is thus questionable to deem petty corruption as having little impact on development.

When it comes to housing, petty corruption has played a major role in the spread of informal housing in all urban centres in Egypt. The complexity of the rules and regulations related to the construction sector is clearly demonstrated in the 71 steps involving 31 government offices required for housing permits; a procedure that requires between 6 and 14 years to complete successfully. From a financial perspective, the temptation to build without proper documentation and accept the cost of bribes is clearly advantageous in comparison to prolonging the construction process where capital is tied up and not generating income. A major enabling factor is building or city inspectors who are paid to turn a blind eye to ongoing construction and to allow the connection of utilities. As a result, the informal sector can provide

housing units promptly and at a lower cost than their formal competition, despite greater risks of that housing not being in compliance with safety regulations. It is interesting to note that property registration has been reported to be the biggest obstacle to mortgage finance in Egypt. This clearly echoes the recent recommendations of the World Bank requiring the simplification of procedures as a means to reduce corruption in Egypt.

2.1. Corruption and Development

Although a great deal of literature exists on the correlation between corruption, development and governance, there are as yet no accurate correlations. Much of the difficulty lies in developing accurate estimates of the spread of corruption, which is an extremely challenging task. Nevertheless, a recent study by Transparency International (TI) estimated that corruption increased the cost of achieving the MDG on water and sanitation by USD 48 billion (TI, 2010). Although several metrics exist to assess the spread of corruption and human development individually, none have yet been developed to provide a quantifiable measure of how one impacts the other. Corruption indicators include the Corruption Perception Index (CPI) developed by Transparency International (TI), the Bribe Payers Index (BPI) also developed by TI, and the Global Integrity Index (GII) developed by Global Integrity Organization. Development indicators include the Human Development Index (HDI), the poverty rate, the Global Competitiveness Index (GCI), Per Capita Income and Growth Rate (PCI and PCG, respectively), Foreign Direct Investment (FDI), and the inflation rate. Governance indicators, on the other hand, would include metrics such as Political Stability (PS), Regulatory Quality (RQ), Voice and Accountability (VA), Rule of Law (RL) and Government Effectiveness (GE). Figure 13 below summarizes the findings of a recent TI study that investigated the correlation between the spread of corruption as measured by the CPI and development as measured by the UN's HDI⁷⁴.

Figure 13: Transparency International; UN HDR

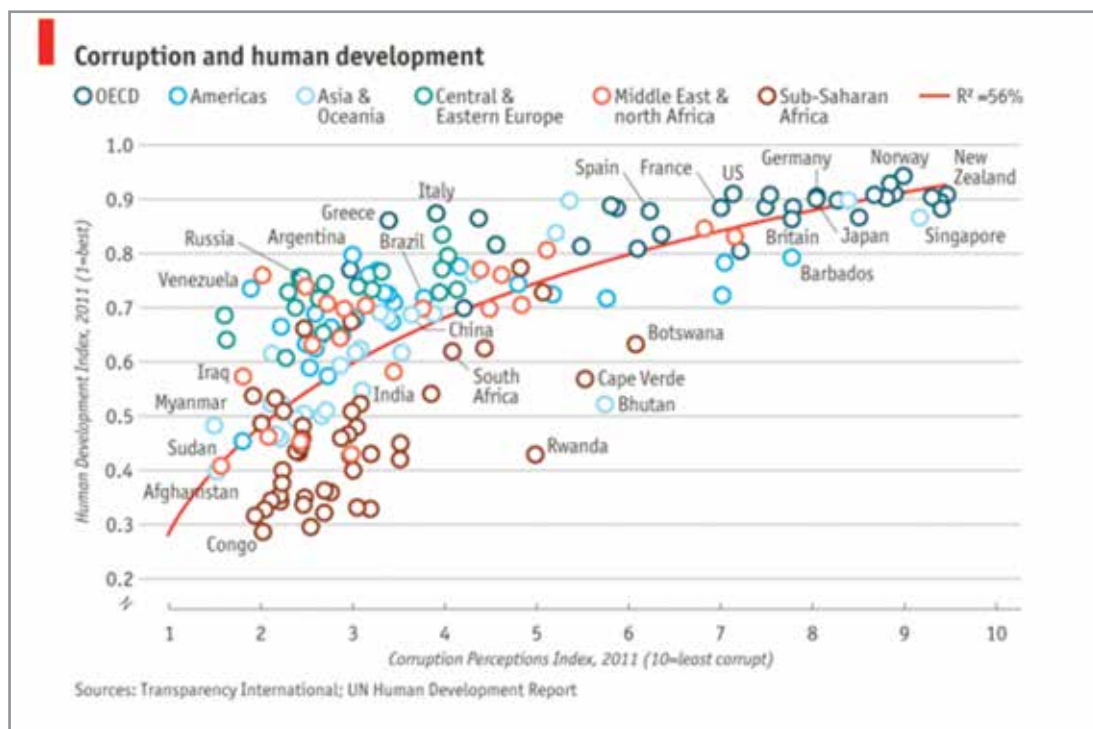


Figure 13 demonstrates that the spread of corruption is typically tied to under-development. On comparing the CPI to the UN's HDI, the relation between corruption and lack of development becomes obvious: nations where corruption is perceived to be high are generally lagging in development efforts. This should come as no surprise, as the prevalence of corruption results in reduced FDI's, misallocation of public funds, poor prioritization of projects, and increased cost of major infrastructure projects.

74 The Economist, 2012, "Corrosive Corruption: A Correlation Between Corruption and Development", in The Economist (online), February 12, 2012

With regards to the impact of corruption on foreign investment, a study conducted by KPMG covering 284 executives found that 28 percent of respondents were not willing to do business in countries where corruption was found to be high. An earlier survey of 350 companies found that 35 percent would not enter markets which were perceived to be corrupt even if the deals seemed attractive. The correlation between corruption and development is highlighted by the fact that only five non-OECD countries made it to the top 25 countries with the lowest CPI, which measures the perceived levels of public sector graft by aggregating global independent surveys. Corruption also remains a serious threat to development in sub-Saharan Africa, with six of the ten most corrupt nations located in that region.

One can question whether corruption is a cause of underdevelopment or a function of it. It can be argued that both are part of a vicious cycle, each feeding off the other. Corruption is a factor that skews markets and inhibits fair competition, thereby weakening development efforts due to inflated costs, reduced quality or both. Conceptually, corruption provides privileges to the powerful few at the expense of the many. Not only does corruption increase the cost of doing business for the private sector, creating a drag on the economy, it also results in the misappropriation of public funds, excludes the poor from public services, perpetuates poverty and corrodes public trust in the government.

A plausible explanation for the prevalence of corruption in developing nations may be the lack of robust and effective legal systems especially when it comes to enforcement. Developing nations typically lack an effective and expedient legal system; one that can act faster than corrupt individuals and beat them at their game. As mentioned earlier, corruption arises from a governance gap that typically exists in developing nations, rendering such countries far more susceptible. The snowball effect occurs when the public observes that corrupt acts go unpunished, which lowers self-imposed barriers to participating in corruption. This process of desensitization can reduce the stigma associated with corruption, giving it greater social acceptance.

Another argument for the prevalence of corruption in underdeveloped nations is the higher incidence of poverty. Typically low salaries for public servants in developing nations can result in their feeling justified in augmenting their income through bribery, extortion and/or facilitation payments. These interactions are viewed as a parallel social welfare system to which many public servants consider themselves entitled, while the giver considers the bribe as a social contribution. The victim of such transactions is any low-income individual who interfaces with a public official while not being able to afford a bribe; the process is typically either prolonged unnecessarily, or halted altogether.

Consequently, corruption in the public sector has been the focus of attention of many scholars and practitioners, and several anti-corruption agencies have been established in many nations for the sole purpose of monitoring public sector transactions to ensure they are corruption-free. The establishment of global organizations such as Transparency International (TI) in 1993 and the introduction of United Nations' Convention against Corruption (UNCAC) in 2005 are testimonials to the growing global concern over corruption, while regional examples include the Regional Project on Anti-Corruption and Integrity in Arab Countries (ACIAC). Recognition of the importance of including the private sector and civil society in combating corruption also resulted in the establishment of global organizations such as the UNGC in 2000, as well as regional initiatives such as the Arab Anti-Corruption and Integrity Network (ACINET) in 2008.

The regulatory environment requires revision, in order to reformulate existing laws to more effectively address those areas that are prone to corruption. However, regulatory reform is only the first step in the process. The second step requires stringent, effective and transparent enforcement of anti-corruption legislation, particularly when the transgressors are from social categories that are commonly perceived as being 'above the law'. This is critical to the success of any effort at combating corruption, at all levels.

2.2. The Cost of Corruption

When attempting to visualize the potential costs of corruption, it is useful to review some recent outputs on the issue. The African Union produced a report in 2002 indicating that corruption cost the African continent roughly USD 150 billion annually; roughly one quarter of the continent's total output. Corruption in extractive industries in Africa has been estimated to result in illicit financial outflows of over USD 50 billion annually. In 2013, the African Progress report at the World Economic Forum on Africa indicated that the continent was losing more through illicit financial outflows than it receives in aid and foreign direct investment. Moreover, it was estimated that between 2008 and 2010 trade mispricing, or losses associated with the misrepresentation of export and import values, alongside other illicit outflows cost the continent USD 38.4 billion and USD 25 billion, respectively.

3. Corruption in Egypt

For private sector businesses in Egypt, whether large or small, formal or informal, corruption represents a significant challenge to growth and expansion. A recent study claimed that crime and corruption cost Egypt roughly USD 6 billion annually, and approximately USD 57.2 billion were lost to corruption between 2000 and 2008.

Despite Egypt's recent improvement in fighting corruption (with its score increasing from 32 in 2013 to 37 in 2014 leading to an ascent in rank from 114th to 94th) there remains much room for improvement. Egypt is among the two-thirds of world nations with a CPI lower than 50, which indicates that the Egyptian environment is still perceived as corrupt, requiring government, public sector and civil society organizations to work collaboratively to combat this serious issue.

The Egyptian business environment has been perceived as corrupt for decades. Overly complex laws with complicated procedures have resulted in individuals and SME's alike deciding to resort to bribery or facilitation payments to get things done. In a survey conducted in 2009, 42 percent of small business owners surveyed indicated that they had been obliged to offer facilitation payments to secure their business licenses. In addition, 29 percent were also obliged to pay bribes in the course of their business operation. Roughly 56 percent of those surveyed stated that a civil servant requested the bribe, while 70 percent indicated that the purpose of the bribe was to secure expedited services. An additional 27 percent admitted that the purpose of the bribe was for the public servant to process a transaction despite inaccurate or missing documentation. Interestingly, 90 percent of those who admitted paying bribes indicated that they regarded it as something normal. Furthermore, a recent survey by Enterprise Surveys indicated that although corruption was perceived as a serious concern, it wasn't the major concern for companies, as it was identified as the fourth business environment constraint, after practices of the informal sector, an inadequately skilled workforce, and high tax rates.

A recent global survey conducted by Ernst & Young, covering 59 countries, and released in November 2014, identified the Egyptian private sector as one of the most corrupt in the world. The study highlighted that more than 44 percent of chief executives, financial controllers and internal auditors surveyed identified high levels of fraud in their companies.

3.1. Corruption in the Housing Sector

One of the main manifestations of corruption has been in the realm of affordable or low-cost housing. Forms of corruption in this regard are varied and negatively impact development by depriving the poor of decent lodging that would improve their quality of life. Egypt has documented cases where officials purchased housing units that were intended for the low income sector by fraudulent means, and later sold them at a substantial profit. Another practice that prevents the low-income sector from access to affordable housing is favoritism/nepotism, where public officials reserve units for family members or associates instead of those they were meant for. Given the Egyptian demographic, and the lack of efficient mortgages, most Egyptians cannot afford to purchase a home. Despite the country's efforts, units built for low-income Egyptians are not affordable, as they cost upwards of USD 17,000; an amount that most Egyptians cannot secure.

Another example of corruption within the housing sector involves lands designated for affordable housing projects being sold to developers at low cost (approximately USD 1 per square meter), later being developed into exclusive gated communities for the affluent. Developers would not have been able to change the land use designation without the complicity and approval of corrupt officials and public servants.

The human cost of corruption increases when injury or loss of life is involved. The spread of informal settlements, and the number of buildings in violation throughout urban centres across Egypt, in addition to urban encroachment on arable lands throughout the country are a direct result of corrupt practices. Unregulated housing construction, coupled with the building of additional unlicensed floors to existing buildings raise many concerns regarding the structural integrity of these buildings. Recent building collapses throughout the country have raised public awareness and concern over the issue, which while widespread throughout Egypt's urban centres, is particularly prevalent in the coastal city of Alexandria.

3.2. Challenges Facing the Private Sector, Public Sector and Civil Society

The roles of the various stakeholders in the fight against corruption has been discussed at length in various publications by the UNDP, UNODC and AfDB. The challenges preventing these roles from being adopted by these players in Egypt have included a lack of trust between the various parties, lack of capacity and lack of structure.

Both the private sector and civil society lack the necessary resources or capacities to perform their roles in the fight against corruption. Accordingly, there have been several efforts by agencies such as the UNDP to build the capacities of the private sector and civil society organizations to identify and fight corruption. Examples include the establishment of the Arab Non-Governmental Network against Corruption and the project administered by the Egyptian Junior Business Association (EJB) and funded by Siemens in collaboration with UNGC, where an incentive scheme is presented to SME's willing to adhere to fundamentals of accountability and fighting corruption, as per the 10th Principle of the UNGC. This effort is complemented by a UNDP project whereby SME's are trained on means to fight corruption in multiple Arab nations including Egypt, Tunisia, Morocco and Lebanon. These companies are trained on the basics of governance and the principles and tactics of collective action to fight corruption, without risking being singled out by corrupt individuals or those benefiting from the status quo. Such examples demonstrate the need for anti-corruption efforts to be both coordinated and multi-disciplinary, to increase their chances of success and to maximize their impact. The scalability of such efforts requires substantial funds as well as governmental support.

Recent years have witnessed some progress in the fight against corruption on the part of the public sector. According to the World Justice Project (WJP):

- In 2005, Egypt signed off on the United Nations Convention against Corruption (UNCAC);
- In 2007, the Transparency and Integrity Committee was set up within the Ministry of State for Administrative Development with the aim of diminishing corruption in the public sector;
- In 2010, The National Coordinating Committee to Combat Corruption (NCCCC) was established by Prime Ministerial Decree to coordinate between different government entities to respond to Egypt's commitment to the UNCAC and to develop the National Strategy for Anti-Corruption;
- In 2014, the new constitution of Egypt ratified, including several articles specifically targeting corruption.

An example of specific actions being made towards combating corruption is the Social Fund for Development's (SFD) efforts in enhancing both its internal redress mechanisms as well as empowering third party/community monitoring efforts in an attempt to combat corruption, enhance funding processes, and achieve better development outcomes, which is currently applied in their Emergency Labor Intensive Investment Project (ELIIP). ELIIP was initially funded by the World Bank, and subsequently supported by other donors, including the European Union, and The Danish International Development Organization (DANIDA).

The SFD and CARE International in Egypt started their "Mainstreaming Social Accountability in the ELIIP" on August 2013, the project is co-funded by the United

Box 9: The Egyptian Social Fund for Development (SFD)

The Egyptian Social Fund for Development (SFD) was established by Presidential decree 189, with funding from the United Nations Development Programme (UNDP). The SFD was created to alleviate the hardship created by returning Egyptian workers from the Gulf area as a result of the 1st Gulf War. For many, it was seen as a social safety net, and was linked to the GOE's Economic Reform and Structural Adjustment Programme. Fifteen years later, and short-term "emergency" job creation remains the fund's defining characteristic.

The SFD targets the poorest areas of the country by using a poverty incidence map. SFD headquarters in Cairo implement activities through their 27 regional offices, who help to identify local needs, mobilize community participation and monitor the progress of projects. The SFD implements labour intensive investment projects in:

- Community development initiatives in health; education; and environmental sectors; and
- Public works in water irrigation; pavements; school, housing, youth centers and nursery infrastructure maintenance.

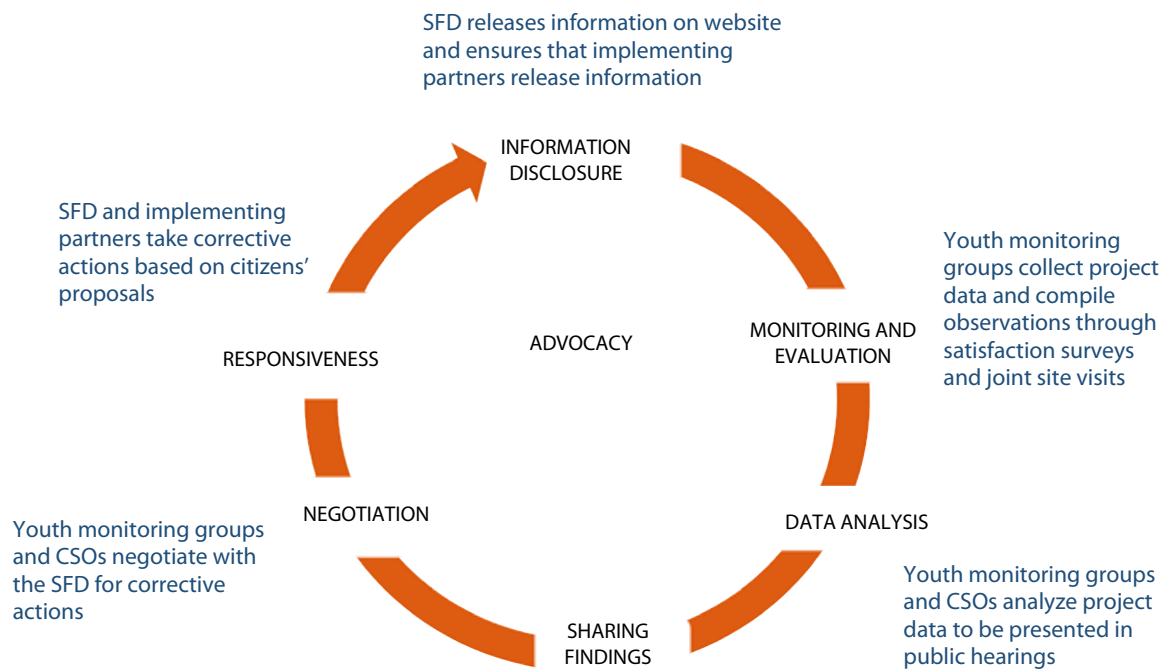
These labour intensive investment projects typically have a duration of six months to two years in total, and are primarily geared towards generating short-term employment opportunities for young Egyptians. There are two main implementation modalities: community development projects are subcontracted to local NGOs; and public works are carried out by government agencies.

Kingdom Foreign and Commonwealth Office (FCO) and the Ford Foundation, and targets empowering community members to follow-up and track projects funded from the SFD under ELIIP – both governmental and NGO projects – as a means to improve the overall performance of implementing entities and improve the overall outcomes and objectives of projects, leading to improved citizen satisfaction.

According to the Baseline Assessment of Social Accountability in the Arab World, the ANSA network found that while social accountability is a new concept in the Arab world, it is not a new practice (ANSA, 2013). Social accountability can be defined as an “*approach towards building accountability that relies on civic engagement, i.e., in which it is ordinary citizens and/or civil society organizations who participate directly or indirectly in exacting accountability* (World Bank, 2004).” In particular, social accountability tends to consist of actions to facilitate transparency (to publish information), citizen appraisal and monitoring of services, citizen participation and engagement with public authorities and service providers to present demands in public forums, negotiate commitments and agree viable responses to improve the quality of service provision.

For the purposes of the ELIIP, and drawing on the CARE Governance Programming Framework (GPF, 2011), CARE Egypt designed a social accountability model which consists of the following components:

Figure 14: CARE Egypt's Social Accountability Model



In sum, the SFD and local community service organizations (CSOs) and community development associations (CDAs) are expected to disclose information on projects; youth groups are trained as “monitors” and supported to process and analyze this data (e.g. contracts, plans, and budgets). Youth groups and other key stakeholders such as SFD local staff, CSOs and local media then carry out site visits and make reports on their findings (with observations on issues such as staffing, procedures for hiring workers, social security arrangements and audit mechanisms).

This information is presented in public hearings where citizens advocate for improvements, and these are negotiated and agreed with service providers, public authorities and other local stakeholders through joint action plans. Findings from the local level are then shared with SFD headquarters through coordination meetings in which higher-level changes are proposed, negotiated and agreed. For commitments that are not delivered upon, specific advocacy campaigns will be developed with citizen groups and the media.

4. Conclusion and Recommendations

The fight against corruption is an uphill battle, and requires the conscientious effort of multiple stakeholders. Government efforts to identify and prosecute cases of corruption must be intensified, and this includes the strengthening of legal institutions. Reforms are needed which would activate and empower anticorruption agencies, tighten administrative control, develop clear and simplified public procurement procedures and allow these agencies to assume the leading role in fighting corruption. As such, governmental policies and procedures should be streamlined and optimized as much as possible, to limit the scope for extortion of bribes by public servants in return for facilitation services.

Combatting corruption requires that the public and private sectors work together with civil society to control and reduce the negative impact on the nation's economy. Questions that must be addressed include the following: Will rules and regulations be simplified to reduce the degree of corruption? Will serious accountability measures be implemented and adhered to for these major projects? Will the projects be awarded to contractors based on merit and without regard to ties to government or government ownership? Will contract award procedures be transparent and equitable? Will the private sector play a major role in development? Will the government assume the role of enabler and allow the private sector to innovate and deliver projects at acceptable quality levels while employing and developing the Egyptian work force? Will civil society be included in the decision making process and meaningfully participate by playing their role in monitoring the expenditures of funds? Finally, public awareness raising and inclusiveness are integral to the success of any effort to fight corruption.

The World Bank proposed the following six policy recommendations to combat corruption: Paying public servants well, creating transparency and openness in public spending, reducing bureaucratic red tape, replacing untargeted subsidies with cash transfers directed to those in need, establishing international conventions that are geared to combating corruption and relying on smart technologies to reduce or eliminate the human factor which might be prone to corruption⁷⁵. Clearly these recommendations require the cooperation of the three main parties (public sector, private sector and civil society). Some of these recommendations require resources, such as paying public servants well so that they are less tempted to receive bribes. Others, such as increased transparency in public spending, will require a strong will from those involved in fighting corruption, and would significantly increase public trust in the government. Special attention should be given to streamlining those processes governed by excessive bureaucracy or complicated legislation, as these tend to be focal points for corrupt practices.

As for internal good governance, and the fight against corruption within private sector businesses themselves, it is imperative that the private sector has strong governance structures to ensure that company rules are adhered to, payments and receivables are controlled, expenses are accounted for, and employees' ability to pay bribes is reduced or eliminated. Issues such as protecting shareholders and stakeholders' rights through financial transparency and information sharing, as well as following proper accounting methods, are crucial for any corporation to operate efficiently and effectively. While this is the case for most large multinationals, the same cannot be said for SME's. Accordingly, building the capacity of SME's and empowering them to be able to report cases of corruption anonymously is imperative in developing countries where most of the economy is built on family-run businesses and SMEs.

⁷⁵ Lopez-Carlos, Augusto, 2014, <http://blogs.worldbank.org/futuredevelopment/six-strategies-fight-corruption>



5

CHAPTER

THE RISE OF INCLUSIVE BUSINESS

By Sarah El Sayeh

Economic development history has shown a movement along the spectrum from interventionist approaches to trade and transfer of both capital and labour across borders, to advocating free trade across borders and laissez-faire economies within borders. Scholars have argued that, depending on the stage of development; countries should adapt protectionist policies and move to towards liberalizing trade as their economy grows.

Today, however, in an increasingly globalized and interconnected world, it is nearly impossible, and largely inadvisable, to close borders and impose trade barriers, especially for developing economies. However, the focus of this chapter is not on trade policies but rather on how international trade, globalization and competition among mega-industries have led to the fall of people at the base of the pyramid (BOP) – or those who live below the poverty line – off both the macro and microeconomic radar.

In a world where millions are spent on marketing campaigns selling products that cater to the needs of the financially able, economies have yet to succeed at meeting the demands and needs of those living at the BOP. Typically marginalized and living on the outskirts of mega-cities or affluent neighborhoods and often not even in the city, individuals at the BOP have long been without access to basic goods and services.

Among the many, multidimensional factors that have resulted in millions living at the BOP is the large disparity on the global level. Not only have local companies lost the competitive game, but entire economies have experienced the same loss. In economies that have been labeled “developing” social and income mobility is often a very hard thing to achieve on the individual level.

The current status quo, where millions are living at the BOP may be traced back to a combination of two events that changed the world over the past century: a) the end of WWII; and b) the fall of the Berlin Wall, signaling the end of the Cold War. These two incidents shaped the course of the 20th century, and left newly independent economies with little to no safety nets for their citizens. The growth in international trade, the rise of the multinational, and the increase in competition on a global scale are all factors that have led to a focus on maximizing profit and increasing absolute financial benefit, leaving environments more polluted; while the rich get richer and the poor get poorer.

1. The Importance of the BOP

According to the IFC, there are 4 billion people living at the BOP across the world (Jenkins, Ishikawa, Geaneotes, Baptista, & Masouka, 2011). Individuals at the BOP typically lack access to markets, even those for basic, essential goods and services largely due to the instability in incomes. The lack of market access could also be attributed to the high transportation costs of reaching the BOP as consumers when, more often than not, infrastructure and transportation networks to typically marginalized or informal areas where members of the BOP live are lacking.

While the term “inclusive business” was first introduced by the World Business Council for Sustainable Development in 2005, it was in 2001 that Stuart Hart and C.K. Prahalad highlighted the potential “fortune at the bottom of the pyramid,” which was of significant importance; sparking excitement among companies, development organizations and governments alike. The possibility that companies could be a major force in the struggle against poverty while at the same time making a profit was indeed an interesting possibility to be explored.

Inclusive business models are inclusive of the socioeconomically underprivileged either on the demand side as clients and/or on the supply side as employees, producers and business owners at various nodes in the value chain. An inclusive business model creates mutual benefit for the private sector as well as it does for the poor by linking them together. "Inclusive growth refers to economic growth that reduces poverty by expanding opportunities for the poor, including micro-entrepreneurs and smallholder farmers." (Volunteers for Economic Growth Alliance, 2013)

Achieving inclusive market growth dictates a change in the mind-set and approach to markets and economy. The way businesses have been operating and achieving "growth" has remained more or less the same over the past few decades. However, in recent years, upon achieving "saturation" or growth in developed economies, economic growth rates have dwindled. In developed economies, this has manifested in greater income inequality in a free market, libertarian setting. Developed economies have, in turn, for the sake of achieving greater growth turned towards "developing" or less developed economies to maximize profit and growth potential.

Many African countries are characterized by their highly centralized governments located in urban centers, and surrounded by a plethora of remote and marginalized areas that have little access to basic goods and services easily found in urban centers. Economic blocs, like the COMESA, advertise themselves as an investor haven mainly capitalizing on the size of markets in their respective countries. However, following the rationale of market segmentation, in order to cater to these markets, big businesses or economies need to either cater to the richest 1 percent of these countries or change their approach to doing business.

Yet, another interesting opportunity for investors is the size of the market at the BOP, one that is largely untapped. As consumers in developing countries, individuals at the BOP often face the "poverty penalty" that is due to a lack of transportation networks and infrastructure for their areas of residence; higher transportation costs often translate into higher costs for lower quality products. Market prices may be too high for consumers at the BOP, who either cannot afford them, or end up choosing not to benefit from the product/service due to the financial burden (Roesler, Hollmann, & Naguib, 2014). Both instances imply problems of access and of equity, which international private businesses could tackle using experiences in alternative distribution and supply channels from other countries, or using their foreign investment leverage to encourage the government to develop the required infrastructure.

Traditional approaches to market growth have proven unsustainable; this is particularly evident in light of recent global economic crises, which have led to repercussions across the world. It has become increasingly apparent that for growth to be sustainable it has to include the different socioeconomic strata of a country or economy. The poor constitute the vast majority of growth markets, like Egypt, and have remained the very same majority whose needs and demands have not been addressed.

2. A Closer Look at Egypt

While Egypt boasted unprecedentedly high economic growth rates between 2005 and 2010, there were increasing rates of income inequality and barely any trickle down effects. In the years following the January 25th, 2011 revolution, the Egyptian economy showed resilience and with growth rates ranging between 1.8 percent in 2010/2011 to 2.2 percent in 2013/2014, according to GAFI.

Having achieved improved rankings in Doing Business and in having taken various steps in the improvement of its investment climate, most growth achieved by the Egyptian economy was mainly reflected in macroeconomic indicators, whereas on the micro level, income disparities increased, accompanied by a decreased purchasing power due to inflation.

After the revolution took place, most big companies experienced problems with production and finances amidst disrupted security, aggravated workers and constant protests. However, due to a high level of informality in the Egyptian economy, economic growth and activity did not stop. Such economic instability drove more and more companies towards more innovative models and the search for new ways of doing business. With the importance of the informal economy further highlighted, the collective purchasing power of the BOP became even more apparent to the private sector. In addition, a growing momentum to "do something" that would benefit the society has given rise to a new wave of social entrepreneurship in Egypt.

2.1. Missed Opportunities

The relevance and importance of inclusive market growth is highlighted when addressing socioeconomic and developmental issues, but it is also of relevance when it comes to filling a market gap. Given that almost 20 million people in Egypt live at the lowest base of the pyramid, there is a market gap largely untapped by the private sector. Companies barely address BOP market needs by producing specifically to meet their demands (without forgoing quality) which, in itself, is a motive to innovate. This becomes especially evident given the fact that most of the poor living in Egypt are concentrated in rural areas, often experiencing the previously mentioned poverty penalty on consumer costs due to higher transportation costs. Regardless of sector, the market for the socioeconomically under-privileged remains a largely untapped market in Egypt, yet businesses remain reluctant to address the needs of such a large market due to the perception that it is a great risk.

The government has an important role to play in fostering growth at the BOP. The GOE can encourage investment by offering incentives packages to those businesses that address developmental challenges in Egypt and target the BOP. In order to encourage inclusive market growth, the government should ensure an appropriate regulatory framework, recognize the efforts of those who actually address the needs of the poor, and finally, adopt inclusive procurement measures in their own practices.

When looking at government incentives packages for investors and priority sectors and projects, it becomes apparent that inclusive market growth is not on the GOE's agenda as evidently or prominently as expected. The priority sectors as listed on GAFI's official website are as follows (GAFI, 2014):

- **Healthcare:** despite the healthcare plan for the year 2013/2014 prioritizing the development of the health insurance system and a nationwide health fund, the investment opportunity advertised by GAFI was for a "medical city" in Alexandria, located behind the biggest hypermarket in the governorate. There was no opportunity presented addressing the lack of penetration when it comes to health care and the lack of access when it comes to the poor – or how that presents an opportunity. All success stories presented were those of private hospitals.
- **Renewable Energy:** In 2014, the GOE issued the feed in tariff law to encourage investments in renewable energy; especially solar and wind energy. Several other laws and investment schemes were put in place to facilitate such investments and solve the issue of electricity in Egypt. To this day, a large number of communities remain off-grid, with few companies offering solutions to these communities. Furthermore, there are many business models that depend on private companies to provide energy for low-income communities that are yet to be used in Egypt, despite their success in Africa.
- **Education:** The GOE guarantees universal education at all levels, however, the quality of education received is very low at the different stages, especially in public schools across the country. Success stories presented by GAFI in their sector profile mainly consist of private universities that are not remotely affordable to those at the BOP. The problem with education in Egypt has become one of not only access but also equity resulting in not only cyclical low quality education but also cyclical poverty. No mention of the opportunity that lies at the BOP was made in investment opportunities presented by the government.
- **Real Estate:** Egypt has a multitude of infrastructural problems and a very large number of people living in informal settlements, if not completely homeless. Affordable housing is among the most untapped markets in Egypt. However, GOE efforts are insufficient, and there are few incentives for investors to address the needs of the market.
- **Tourism:** Tourism is typically a sector with a highly interconnected value chain. Egypt has long been a popular tourist destination that mainly attracted low budget sun, sand and sea tourists; Egypt is rich in heritage and has a highly diverse ecosystem and landscape. Hence, Egypt could become an ecotourism destination; and one where mutual benefit is achieved by the tourist and throughout the value chain. "Destination: Mutual Benefit" highlights seven fields where tourism could be more inclusive which include crafts, food and beverage, construction, and transportation. (Tewes-Grادل, van Gaalen, & Pirzer, 2014)
- **Agribusiness:** despite being a sector where a large number of the population works, and one which features a high potential for inclusive market growth, the GOE is yet to cater to the BOP in this field. The sector is especially important as so many people's livelihoods depend on it and hence, there is room for innovation and creativity – the sector also feeds into the tourism, renewable energy and hospitality sectors.

- **Financial Services:** Egypt is home to “Nilex” the “small business” stock exchange, which was established in 2007. This has not facilitated access to finance for small and medium enterprises which banks view as high risk – the same would apply for more innovative endeavors in order to address BOP market needs.
- **Other Sectors:** Pharmaceuticals, petrochemicals, textile, logistics and transport, retail and finally IT.

The Ministry of Supply and Internal Trade has been looking at BOP needs in terms of subsidized goods. Ministry efforts seek to increase the number of available subsidized goods, to reach more than 100 products. The Ministry is also exploring the use of “consume cooperatives” as a way to fulfill market demand and cover consumer needs. “Subsidized goods kiosks” are an extra selling point that the Ministry will develop in a way that allows the owners to have a margin of profit. Developing the logistical infrastructure as well as proper supply chain management are among the key mechanisms to fulfill local economy needs. According to the Ministry’s strategy, these efforts would also help to create up to four million employment opportunities. Other governmental initiatives include the implementation of a composting mechanism to recycle household organic waste, coupled with consumer education on the reuse of cooking oil as fuel, nationwide. This initiative is designed to reduce expenses, while also acting as a potential source of income.

The GOE seeks to limit wholesalers’ monopolistic behavior, which has contributed to a drastic increase in the price of food products, specifically fruits, vegetables and meat. To correct this, the Ministry of Supply and Internal Trade developed a strategy to set up different sized selling points while offering funding opportunities for young people through the SFD. This would increase the range of competitively priced, good quality goods available to consumers at the BOP.

3. Inclusive Business Models and Social Entrepreneurship

3.1. Inclusive Business Models

There is growing recognition that the sustainability and quality of economic growth is heavily dependent on the equity of such growth. Economic growth will not be sustained if it does not create jobs and income for low-income households. Furthermore, including small businesses in the value chains and networks of bigger corporations and using sound business practices, can lead to an overall increase in both levels of productivity and incomes (Nelson, Ishikawa, & Geaneotes, 2009).

By definition, an inclusive business model has to be commercially viable, has to be scalable and has to “expand access to goods, services and income generating opportunities to people living at the base of the pyramid.” People at the BOP have limited access to a diverse array of products and services, including clean water, electricity, education, and healthcare. These gaps represent profitable opportunities for the private sector to leverage innovation and propose non-traditional solutions to address current market failures (Jenkins, Ishikawa, Geaneotes, Baptista, & Masouka, 2011).

3.2. Social Entrepreneurship in Egypt

Social entrepreneurship, like any other profit seeking business aims to tackle a market failure, except that in the case of a social enterprise, the definition of market failure extends from that of pricing or quality to that of market externality and access and equity as well. (El Ebrashi, 2013). According to a Brookings Institution report, Egypt is home to the largest number of social entrepreneurs in the Middle East (Buckner, Beges, & Khatib, 2012). This rise in the number of newly established social enterprises is despite the difficulties faced when establishing and registering their companies due to their special nature. Social enterprises, in general, create value in a very multidimensional manner, and the Egyptian business community has finally come to realize that social enterprises are not charities; they have sustainable business models, are profitable and scalable, yet deliver social value.

Given high youth unemployment rates in Egypt in recent years, 24.8 percent among those aged between 15 and 24, young (social) entrepreneurs have tended to establish their own businesses, seeking alternatives to traditional employment opportunities. The labour market has not managed to grow at a fast enough rate to accommodate the increasing number of job seekers on the one hand, while on the other hand, manifestations of market failure have become both distressing, and critical.

Job creation is high on the GOE agenda, as well as that of donor organizations and agencies. There is a large number of newly established social enterprises and businesses with a growth agenda in mind, yet the environment and ecosystem is yet to fully respond to that change in addressing market failures and socioeconomic needs. As opposed to NGOs and philanthropic organizations or foundations, social enterprises are profit-seeking businesses that aim to fill a market gap or failure in their revenue generation, and hence, survival. Financial institutions, investors and government agencies have yet to fully differentiate between the two modes of operation. This creates a number of barriers which social enterprises must surmount in order to grow, scale, survive, and reach their desired impact.

The Egyptian ecosystem still views social enterprises as a mix between philanthropy and business and not as an independently existing model. This has led to an insufficient flow of capital – mainly financial – towards social enterprises and inclusive businesses. Banks and other financial institutions are yet to define alternatives to traditional collaterals to fit the needs and size of emerging social enterprises, while viability and bankability definitions also need to be tailored to businesses with an embedded social agenda as a revenue stream. Otherwise, emerging social and inclusive enterprises remain less bankable due to a much longer return on investment.

Predominantly, two types of social enterprises exist in Egypt: a) those that tackle a social challenge of access; whether access to electricity, health and services typically known to be provided by the government (in a welfare state); and b) those that tackle an issue of agency or limited bargaining power of individuals at the BOP. A good example of an enterprise that has managed to scale and succeed is KarmSolar, a private company that started by developing off-grid solar energy solutions for marginalized communities. As for a company that managed to tackle the issue of limited bargaining power for both businesses and individuals at the base of the pyramid, Tatweer, is a company that aims to utilize typically underutilized trade channels by establishing a network of kiosks. Generating revenue through advertising space, the company works on improving the kiosk-owner autonomy and bargaining power by improving relations with companies and the government, and providing better financial management.

3.3. Existing Efforts

Social entrepreneurship can simply be defined as running a business that drives social innovation; addressing a certain developmental or economic constraint/problem while seeking and generating profit, rather than being purely focused on financial gains alone. A social business or enterprise should be both economically and financially viable. A socioeconomic agenda is present while seizing economic and financial opportunities by creating innovative processes to fill a market gap. Social entrepreneurs or champions of social entrepreneurship and innovation within bigger structures in conglomerates, holding companies and multinationals, relentlessly focus on producing practical results that can change the world for the better.

Social enterprises have the ability capitalize on a relatively skilled youth bulge that is the main resource available to Egypt and the region. The main driver for inclusive business growth in general is an increased sense of social commitment expressed by a growing youth population. What remains a critical defining factor at this point is the ease of doing business, access to finance and an accommodating environment that is accepting of new forms of doing business.

3.4. Challenges for Inclusive Business Models:

Despite the fact that inclusive business models are profitable, pro-poor and help solve developmental challenges, a number of challenges exist in Egypt that prevent this approach from becoming more mainstream. These challenges can be summarized as follows:

- Social enterprises face problems when it comes to defining their business model, which then makes it difficult to acquire finance.
- Some social enterprises register as NGOs at inception, in order to avoid the issue of taxation. This makes them subject to restrictive legislation. Addressing the needs of social enterprises and inclusive business models could solve this problem. The GOE needs to develop more flexible structures and definitions when it comes to setting up a small-scale business.
- There is an absence of trust between different actors and supporting structures, including the government, private sector, NGOs and the general public. Given a record of lack of transparency and corruption in the private sector, social entrepreneurship provides an opportunity for the private sector to rehabilitate its public image.

- The post-revolution financial situation in Egypt can be considered a challenge for inclusive businesses. In the current climate, financial institutions are more reluctant to finance “non-traditional” projects, especially social enterprises, given their slower rate of return.
- A considerably monopolized BOP market where big companies have access to distribution channels and can benefit from economies of location and scale, makes it harder for smaller scale companies to competitively tap into the BOP market despite being able to provide goods and services at a lower price compared to large-scale companies. It is a common occurrence that companies often provide lower quality goods at higher prices for those in rural and Upper Egyptian governorates.

4. Best Practice Examples:

Several business ventures have been implemented using socially responsible and inclusive business models, including from financial institutions such as the Commercial International Bank (CIB), to large companies such as Mansour Group that launched “Kheir Zaman” a nationwide super market chain that targets lower-income consumers.

It is worth mentioning that CIB’s their business banking initiative has allowed the bank to meet the financial needs of retailers with an annual sales turnover that is below EGP 60 million. The initiative has a market penetration of over 6,000 companies, and relies on utilizing existing relationships along the buyers’ supply chain. From the bank’s perspective, credit risk is moderated and arbitrage is achieved by securing undertakings from “buyers” which in this case is large companies that have a higher credit rating than their smaller-sized suppliers. From a company perspective, this allows companies to have access to finance, secure their working capital, and create a more predictable cash flow.

The following examples are all of Egyptian small-scale ventures that are essentially social businesses, since, for the purpose of this chapter, we would like to bring attention to smaller-scale, impactful success stories.

4.1. Baladini Kitchen Incubator

Baladini is a kitchen incubator located in the rural village of Abo el Sir, near Sakkara. The kitchen incubator focuses on women as their main target group and is part of the Nawayya social enterprise. Since the spring of 2014, Baladini has worked on the creation of a virtuous hub of inclusive food-based businesses in the Sakkara area with the end goal of improving the quality of life of local rural communities, and fostering healthy, nutritional practices for women and their families.

While exchanging traditional recipes and practices with local women, Baladini began to simultaneously measure the willingness and capabilities to embark on a more formalized communal project. The Baladini team began to pilot the concept of a women’s food cooperative using the development, production, and sale of fresh pasta. The product was selected during wheat season, when there was an abundance of the raw materials needed for pasta production among the local farmers. The products were tested and sold in farmer’s markets. Later on, couscous was piloted and introduced to the product range offered by Baladini. Recipe exchanges between the women gave rise to recipe hybrids between Italian and traditional Egyptian cuisines using local ingredients: including egg pasta, tortellini pasta stuffed with a variety of homemade cheeses from Sakkara, couscous, beef and vegetable lasagnas, and pizza, pesto, and tomato sauce. Income for the business is generated by selling products at local markets, individual sales, in addition to sustainably catering corporate events.

Building on the women’s excitement around food-based economic opportunities, as well as dialogues around traditions and female challenges, Baladini envisions the development of a platform that can support women in the development, testing, and launch of inclusive food-based ventures. The Baladini business model is fashioned after the “kitchen incubator” business model. A kitchen incubator allows entrepreneurs to prepare food in a shared equipped kitchen. This provides women with an opportunity to prepare food in a commercially equipped and hygienic kitchen and sell it to the public. Baladini also incorporates a training aspect, raising women’s awareness on issues related to nutrition, food safety and business management skills. In a rural Egyptian context, one of the most important success factors is the fact that the kitchen is located within the community.

Women are an integral part of a healthy population; as mothers and wives, they are responsible for their children's and husbands health. In raising nutritional awareness among the women of Abo Sir, and creating an income generating stream for them through something that they do in their day to day lives – cooking – without having to leave their homes, Baladini has managed to find a culturally responsive and sensitive way to address issues of both poverty and health in their community. It is important to note that poor health and malnutrition are major and recurrent causes of cyclical poverty.

4.2. NatureTex: Outsourcing Production

NatureTex, a subsidiary of SEKEM Holding, is a high quality producer of colorful baby and children's wear, dolls, toys, home textiles, and fabrics made from organic Egyptian cotton. The factory competes successfully in the international market for organically produced textiles through the production of beautiful and high quality products from Egypt.

The factory typically employs a large number of women, but features a high turnover rate among these young women. This, in turn, has incurred extra costs for the factory in terms of training and recruitment. Management carried out an investigation in order to identify the factors that lead young women to leave their jobs, and also to find ways of increasing profits. The results of the participatory analysis showed that young women join the factory, are well trained to provide high quality work until they are about to get married. Once married, women leave their jobs. In rural Sharkeya, it was expected of unmarried women to leave their jobs once married in order to become fulltime housewives. This resulted in not having enough women in leadership positions, as women did not stay long enough to gain the necessary experience to be promoted.

NatureTex worked with their former employees to achieve a work-life balance while capitalizing on the skills they gained on the job. This was done through outsourcing production to external workshops. There are two different kinds and sizes of workshops: the doll making workshops where raw materials and equipment are sent for women to make dolls and send back to the factory; and bigger workshops to which raw materials are sent to produce garments. The doll making workshops were mainly women-only workshops, while the garment making ones were more formal and mainly businesses that took orders from NatureTex. Family-owned workshops allowed women to bring their children with them and get lunch breaks to go home and prepare lunch for their families.

4.3. Smart Care for Medical Services; Social innovation in the Health Sector

The healthcare sector in Egypt is a challenging and complicated one, particularly with reference to the number of people who have access to medical information and networks. Egypt has a national health insurance system that, in theory, gives free access to medical and health services to all. However, there are very few people who have access to these services due to a mismatch of information and paperwork between the Ministry of Health and the Ministry of Finance. As a result, around 50 percent of people are in real terms uninsured, and end up spending a larger portion of their disposable income for low quality health services. This has resulted in a socioeconomic divide when it comes to access to healthcare: one between those few who can afford to use good quality private healthcare, and those who have little or no physicians and doctors in their networks and end up with little to no knowledge and access.

Founded in 2009 as a joint company, Smart Care aims to design, implement and manage medical programs for clients of different needs. Having identified a market gap where healthcare services are rarely extended to employees in small companies or those who are subject to occupational hazards, Smart Care identified its B2B services. Through the provision of innovative products, the company offers its clients customized high value and low cost health care plans with a wide network of hospitals and clinics. Despite extending services to often marginalized individuals, the company is keen on offering them a high quality service. The company hotline works not only as a customer support provider but also works on educating individuals about the plan and offering advice on which service provider to go to. Additionally, clients are given health insurance cards.

Occupational health programs are designed to screen and identify potential hazards for uninsured workers operating machinery in the industrial field, in order to carry out thorough on-site assessments. The program aims to ensure both job safety and worker health.

Using the network created and infrastructure in place for extending services to business clients, Smart Care designed a program tailored to informally employed individuals, through the medical card “Sehaty”. The card offers holders access to service providers and facilities in private clinics as well as health awareness services. The service is a low cost one where holders are only charged a management fee. This product is designed to extend services to BOP clients who are often informally employed, paid daily and have no access to useful networks when it comes to health care and provision. A typical challenge that faces the company in extending its services to those who need it most is that of access. And hence, Smart Care aims to do so through community partnerships.

Finally, Smart Care for medical services offers three foundations and religious charities the opportunity to manage its charity funds and instead of labeling the patient as a “charity patient” when referred through networks, the funds are managed in-house and impoverished patients are issued referrals.

4.4. Government Efforts to Promote Inclusive Business: Creative Egypt

Creative Egypt is the first registered trademark for Egyptian handicraft products. It is an integrated hub established to preserve the traditional Egyptian lifestyle by innovatively integrating Egyptian ethnic designs into modern products. Creative Egypt promotes these designs through a shopping and entertainment atmosphere that transfers cultural knowledge. Ultimately, the flagship shop located at one of the branches of Omar Effendi in Cairo, aims to promote both Egyptian heritage and sustainable development by sourcing high quality handicrafts from Egyptian artisans throughout Egypt and facilitating market access to their products, which present a fusion of traditional motifs with contemporary lifestyles.

The hub combines around 8,500 handicraft products representing a group of leading Egyptian designers and entrepreneurs from 45 creative clusters and governorates; providing income for more than 16,700 beneficiaries, 15,000 Egyptian artisans and 115 displaying participants. The hub envisions further supporting the Egyptian handicraft sector to facilitate access to domestic and international markets. Creative Egypt displays a wide variety of products ranging from handmade carpets and textiles (such as Akhmim and Tally textiles) to mouth-blown recycled glass products.

The model is inclusive in the sense that it involves (often) marginalized artisans as producers. Creative Egypt helps artisans through the provision of know-how, skills development and market intelligence in order to help them grow and survive in a highly competitive market. Furthermore, the hub offers marketing, design and conceptualization support. The core principal is to provide artisans with the opportunity to assume a proactive role in the value chain and to enhance their involvement in the design process, quality control and marketing of their products, while acting as a link between those artisans and their different markets.

5. Conclusion and Policy Recommendations

The general policy framework in Egypt is designed to attract large investments. Government structures such as GAFI mainly offer incentive packages to large investors and see FDI as a main source of income and a support to the economy. Even for large investors, lengthy bureaucratic procedures act as a hindrance to setting up and operating their companies. Taking taxes as an example, a common grievance among smaller-sized companies is the fact that they are subject to the same tax law that applies to their larger counterparts. While on the one hand, “donating” to social causes or engaging in corporate social responsibility activities might render big companies eligible for tax breaks, companies with a responsible and inclusive mandate and business model may not be able to access such breaks despite their impact.

It would be of benefit to look at success stories in other countries that have managed to base their economic success and strength on small and medium sized companies such as the German business model.

5.1. Retail Distribution Channels and Infrastructure

BOP households tend to make small and frequent purchases rather than one time bulk purchases. Their purchases are often made from small-scale kiosks with no space for efficient storage and inventory and limited cash flow. There are two faces to this problem: 1) on the supplier level it is limited space and working capital; and 2) on the consumer level it is limited income. Large companies and finance institutions have a large role in solving this problem. Companies should utilize their economies of scale and leverage to develop alternatives to traditional distribution channels, as well as tailored products to individuals at the BOP.

5.2. Procurement

The BOP could also be integrated at an earlier stage in the value chain. Producers, especially in the agricultural sector, can explore alternative means to source inputs for production. Specifically in rural contexts, where most are engaged in agriculture for income generation, aggregation could be used to collect – through setting up collection centers – small volumes produced by individual farmers. Danone successfully used such a model for milk collection at the farmer level (the case study is provided in Chapter Six). This model can be replicated with other products such as herbs, fruits and vegetables. However, in order for this type of model to succeed, FMCG companies need to invest in producer awareness on quality standards and to, potentially, provide training and hire quality assurance employees from the community.

5.3. Financial Solutions

Post-2011 Egypt has, at large, lacked in political predictability, leaving both banks and large investors even more risk averse. In recent years, alternatives to traditional sources of finance have become more common. Models such as crowd-funding and angel investing are becoming more available in the Egyptian market. However, one main barrier to such innovative means of financing is the lack of governing laws and regulations which leads crowd funding platforms to sometimes resort to bank transfers in order to raise the required capital.

Access to credit is, by default, limited for those at the BOP, limiting their chances at social and economic mobility. On the business-to-business level, a good model to follow is that of “experience-based customer credit” which is the model followed by CIB when it comes to lending to smaller businesses. However, access remains limited to individuals who want to start their own companies, given their limited accessibility to social capital and credit history. In order to extend financial services to the BOP, capacity building is needed on both the financial sector level and on BOP market needs where models need to be specifically tailored to needs. Credit solutions could include short-term loans or overdrafts capitalizing on already existing networks of selling utility services and consumer goods. Yet, the challenge would remain one of risk, where banks need to devise new means of risk management when it comes to micro-lending.

On the other hand, financial institutions need to diversify their products to adjust to the needs of inclusive business models, ones that are typically slower at realizing their rate of return. One alternative is looking for positive behavior rather than negative behavior when assessing financial credibility and creditworthiness, as mentioned in the IFC’s “Accelerating Inclusive Business Opportunities” where a Brazilian example has successfully used this approach to credit rating (Jenkins, Ishikawa, Geaneotes, Baptista, & Masouka, 2011).

5.4. Education and Awareness

There remains a general lack of awareness and understanding on the part of the GOE and the general public regarding social entrepreneurship, and responsible and inclusive business. This represents a challenge for the limited number of business ventures that first movers have decided to embark on. While there has been some improvement, limited knowledge of such business models continues to act as a barrier to entry.

On the other hand, (aspiring) social entrepreneurs tend to be lacking in the level of financial literacy required to maintain their enterprises. Both banks and investors look for sound financial information, and economic and financial viability when making a decision to invest. It is safe to assume that more financial knowledge could leave social enterprises more “bankable”, by developing financially sound business plans and models, for example.

5.5 Eliminating the Stigma of Blue-Collar Jobs

Several actors have invested in developing technical and vocational education in Egypt. Through partnerships with the government, curricula have been developed in order to meet market needs. Yet, most young people in Egypt would rather do a desk job that is less productive and profitable than resorting to an often less secure blue-collar job. A problem of work ethics and discipline also exists when it comes to blue-collar workers, and modules on work ethics need to be incorporated in curricula at technical schools. Companies such as Polaris Industrial Parks have started investing in such an initiative by setting up the Work Ethics Foundation (WEF) and developing modules on work ethics to be delivered to workers in factories in various sectors. Such a mechanism has proven to also improve loyalty and productivity where workers have seen it as their employers investing in them. Much has been done on the education front, but more needs to be done on formalization of blue-collar jobs in order to guarantee job and income security for those who are willing to take these jobs.

5.6. Policy Framework

The Egyptian government typically focuses all its efforts on attracting foreign direct investment – typically large companies – in order to achieve economic growth. Incentive packages, mega projects and tax breaks are tailored to large and foreign companies. Yet, it would be of greater benefit to engage in dialogue in order to identify the needs of smaller actors and find ways to move beyond regulatory constraints. The government needs to capitalize on the advantage of being flexible and responsive to consumer needs that smaller companies possess over bigger ones. Should the government succeed in increasing the volume of small and medium enterprises, it will, in the long run, be able to achieve its employment generation agenda. Social impact should be given the same importance as economic impact, especially that, for the few years before the revolution, high economic growth rates were achieved with hopes for a trickledown effect that never really “naturally” happened.

A policy dialogue could help the government in devising the relevant mechanisms, laws and regulations that would enable social entrepreneurs and individuals embarking on starting their inclusive business. It could act as a way of strengthening young entrepreneurs’ trust in the government while also raising awareness of government processes, particularly since processes can become even lengthier due to an awareness issue on the business owner side.

The GOE needs an overarching policy framework that is conducive to the establishment, growth and operation of private sector companies that may not be large in terms of investment but are definitely large in terms of (social) impact. For that to be successful, entities that companies need to deal with should be defined with as little overlapping in roles as possible.



6

CHAPTER

CREATIVE SOLUTIONS AND CHANGING REALITIES: CORPORATE ENTREPRENEURSHIP RESPONSIBILITY

By Fadi Ghandour

1. The Regional Context

Unemployment and poverty are the most disconcerting challenges that have plagued Arab societies for decades. Most countries in the Arab region have depended upon the efforts of governments in addressing their own economic and social problems. Such solutions have not only proven ineffective, but have also overburdened governments to a point of paralysis in some cases. This old paradigm of development is slowly changing, and this change is both necessary and unavoidable. The challenges facing the region cannot be addressed using the same failed formulas while expecting a different outcome. The days where citizens, communities and companies waited for governments to drive change and legislate on behalf of societies are no longer tenable. Today, development is being democratized. Citizens now have access to an astounding array of information and are embracing new technologies to connect with like-minded people and mobilize around what matters to them the most. This has created a wave of grass-roots movements of change and empowerment where individuals and communities are taking ownership of their problems and building their own solutions.

Egypt has been undergoing a major political and social transition. More than four years after the January 25th revolution, many Egyptians, especially youth, women and the population living in underserved geographical areas, are still waiting to gain broader access to the economic opportunities of a new era, with its promise of inclusive growth and employment. For Egyptians to bring about the change they aspire to, a fundamental change in their approach to development is required; one that goes beyond outdated traditional models. A new model is required, established upon strategic partnerships between the government, the private sector, civil society and local communities, where each party can leverage its resources, capabilities and expertise to develop creative solutions and change realities on the ground. Furthermore, the private sector can no longer continue its alienation from the frustrations of the communities it serves, keeping itself and its vast resources outside the development process. By employing its skills, capital and innovative can-do mindset, the private sector can step up and play a key role in the process of development by focusing on job creation and entrepreneurship. Moreover, in an economy where the state has traditionally had an outsized presence and where the need to encourage entrepreneurship is thus perhaps even more urgent than in other countries, there is a need for policies and rules that facilitate rather than impede private sector activity.

2. CER Solutions

In order for the private sector to fulfill its role in the development process, companies need to move beyond CSR and embrace corporate entrepreneurship responsibility (CER). CER is the framework to lobby, mobilize and organize the private sector to lead on action in promoting the well-being of our societies through entrepreneurship, corporate activism and cross-sectorial partnerships. Through CER, the private sector can help in nurturing healthy entrepreneurial ecosystems; and these ecosystems would be the bedrock of the sector's developmental strategies and the nexus around which new public-private partnerships would pivot. CER can create an entrepreneurial movement for change and empowerment.

Creating good jobs and economic opportunities is perhaps the most daunting challenge facing our region today. The Middle East and North Africa region (MENA) has the highest unemployment rate in the world. According to Gallup's 2012 Payroll to Population survey, 56 percent of Arabs are out of the workforce. Egypt has one of the highest rates of youth unemployment among Arab countries, recorded at 38.9 percent in 2014, according to the International Labour Organization (ILO).

Entrepreneurship provides powerful solutions to unemployment. A World Bank report analyzing 99 countries showed that the biggest contributors to job creation are SMEs with fewer than 100 employees. Entrepreneurship can be a very effective tool for the development of our societies. If nurtured and unleashed, it could help address one of the region's hitherto most elusive developmental goals: to craft and sustain a decent life through decent jobs for its citizens. In combating unemployment, entrepreneurship is key. The private sector in Egypt, predominately comprised of micro, small and medium-size enterprises, employs almost three-quarters of the labour force and accounts for 63 percent of the country's GDP. However, small businesses still face many challenges to grow and create jobs. Unless the region's economies nurture healthy startup ecosystems, many businesses will not be able to realize their potential and provide sustainable jobs. As a collaborative movement, CER can mobilize the private sector to play an active role in building regional entrepreneurial ecosystems for the development of economies and societies by focusing on key areas such as education, finance, mentorship, networks, and access to market opportunities.

3. Education

Education is one of the main foundations to building entrepreneurial ecosystems. In the Arab world, outdated and rote educational systems have been the primary cause of the creation of a significant skills gap in its job markets. There are many examples of countries around the world that created successful models of public-private partnerships to drive reforms in this sector. After the Asian financial crisis in 1997, Singapore was able to reinvent its education systems and create a knowledge-based economy by creating strong crosslinks between government, corporations and academia. By introducing new approaches to teaching and learning focused on skills development, innovation, creativity and research, the country's education system has evolved in tandem with the changing economy and competitive market needs. At the school level, reforms in curricula have focused on creative thinking, technical skills training, and using technology as an enabler of new kinds of collaborative learning. Universities have dedicated generous funding for research projects to attract highly skilled scientists and researchers in select fields. Moreover, over one million foreign nationals with scientific, technical or managerial skills have been encouraged to work in Singapore in international corporations to allow the transfer of skills and knowledge.

South Korea is another success story employing private-public partnerships to bridge the youth's skills gap. In 2010, the South Korean government in partnership with the private sector created Meister High Schools. Meisters, meaning masters of trade, are vocational schools that have strong links with companies in specific industries to jointly design educational curricula tailored to the needs of the market, and help their graduates secure jobs. The initiative was created to fill the skills gap in the workforce, diversify education for South Korean students, and change society's negative perception of vocational education.

Nurturing an entrepreneurial mindset and soft skills focused on leadership, critical thinking and teamwork is as important as developing technical capacities. Investing in and collaborating with educational organizations that provide entrepreneurship education is crucial for transferring knowledge and building the skills of our youth. Injaz Egypt is an example of a private sector led non-profit organization that works on harnessing entrepreneurial skills among Arab youth in schools and universities through training and education. Since its establishment in 2003, Injaz Egypt has reached out to 500,000 Egyptian students. In 2014 alone, Injaz Egypt reached 100,000 students through its competitions and training programs. Injaz has leveraged the support and partnership of 24 private companies to date. One of Injaz Egypt's most unique initiatives is San3ety "My Vocation," a competition that provides entrepreneurs who are currently attending technical and vocational education institutes with training, seed funding and mentorship.

Another significant initiative is Education for Employment Egypt (EFE); a public-private partnership model that connects diverse stakeholders to bring youth closer to the job market. EFE creates training programs for areas of the economy that offer strong growth potential and opportunities but currently lack suitably qualified personnel. To date, Over 1,000 young men and women have graduated from its programs and 83 percent of graduates have been placed in a full-time job. According to a study conducted by the World Economic Forum in 2011, fewer than 10 percent of universities in the region offered entrepreneurial courses and only 17 universities had entrepreneurship centers. Entrepreneurship education and thinking is still nascent in the region, yet universities and businesses can play a big part to change that. Businesses can partner with universities to commercialize R&D, provide startup internship and job-shadowing opportunities as well as help publish research and case studies that showcase entrepreneurial success stories.

In Egypt, entrepreneurship specializations were recently introduced at the graduate and undergraduate levels at the American University in Cairo. Alexandria University also recently launched an Innovation and Environment Entrepreneurship Graduate Program. While entrepreneurship education efforts are not commonly institutionalized within universities' academic structure, some awareness efforts do exist. For example, student-run club Enactus Egypt encourages students to apply entrepreneurship principles to community development. Enactus Egypt is currently active across 30 Egyptian public and private universities.

Another noteworthy effort is InnovEgypt that was spearheaded by the Technology Innovation and Entrepreneurship Center (TIEC), an entity affiliated to the Ministry of Communication and Information Technology. InnovEgypt engages university students in innovation and entrepreneurship education and training programs, it operates across 14 different Egyptian universities. In 2015, TIED launched "Egypt Innovate" an online innovation hub for Egypt, aimed at exposing Egypt's innovators locally and globally, connecting nodes and building collaborative communities of Egypt's innovation and entrepreneurship ecosystem. It also aims at educating innovators, startups and businesses about technology and innovation management.

Some Technology, Innovation and Commercialization Offices (TICO) exist at public universities such as Cairo University and private universities such as Nile University. TICOs focus on bridging the gap between academia and industry or markets. Centers host entrepreneurship competitions, winners of which receive mentorship and technical support (such as prototyping). Yet, in the absence of meaningful partnerships with the private sector, the progress of such commercialization and technology transfer endeavors will be slow.

The private sector can collaborate with the government to establish Education Councils, where they can work together on curriculum design and development (including entrepreneurial skills and financial literacy) and teacher training on new curricula by giving them access to the corporate world, including internships for teachers, trainers, and so forth. Corporations can also help establish university entrepreneurship centers and startup incubators, such as the AUC's Venture Lab and Alexandria University's Grants, Innovation and Technology Transfer Center's Entrepreneurship Office, to support startup founders.

4. Access to Finance

There is a lack of sufficient funding for enterprises in the MENA region. Only 20 percent of the region's SMEs have a loan or line of credit and the average share of SME lending on total loans is only eight percent. In Egypt, the estimated SME credit gap is around USD 1.05 billion. A recent survey conducted by Wamda Research Lab (WRL) revealed that around 78 percent of entrepreneurs in the region have used their personal savings at least partially to finance their ventures, and almost half of them resorted to family and friends for support. On the other hand, only 24 percent of companies have received angel funding and a smaller percentage is venture capital funded. Of the businesses that received funding between 2009 and 2012, only 21 percent raised more than USD 500,000. In Egypt, the median funding range was under USD 200,000.

Countries like Lebanon have introduced innovative financing programs for SMEs through public-private partnerships. Kafalat, for example, is a Lebanese financial-services company that partners with the Central Bank of Lebanon to provide loan guarantees that help SMEs access financing from commercial banks. The Central Bank of Lebanon has also recently allocated USD 400 million to guarantee up to 75 percent of Lebanese banks' equity investments in SMEs, incubators, accelerators and funds. Similarly, in Finland, the government has established Finnvera, a state-owned company that offers early stage and growth enterprises with loans, guarantees and access to venture capital funding. The company has committed EUR 13.8 billion for funding and served 28,800 businesses to date. Finnvera has also created a fund of funds where it invests and partners with venture capital funds across the country. In Egypt, a few SME-focused lending opportunities exist. The Alexandria Business Association (ABA) for example runs a nation-wide SME credit program. Some banks also offer SMEs specific loan programs including the National Bank of Egypt (NBE), the United Bank, AlexBank and Banque Misr's (BM) Mashrouy; and the Arab African International Bank's previously mentioned Mostadam platform (case study provided in Chapter Two). Bank lending, however, continues to be an unfeasible option for the majority of SMEs given the unrealistic collateral and guarantee requirements, and due to high interest rates.

The insufficiency of venture investments is a major obstacle to growth for the region's entrepreneurs. However, startup financing is on the rise with regional funding opportunities that are accessible to Egyptian entrepreneurs, such as the recently launched Wamda Capital that will invest in early and growth stage technology and technology-enabled companies in MENA; focusing mainly on Jordan, Egypt, Lebanon and the GCC countries. Another important one is Leap Ventures, aiming to bridge the series B gap in the digital and technology sectors. There are other funds that are filling the financing gap, including Oasis500, MENA Venture Investments, DASH Ventures, BECO Capital and Middle East Venture Partners (MEVP). WRL findings indicate that startup funding sources from 2008 to 2013 more than doubled. In Egypt, private money is mobilized with active angel investor networks such as Cairo Angels; the network has invested in eight entrepreneurs to date. Moreover, Sawari Ventures has launched Flat6Labs in Cairo in 2011 to provide seed funding and incubation for entrepreneurs; and Flat6Labs Cairo has supported 46 Egyptian entrepreneurs to date. Other incubation and acceleration efforts include Sustalncubator, Innoventures and Juicelabs.

Venture capital funds such as Ideavelopers are also active in providing growth funding along with other corporate venture capital funds such as Vodafone Ventures. Investment efforts that specifically focus on social entrepreneurs include Delta Inspire's 138 Pyramids, Misr El-Kheir's Governorate Economic and Social Revival (GESR), and Ahead of the Curve's Entrepreneurship with Impact Ventures (EWIV). Alternative funding models are also emerging, including Shekra, a Sharia compliant crowd-investing platform; Yomken, an online crowd-funding platform; and Tennra, a gamified crowd-funding platform. Most recently, the SFD has partnered with the World Bank to launch a Venture Capital Fund.

5. Access to Markets

Deepening presence in the GCC market is a top priority for company founders, yet restrictions on foreign ownership and set up costs both represent hurdles to expansion. According to a WRL study, 78 percent of entrepreneurs surveyed, mainly in Egypt, Jordan and Lebanon, want to expand in Saudi Arabia and the UAE within the next 2 years; 47 percent of entrepreneurs and 50 percent of experts cited finding partners to facilitate expansion as a top challenge, and 39 percent of entrepreneurs mentioned the high costs of setting up as another impediment. The physical and regulatory infrastructures of some countries in the region pose a major challenge for SMEs to launch and grow. In the World Bank's *Ease of Doing Business Report* for 2014, Egypt was ranked at 128. This is below the average ranking for MENA, which is at 104. Reasons behind the lag include challenges with taxation, contract enforcement, and the fact that personal connections play a significant role in the ease of doing business thus creating an entry barrier for young people who are not well-connected.

Having clearer, more transparent and consistent business regulations related to incorporation, insolvency, bankruptcy, taxation and access to credit can create a healthy and competitive private sector that creates the right incentives and opportunities for entrepreneurs and investors. Similarly, having a robust physical infrastructure is as important as having a healthy regulatory environment. Reliable transportation systems, affordable electricity and utility services, and access to cheap and fast broadband are essential for businesses to grow. Countries like the UAE and Singapore have invested immensely in their physical and regulatory infrastructure to attract companies, capital and talent to develop competitive and open markets.

Free movement of people, goods and capital is an absolute must for startups and SMEs to grow. However, our region's markets, fragmented, overregulated and uncompetitive, offer limited prospects for startups to grow. Arab intra-regional trade is still at 10 percent. Even among gulf countries, intra-GCC trade has not exceeded 10 percent of total nominal trade. This leaves the Arab world's markets with little to no opportunity to grow a robust and competitive private sector. Private companies should lobby for the elimination of protectionist policies and the establishment of custom unions and free-trade agreements by building effective private-public partnerships and constructively employing trade data to craft better solutions.

Furthermore, big corporations can help by setting up procurement guidelines and other policies that encourage their organizations to do business with SMEs and start-ups. Such policies can help established companies by introducing innovative practices to their value chains, expanding their market shares, and bringing life to new products and industries.

6. Access to Networks

Mentorship and access to knowledge and networks is as essential to the entrepreneurs' success as all the other factors explained above. A recent study by WRL indicates that 72 percent of companies that had a mentor received equity investments, while only 44 percent of companies without mentors were successful in securing funding. By partnering and supporting mentoring programs, established companies can help start-up founders develop the skills and industry knowledge they need to thrive. Wamda's Mix N' Mentor, a series of community events held across the region, is one such program. At Mix N' Mentor, promising entrepreneurs get to network and discuss specific start-up challenges with investors and industry experts. Wamda has also partnered with General Electric, one of the leading technology corporations, to enable and support the industrial entrepreneurship movement in the MENA region, where they are planning through this partnership to accelerate and incubate the entrepreneurship ecosystem in the region in the spaces of advanced manufacturing, industrial internet, healthcare, clean technology, oil and gas, and transportation, among many others.

Another remarkable example is Endeavor, a leading global movement that catalyzes long-term economic growth by selecting, mentoring, and accelerating the best high-impact entrepreneurs around the world: entrepreneurs who will drive innovation, produce role models, and maximize wealth and job creation on a local scale. Endeavor supports the growth of its entrepreneurs' companies throughout their business life cycle by developing and providing a comprehensive array of demand-driven services. These services range from a rich mentor network, to strategic advice, and facilitating access to smart capital and more. Since its launch in 2010, Endeavor has partnered with mentors from the private sector, who in turn offered Endeavor entrepreneurs with more than 240 hours of mentorship. Endeavor's network and connections have enabled its entrepreneurs to raise more than USD 1.5 million.

By partnering with such mentorship platforms, companies can engage their employees to transfer expertise and industry best practices to start-ups. In addition to previously mentioned incubation efforts that offer entrepreneurs financial assistance, mentorship, and networking opportunities, the GrEEK Campus was also launched in 2013 as a pure networking and co-working space for startups and now has around 100 companies working and collaborating. Smaller scale co-working spaces and entrepreneurship hubs include icecairo, Al-Maqarr, Qafeer Labs and The District. The Rise Up Egypt Summit is also a noteworthy platform for connecting the Egyptian entrepreneurship ecosystem's players to each other and to regional and international stakeholders. Rise Up's 2014 Summit leveraged the support and partnerships of various private sector companies including PepsiCo, Intel and PwC among others.

Some companies can also leverage their networks and resources to support entrepreneurs through their social investment efforts. For example, PricewaterhouseCoopers Egypt is currently supporting social entrepreneurs that focus on environmental sustainability. Shell Egypt has been supporting entrepreneurs through its Intilaaqah program for the past 10 years. Intilaaqah supports young Egyptians aged between 18 and 32 with training and financial awards, with the objective of enabling them to start their own small businesses. Shell launched the program in 2004 and created a strategic partnership with the British Council in 2006. Intilaaqah has trained 6,500 entrepreneurs to date. The Mansour Group's Foundation (The Mansour Foundation for Development) has been an advocate of social entrepreneurship specifically through supporting research on the topic, as well as training and capacity development efforts that are tailored to the situation of social entrepreneurs. Microsoft Egypt launched an online portal "MasrTa3mal" that offers educational courses about the fundamentals of entrepreneurship and workplace readiness. In partnership with the UNDP, Microsoft Egypt also launched the Social Innovation Hub Initiative in 2015, as part of Microsoft's Aspire Women Programme, to support and empower women entrepreneurs in Egypt.



Company: Microsoft

Start Date: April 2012

Partners: Silatech; Ministry of Youth

Target group: Young graduates, potential entrepreneurs and change makers.

About the Initiative: Masr Ta3mal is Egypt's first employability portal. The portal brings together different resources, opportunities and initiatives for young people, who are eager to learn, grow and perform and who just do not know where to start. Masr Ta3mal connects young graduates to career paths, potential entrepreneurs to mentors, partners and funding and change makers to networks and advice. Also, it provides 24/7 learning for skills and certification.

Targeted Impact:

- Trained 500 trainers in the Information Technology and Communication sector, whom trained 18,500 of Egyptian Youth
- Provided 2500 workshops in 2013
- Organized 7 employment fairs
- Conducted 10 workshops to provide employment services to 3,000 of Egyptian youth
- Established 27 new career advising centers.

Only a few companies capitalize on their supply chains to foster SME growth. Examples include PepsiCo and Danone, which both work with small local producers across rural Egypt to enhance their capacity to supply their large value chains. Such inclusive business efforts that focus on activating the role of SMEs in socioeconomic development continue to be scarce, and are implemented at a small scale. It is not only important for entrepreneurs to connect with local and regional networks, but also to tap into Arab entrepreneurship communities in external markets. In Silicon Valley, the majority of the tech workforce were Asian Americans in 2010 and one third of the companies were launched by Indian Americans. This concentration of a highly-skilled immigrant workforce in high-tech and fast growing markets allows for the transfer of skills to entrepreneurs in their countries of origin, and the exchange of experiences and access to industry know-how, new markets and capital. Organizations such as TechWadi and LebNet aim to connect Silicon Valley to the region and provide Arab startup founders access to networks, mentorship and capital. On the same level, RISE Egypt is a non-profit connects Egyptian social entrepreneurs with an international network of investors, researchers and technical experts.

6.1. Case Study: Danone & CARE Egypt Create New Milk Collection Model

When Danone decided to enter the Egyptian market in 2010, it knew sourcing milk at the quality required for its brand would be a challenge. However, it was anticipated that profits would be massive in such a large market, and more importantly Egypt would be the gateway to a new large African market thanks to Egypt's favorable trade agreements. In Egypt, 85 percent of the milk production comes from smallholder farmers, with the remaining quantities from medium-size industrial farms. Danone realized that in the short term it had to set up its DanFarm with its own sophisticated labs and premium cows. Subsequently, it signed agreements with a few industrial farms. But the real growth would necessitate working with smallholder farmers to get them to improve their production practices and deliver high quality milk to Danone. This falls into Danone's EcoSystem DNA, the mission it undertook to connect itself with the economy of the most vulnerable communities, and this mission has been implemented in several other countries such as Tunisia and Bangladesh. Danone EcoSystem France approached CARE France, then CARE Egypt, to evaluate the feasibility of a project that would build the capacities of smallholder farmers (mostly women) to produce high quality milk for Danone's sourcing; empowering smallholder farmers with the right tools and best practices, and then connecting them with Danone to purchase their milk.

CARE Egypt started by studying a model that had been previously tested, but had proven unsuccessful: Milk Collection Centers (MCC). Problems included corruption issues in the dairy market in Egypt, unfair pricing, milk corruption, and poor management of agricultural cooperatives. Danone and CARE decided to collaborate to create a new model instilling the required structure and values. The first phase took place from 2010 to 2013 and aimed at setting up six MCCs (three in Beni Suef and three in Nubareya) as the hub of services for farmers, and field partners for Danone/CARE. The project started by setting up the MCC and equipping it with two refrigerated milk tanks with a total capacity of 3 tons and a practical milk lab to test the levels of acidity, fat, protein, caseation, anti-biotic and water in the milk, to ensure its high quality with the right percentage of fat and protein and total absence of antibiotic and water.

CARE selected agricultural cooperatives to partner with based on a set of criteria that included a predisposition to operate with good governance, good working performance and good reputation in the community. A series of workshops attended by stakeholders from civil society, grassroots' NGOs, government bodies and relevant farmers were held to build the capacities of the local NGO and the MCC board members in issues of good governance, gender sensitivity, agro-business, and general management; and provide technical acumen and veterinary knowledge such as proper cow hygiene, balanced nutrition, and good milking practices.

Initial results were not promising, with low milk production. However, by adopting a responsive approach that took into account stakeholder concerns and adapted project services accordingly, the curve rose and the MCC started to exceed its projected targets and reached a daily production of 5 tons, by 2013. With the profits made, they purchased a new 2 ton tank to reach a total storage capacity of 5 tons. They also managed to buy a refrigerated truck that would allow them to send Danone 5 tons of milk per trip.

With this amazing success, Danone and CARE decided to launch a new phase aiming at empowering 20 MCCs, expanding geographically to Fayoum, Gharbeya and Daimietta, and partnering new funding bodies such as the Ministry of Agriculture, the SDC and the SFD as well as local private investors. The new phase would start in 2014 and last till 2016.

1. Increase of monthly profit per MCC between to 2,000 to 10,000 EGP
2. Each MCC serves 200-400 women farmers
3. Nearly 3,000 farmers supplying milk to the MCCs
4. Over 130 direct employment opportunities.
5. Create a new dairy market in Beni Suef that did not exist prior to this project
6. The project delivers 15-17 percent of Danone's milk sourcing in Egypt
7. Danone recognized that MCC-collected milk, exceeds by far any family farms, and matches the quality of the industrial farms.
8. A visible change in the farmers' culture from investing in milk producing cows instead of meat producing cows, and recognizing the business value in selling milk; in addition to their newly acquired attitude towards proper feeding and good hygiene practices.
9. Increased farmer awareness of the importance of regular veterinary services.

The key success factor in this project is the trust Danone and CARE share and the strong commitment to empower vulnerable communities and to overcome any challenges that may arise in this journey. The project has demonstrated that with proper empowerment of agricultural cooperatives, they can operate with transparency and can drive progress and affect positively their entire community.

Egypt produces around 6 million tons of milk annually, with a per capita share of dairy production at 71kg per year; which is close to half the global average consumption per person per year and less than the minimum annual consumption of dairy per person stipulated by the World Health Organization (WHO) at 90kg per year. If Egypt is to meet its local consumption requirements, it has to substantially increase its annual milk and dairy production. The Egyptian Ministry of Agriculture and Land Reclamation plans to increase annual milk production to 9.5 million tons by 2030, produced largely by small farmers who own 80 percent of the dairy producing livestock in Egypt. In order to meet its 2030 strategy, Egypt will need to significantly increase quality standards across the milk production supply chain. CARE recognizes the important contribution that small food producers make to Egypt's livelihoods and food security sectors and therefore intends to continue investing in the empowerment of smallholder farmers to produce good quality milk. This is part of CARE's strategy.

Danone has demonstrated the role the private sector can play in supporting the capacity building of smallholder farmers, and agricultural cooperatives, and alter completely the culture and the business dynamics in the areas where it has invested. They also became the preferred buyer of farmers' milk, which secured the sustainability part of this relationship.

7. Conclusion and Recommendations

The quest for a better future with economic and social inclusion has become a priority for Egyptians. It is also becoming very clear that development is everyone's responsibility and it is time for the different forces of Egyptian society to come together and deploy their knowledge, capital and networks to embrace entrepreneurship as a strategy to job creation, wealth generation, and social wellbeing.

CER can be the framework for established companies to utilize their resources, capital, and networks to enable entrepreneurship. The most effective model debated here is for the private sector to actually lead the development process with the government enabling and facilitating the efforts of all the sectors involved to build capable entrepreneurial ecosystems. Concrete actions are required, where different stakeholders can establish cross-sectorial councils and programs to tackle the most relevant issues.

The types of interventions and actions required can be summarized as follows:

- Start working on enhancing and investing in the educational process by involving the private sector to improve the learning process and build entrepreneurship skills through curriculum design. Set up public-private institutes that provide industry-specific knowledge, training and internship opportunities for teachers and students to fill the gaps of the educational system.
- Activate private wealth and help start-ups obtain financing through establishing angel investment networks, and through investing in and supporting VC funds, private equity funds and other investment tools. Partner with banks and other relevant stakeholders to develop SME-friendly debt policies and services.
- Lobby for policy changes and create market opportunities through more free trade agreements and open markets to facilitate the free movement of people and goods.
- Provide entrepreneurs with access to a community of peers by establishing and supporting entrepreneurship centers, incubators, and accelerators. Participate, invest, and partner with existing mentorship platforms and networks. Help start-ups launch and scale their businesses. Support entrepreneurship by doing business with these start-ups and by providing mentorship to entrepreneurs.

Today's entrepreneurs are turning the challenges of their own societies into market opportunities and they are making a real difference. All sectors and different stakeholders must join them, empower them and share the responsibility of building a better inclusive future for Egypt.



CONCLUSION & THE WAY FORWARD

By Dina H. Sherif

The idea that businesses should first make money through their operations and then give back to society through philanthropy or more specifically through what is often charity, is an idea that has run its course. Generations of business leaders were taught that societal returns or identifying ways to 'give back' to society were in fact drags on their business, which led them to do nothing but the bare minimum that would allow them to appease stakeholders and prevent legal sanctions. Twenty-first century global economics has taught us otherwise, and is witnessing a slow but necessary death to this way of thinking. In today's world, the firewalls that existed between profit maximization and societal good are slowly merging into a combined agenda and a better way of doing business that leads to multiple layers of value creation including, but not at all limited to, the economic dimension.

Those who continue to believe that linking business growth to sustainable development is an oxymoron could not be further from the truth. Everyone shares a stake in the future of our global economy and our global environment. Neither the most powerful CEO nor the most advanced nation can escape the potential evils of global warming. By the same token, no business in the Middle East can escape the crisis in quality education and skills development in the long term. The idea that profit maximization will in fact converge with social innovation and the resolution of large scale societal problems is the idea of our times and one that we must all embrace, most specifically in a country like Egypt that is facing a critical crisis in economic growth and job creation juxtaposed with deep rooted social development issues in everything from healthcare, to education to poverty across the nation.

Each chapter of this report provides well thought out recommendations for a way forward that can be adopted by the private sector, the public sector and civil society alike. While 2010 saw an Egypt that had witnessed record economic growth rates; that growth was at a macroeconomic level with little impact at the micro level. Further to that, the private sector while reaping the benefits or record highs in returns on investment, were not listening to their stakeholders. That was something the Egyptian private sector paid a price for post-2011, when their stakeholders demanded both accountability and transparency. Considering the current state of Egypt in 2015, with minimal positive projections of economic growth, it is imperative that we do not go back to business as usual, but rather adopt a new outlook on how to sustainably develop Egypt with the private sector taking a leading role. To do this, traditional views of capitalism and development alike must be dropped in return for embracing a much more integrated, conscious and value creating approach to the sustainable growth and development of Egypt.

1. Egypt: Progress can No Longer be Incremental

With regards to responsible business practice and taking ownership of the role that the private sector can play in advancing society, Egypt has come a long way since 2007, when the UNGC had only 20 members. While this number has increased to over 90 members in 2015, representing both large businesses and SMEs, this still only represents a miniscule percentage of the Egyptian private sector. While some progress has been made, change has remained incremental.

The ECRC, a significant result of the 2007 report, has been instrumental in commissioning and conducting needed research on responsible business practice, carrying out awareness events and cutting edge training programs for executives, as well as promoting necessary initiatives such as the inclusion of women on the boards of companies; an area where Egypt's private sector lags behind. However, due to the limited resources available to ECRC, their level of outreach remains limited, and the quantity of research produced remains below the level of knowledge required to make significant advances. The availability of data on responsible business practice across sectors and size of business remains grossly limited. Equally, the availability of data about the country's social development agenda is also limited, which in turn affects company ability to strategically contribute to such an agenda. For change to happen at a more rapid pace, data is always required, and for that ECRC will require an increase in its resources.

As Chapter Two highlights, between 2010 and 2014, the amount of content available on 'CSR and Egypt' increased significantly, nevertheless the term CSR remains more widely searched than the term corporate sustainability, for example. Furthermore, while in some cases, the amount of money dedicated to community engagement by the private sector has increased incrementally, the nature of that community engagement has not changed over time but rather has remained charitable in nature and not tied heavily to the core competency of the company or to resolving the root cause of a societal challenge at the national level. While we have seen a number of large companies move beyond the traditional CSR approach that is solely focused on social development to an approach that is much more holistic that looks at the internal management of the company, data presented in Chapter Two shows clearly that we still have not moved away from the charitable or philanthropic community engagement approach.

Again, while there has been progress in terms of compliance, governance, environmental performance and corruption, that progress remains grossly incremental compared to what is required. This necessitates strong political will and regulatory frameworks along with a strong civil society to push forward accountability and transparency in the private sector. It also requires an effective stakeholder engagement approach to doing business that can lead to true shared value creation for both business and society.

This report has highlighted numerous ways for the private sector to help support the sustainable development of Egypt, starting from traditional philanthropy to developing inclusive business growth strategies, to supporting entrepreneurship and job creation. While we have come a long way, the private sector remains Egypt's largest untapped resource for sustainable growth. In order for this to change, we need to think strategically about the following:

2. Strategic Action Areas

- 1. Terminology and Language:** It is imperative that we move beyond a *charity* paradigm to a *shared value* paradigm, where community engagement benefits society as much as it benefits the company. Win-win scenarios are important for sustainable growth. Language matters, and we need to move beyond limiting terms like 'social responsibility' and use terms related to value creation, innovation and sustainability.
- 2. Policy and Regulatory Frameworks:** The power of the private sector's contribution to Egypt's sustainable development will not be unleashed without the necessary policy and regulatory frameworks, and this requires the political will to do so.
- 3. Accountability:** Social media and the overall empowerment of the Egyptian citizen's voice has led to increased accountability of the private sector to act responsibly, specifically with regards to labor. However, institutionalized civil society needs to play a more active role in holding the private sector accountable, not just for the negative impact that the private sector can have, but more specifically for the positive impact it can have. This also includes holding the public sector accountable for providing the private sector with the right incentives to act responsibly while sustainably continuing to grow.
- 4. Ownership:** The private sector has yet to take full ownership of its role in creating a more sustainable society in Egypt. The importance of the private sector to job creation and overall inclusive market growth cannot be disputed. With that in mind, the private sector must take ownership of the fact that it is a significant piece of the solution to Egypt's sustainable development path.
- 5. Effective Partnerships:** Egypt can no longer afford to have the public sector; private sector and civil society work independently from each other. Effective and meaningful cross-sectorial partnerships will be necessary if Egypt is to meet the new SDGs and build a sustainable growth path. This requires that trust be built among sectors previously suffering from mutual suspicion.
- 6. Use Technology to Create Inclusive Systems:** There is a basic assumption that the 'poor' do not pay, when in fact the poor often pay and pay a premium for goods and services in Egypt. What we do not have are inclusive systems that allow for payments and that allow those at the BOP to be active participants in our economy: as consumers and/or producers. In this, technology is crucial. In Kenya, for example, technologies such as M-Pesa allowed Kenyans excluded from the formal banking sector to hold money on their cell phones. Technology can unlock the financial potential of millions across Egypt, which has one of the highest penetration rates of cell phones in the region.

- 7. Create and Scale Innovation for Social Change:** The private sector is the biggest driver of scalable innovation to date. Businesses have the power to finance and scale business models that can solve major challenges in energy, healthcare and education that governments, donors and civil society do not have. It is important when thinking about this to realize that innovation is not limited to big business. Small businesses often have even more potential for innovation and in this sense it is of paramount importance for big business to include those small and medium size businesses within their value chains.

In Egypt today, there is a substantive focus on entrepreneurship and new business creation. It is imperative that as we draw the attention of Egyptian youth to the potential of entrepreneurship that we also draw their attention to the incredible potential of social innovation. By the same token, local angel investors, accelerators and venture capital funds need to adopt the same mindset in assessing business potential by asking two questions in one: Will this venture lead to both financial and social returns?

- 8. Availability of Data and Knowledge:** In order for Egypt to meet its sustainable development goals, the availability and accessibility of quality data needs to be ensured. Data is crucial to the effective design of the appropriate solutions required for sustainable development, but it is also essential for the accurate monitoring of progress. This requires transparency across the board.

3. Specific Recommendations for the Private Sector

- SDG 4, which focuses on education, includes targets to ensure that all girls and boys have access to pre-primary quality childhood development and educational care. Businesses can actively contribute to this goal by helping to provide care to the children of their workforce. Early childcare could also be an area of social investment that has a long-term return on investment in child development and in promoting women's access to employment.
- The private sector can encourage employees to volunteer their time and expertise to support sustainable development initiatives. In particular, the private sector should encourage executives to start mentoring young entrepreneurs as well as university students getting ready to enter the job market, through internship programs for example. This can go a long way towards enhancing skills.
- Businesses need to link social investment strategies to their core competencies to allow for shared value creation.
- Companies should start by first engraining responsibility within their internal operations to ensure the protection of human rights, transparency, and minimal negative impact on surrounding communities. This is the only way truly transformational community engagement agendas can be achieved.
- Large companies should engage small and medium enterprises within their value chains being fully aware that this is one pathway to supporting job creation. Big business has little potential for the kind of job creation needed by Egypt. However, SMEs have incredible potential to create the jobs needed for Egypt to stay on a path of sustainable growth.
- Companies need to remain stakeholder driven; it just makes good business sense in the long term.
- Businesses should tap into the market opportunity that exists by creating inclusive business models; they need to ensure quality products at affordable prices that target daily wage earners.
- Producers can integrate the BOP at an earlier stage in the value chain, especially in the agricultural sector, where aggregation could be used to collect small volumes produced by individual farmers (as demonstrated by the successful Danone/Care milk production initiative, for example). This model should be complemented by investment in producer awareness on quality standards.
- Financial institutions need to start extending financial services to the BOP; including specifically tailoring models to BOP needs. Credit solutions could include short-term loans or overdrafts capitalizing on already existing networks of selling utility services and consumer goods.
- Financial institutions also need to diversify their products to allow for inclusive market growth, which will not happen without the banking sector.
- The private sector has a great opportunity to implement financially viable projects that effectively contribute to reducing the demand for electricity, and reducing the use of non-renewable fossil energy resources (Box 10).

- SDG 3, focused on health and well-being, has a target of reducing the number of deaths from hazardous chemicals, air, water and soil pollutants. The private sector has a big role to play in achieving this goal. However, in the absence of enforced regulations and reporting in Egypt for non-listed companies, this requires voluntary commitment and self-monitoring of one's own operations and production chains.
- SDG 5, focusing on gender equality, necessitates expanded and enhanced efforts to eliminate all forms of violence and discrimination against women. There is a clear and direct responsibility of business to ensure the elimination of all forms of discrimination against women by enforcing equal pay and treatment as well promoting women leaders in all segments of the business.

Box 10: Effective Partnerships: The UNDP Energy Efficiency Project

The UNDP Energy Efficiency Project is implemented by the Ministry of Electricity and Renewable Energy. The Project started in 2011 within the framework of a UN global initiative funded by the Global Environment Facility (GEF) to transform lighting markets in the world to energy efficient systems. In Egypt, the annual increase in electricity demand was estimated at an average rate of 7 percent over the last decade, thus adding a huge burden to the national electricity grid and power generation capacity. Nevertheless, the increase in demand can be maintained within acceptable limits through energy efficiency measures to reduce electricity loads. The lighting share of total electricity consumption is estimated at 20 percent, and the market transformation to energy efficient lighting would reduce total electricity consumption by 15 percent. If this transformation is completed in three years, the annual increase in electricity consumption would be curbed by 5 percent, which would have a significant impact on the stability of the electricity supply on the national level. Government buildings and street lighting consume only about 10 percent of total electricity consumption leaving more than 80 percent of electricity consumption within other sectors. Accordingly, the private sector has a great opportunity to implement some financially viable projects that effectively contribute to reducing the following: electricity demand; the use of fossil energy resources; the release of emissions associated with electricity generation; and government energy subsidies. Furthermore, energy efficient lighting, as a climate change mitigation action, also reduces greenhouse gas emissions, supporting the Egyptian contribution to global efforts in combating climate change. It also contributes to the achievement of the SDG on energy, in particular the indicator of doubling energy efficiency which is vital to enable achieving universal access to energy by 2030.

Accordingly, the Ministry of Electricity and Renewable Energy has initiated a programme to distribute more than 13 million LED lamps to households with a three year guarantee and payments through cash installments over two years. In addition, the UNDP project targets different economic sectors in Egypt and supported the implementation of over 20 pilot projects in buildings in Egypt including shops, show rooms, banks, supermarkets, hotels, government buildings, residential compounds, and administrative buildings; successfully demonstrating the technical and financial feasibility of LED lighting technology for different applications; aiming to encourage replication and upscaling. The observed savings from the pilot projects exceeded expectations and varied between 25 percent and 60 percent of total electricity consumption depending on the application, with a payback period that varied between a few months and one and half years, except for street lighting which exceeded 2 years. Project results indicated that savings for administration buildings which have central air conditioning systems, represented between 32 percent and 42 percent of overall electricity consumption with a payback period less than one year. The savings that resulted from the use of energy efficient lighting systems is almost equal to the savings from reduced A/C system electricity consumption because LED lighting produces less heat than traditional lighting systems. Converting lighting systems in a branch of a famous chain of supermarkets whose lighting operates all day showed savings of around 30 percent of total electricity consumption, and payback period of less than four months. Changing billboard lighting systems will reduce their consumption by 60 percent, and investment is retrieved in only a few months. Two five-star hotels in Cairo joined the programme and readings showed 20 to 30 percent reductions in their electricity consumption with a payback period of less than 1.5 years. One of them began expanding the change to its other chain locations. One Egyptian bank changed lighting systems in over 150 existing branches and everyday new organizations are joining the initiative. In conclusion, private sector-led initiatives to convert premises to energy efficient lighting offers a win-win model of responsible business that contributes to achieving SDGs, protecting the environment, reducing operational costs and supporting the Egyptian economy.

Source: Improving the Energy Efficiency of Lighting and other Building Appliances Project

4. Specific Recommendations for Civil Society

- Both civil society and the private sector remain suspicious of each other. Non-profit organizations need to become more transparent with the private sector regarding spending and impact if they are to see an increase in corporate spending on their work.
- Civil society needs to move beyond seeing the private sector as a 'cash cow'. Businesses have a lot more to offer than financing and should be engaged as true partners in the process of social change.
- Civil society at large, including both institutions and citizens, should play a more active role in holding the private sector accountable for its practices.
- Civil society should work with the private sector on issues related to gender equality and the economic empowerment of women. Billions of dollars a year are lost in economic opportunity by not actively including women in the economy. This should also include helping businesses create more gender-friendly work environments.

5. Specific Recommendations for the Public Sector

If the GOE is to achieve the newly set out SDGs, it will need to not only create an environment to that will allow for the proliferation of responsible business practice, inclusive growth and social entrepreneurship, but it will also need to create an effective system of collaboration between itself and the private sector. Specific recommendations include:

- The GOE needs to insure environmental compliance through the application of heavy fines on environmental violations. Companies will avoid violations if there is a direct impact on their financial returns. Collected fines can then be used to help invest in furthering sustainable development goals related to the environment.
- The GOE should create a local business case for compliance by mandating specific social, environmental and governance parameters as prerequisites to sourcing from any local company.
- EFSA and the GAFI need to cooperate on ensuring a tighter form of control over the governance practices of non-listed companies. This will lead to a reduction in the huge gaps in disclosure that exist today.
- The GOE must ensure that multidisciplinary anti-corruption efforts are coordinated, in order to increase their chances of success and maximize their impact. While this requires substantial funds and political will, the economic returns of removing corruption are massive.
- The government needs to undertake structural reforms to activate and empower anticorruption agencies, tighten administrative control, develop clear and simplified public procurement procedures, and allow these agencies to assume the leading role in fighting corruption. Governmental policies should be streamlined and optimized to limit the scope for extortion of bribes.
- It is important to establish regulations governing alternative creative sources of financing like crowd funding to allow for new business growth.
- The government needs to ensure the formalization of blue-collar jobs in order to guarantee job and income security for those who are willing to take these jobs.
- Social impact should be given the same importance as economic impact. In that sense, the government should provide incentives to big businesses and start-ups that are driving scalable innovations for sustainable development.
- The GOE should work on an overarching policy framework that is conducive to the establishment, growth and operation of private sector companies that may not be large in terms of investment but are definitely large in terms of (social) impact.

6. Final Thoughts

It is hard to dispute that Egypt as a nation, is at a crossroads. The pressing challenges we are facing do not allow for a slow and incremental pathway for change. Our ability to solve our sustainable development challenges necessitates that we adopt a new way of doing things where technology, innovation and collaboration are at the core of our approach; the private sector is at the very nexus of building a sustainable Egypt. To achieve the SDGs, there will need to be an unprecedented mobilization of global and local expertise and resources to identify the most optimal pathways for success and, unlike with the MDGs, accountability for commitments made by all sectors will be critical.⁷⁶

Sustainable development is not easy. Nor will it happen overnight for Egypt. Nevertheless, Egypt has the potential required for growth and the Egyptian private sector not only needs to step up and take ownership of its role in this process, but the GOE also needs to provide it with the space and the required frameworks to take that agency. The age of social media and information technology have given Egypt an incredible opportunity for inclusive, innovative and scalable problem-solving around our main sustainable development challenges. The private sector - specifically new businesses established by our youth - is poised to be at the center of that opportunity.

Taking the plunge of investing in innovation and conscious capitalism, and shaking up business models to be more sustainable, more inclusive and more geared towards the creation of innovations for significant social change requires imagination, partnerships and long termism that do not currently exist. However, these prerequisites are not unattainable, and Egypt has both the resources and potential to achieve the objective of private sector supported sustainable development, provided we move from adopting a lens of scarcity to a lens of abundance, thus allowing us to see the opportunity that exists within every challenge.

⁷⁶ Everyone here means: governments, international financial institutions, donors, civil society, academia, private business, institutionalized civil society, and citizens.

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EXPANDING HORIZONS IN DEVELOPMENT:

THE RISING ROLE OF THE PRIVATE SECTOR

This publication marks the second edition to the pilot UNDP/Ministry of Investment report entitled Business Solutions for Human Development launched in 2007 at the first International CSR Summit jointly organized by UNDP and the American Chamber of Commerce. The main premise of the 2007 report was to better understand the CSR & philanthropic context in Egypt and to reinforce the role of the private sector in achieving the Millennium Development Goals. The Report showcased a number of innovative private sector and market-based solutions to alleviate poverty building on the UNDP global report entitled Growing Inclusive Markets.

UNDP is driven by a strong conviction that the private sector remains the greatest untapped resource, providing both investment and innovation, both of which are vital to achieving the Sustainable Development Goals (SDGs). It is in this context that the second edition of Report entitled "Development at a crossroads: the rising role of the private sector in Egypt" was produced. The Report has been prepared by a team of independent authors within the framework of a joint project of collaboration between UNDP and Industrial Modernization Center (IMC), namely the Egyptian Corporate Responsibility Center (ECRC).

The 2016 report does a trend analysis focusing on new forms of private sector engagement in society including: Base of the Pyramid (BOP) business models, social enterprise, supply chain integration, environmental protection and sustainability while also maintaining a strong emphasis on the importance of corporate governance, combating corruption, gender equality, business compliance & promotion of the UN Global Compact principles. The 2016 report demonstrates good practices of business engagement, identifies gaps and proposes some approaches to better include the poor in market economies. The strong policy angle in the report relates much to the way forward for all stakeholders including government, civil society, and private sector and how they can all work in partnership to contribute to the achievement of the newly endorsed SDGs.