"Integrity starts at home"

The International Monetary Fund and the promotion of good governance policies in Egypt between 1996 and 2011

HIS350

MA thesis in History

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"*We know that bad governance is bad for economic development, and good governance helps economic development.*"[1]

- Mohsin S. Khan. Director of the IMF Middle East and Central Asia Department.[2]

[1] IMF.2005. *IMF Survey.34/6:*84

[2] Kahn was the Director of IMF's Middle East and Central Asia Department from 2004-2008.

1. Introduction

The International Monetary Fund is by contemporary observers considered one of the world's most powerful and controversial organizations. The Fund has for long time been associated with the negative aspects of the globalization of the world economy, which includes the Fund's support for regimes that are willing to accept their policies of conditionality and their strict emphasis on neo-liberal economic reform.[3] One of these regimes was Egypt. The Hosni Mubarak regime agreed to a Structural Adjustment Program in 1991, with the IMF backing two more programs until 1998.[4] Egypt recommitted itself to IMF-supported economic policies in 1996, and had as a result become a close ally of the West and the IMF. After his resignation during the Arab spring in 2011, there were many who questioned the IMF support which had been given to both President Mubarak and the economic policies of his regime. In 2008, an IMF survey praised the recent four years of Egyptian economic development. Tax cuts, liberalization and state deregulation reforms were described as "bold", "impressive" and "prudent" as they were all measures that had led to GDP growth and strong job creation.[5] The same year, a report from the US think-thank Global Financial Integrity estimated that the Egyptian state, between 2000 and 2008, had lost close to 6 billion USD due to illicit transaction and government corruption.[6] Additionally, when Mubarak stepped down in 2011, Egypt was ranked number 112 out of 182 countries in the Transparency International Corruption Prediction Index.[7]

How could the IMF, which in 1996 had proclaimed that the organization had a new role in the international promotion of good governance, have remained supportive towards a regime as poorly governed as Mubarak's Egypt? Did the IMF really favor and support a corrupt president, or did the IMF's policy advice, consultations and technical assistance in fact attempt to move Egypt towards an economy with both growth and financial integrity? This thesis will attempt to answer these questions by analyzing the available source material, focusing on the correspondence between the Mubarak regime and the IMF. By doing so, the thesis aims to determine how actively and to what extent the IMF promoted good governance towards a regime that eventually almost collapsed due to poor governance.[8]

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[3] Bradlow and Greco.2006. *IMF Identity Crisis*
[4] IMF.2012. *IMF to Discuss New Loan Program With Egypt, Says Lagarde*
[5] IMF.2008. *Egypt: Reforms Trigger Economic Growth*
[6] Danziger/Global Financial Integrity.2011. *Egypt Lost $57.2 Billion from 2000-2008*
[7] Transparency International.2011. *Corruption Predictions Index*
[8] Osman.2012. *The Fall of Hosni Mubarak*

1. 1 - Main research question

The primary focus of this thesis can be summed up in one research question:

- *To what extent did the International Monetary Fund promote good governance inspired policy practices towards Egypt between 1996 and 2011?*

A few points about this research question must be elaborated upon. It should first be pointed out that "promote" is here related to whether or not the IMF, directly or indirectly, encouraged and insisted on economic reform measures in Egypt that were inspired and formed by the IMF's definition of good governance. Second, the IMF's understanding of "good governance inspired policy practices" can be described as the Fund's macroeconomic policy promotion aimed at improving an IMF-member-country's financial integrity, public sector efficiency, transparency regulations and anti-corruption legislation. The IMF's promotion of such policy practices is in many cases symbolic, with the Fund promoting their good governance agenda through research, official statements and economic surveillance. In Egypt's case, in common with several other developing countries, the promotion of good governance was vital due to the Mubarak regime's notorious reputation of being poorly governed, corporatist and highly corrupt.[9] The time between 1996 and 2011 was a period where the IMF held loan negotiations, provided economic consultations, policy assistance and technical advice to Egypt, while the Fund at the same time was bound by policy to promote their new good governance policy practices.

It should also be noted that while this thesis will focus the IMF's promotion of a number of good governance policy practices, corruption directly related to the Egyptian political elite and the immensely powerful Egyptian military will not be extensively elaborated upon.[10] The Fund states that through their role as a monetary organization they intend to act, and speak up against corruption if they identify a corruption rate that can have significant negative macroeconomic impact on a national economy.[11] However, there are clear limitations to this IMF practice, and the Fund has to collaborate with corrupt regimes, which in Egypt's case was a political elite constitutionally protected against corruption charges.[12]

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[9] Inman.2011. *Mubarak family fortune could reach $70bn, says expert.*
[10] Nassif.2013:511
[11] IMF.1997. *Good Governance-The IMF's Role*:6
[12] Blaydes.2011:132

1. 2 - Hypothesis

In order to support the main research question, two hypotheses will be discussed and tested in the thesis to explain why the IMF promoted good governance towards the Mubarak regime in the manner they did.

The first hypothesis will be:

- *The IMF was unable to obtain a clear picture of the economic and governance situation in Egypt due to failure of their official research system known as "surveillance", and the Fund was therefore unable to advise Egypt properly.*

The IMF surveillance system is the methodological research approach that the IMF uses to monitor the world economy and provide assistance to their member countries. The IMF gathers data from their member countries through official meetings and consultations, called Article IV Consultations, where an IMF mission meets with government officials and members of the central bank. The IMF mission staff then reports to the Executive Board, and the IMF leadership assesses the economic situation in the relevant country.[13] Surveillance includes fiscal and technical assistance, but since 1996, the promotion of good governance has also been included into this broad research and observation system where the Fund advise their member countries to implement reforms that would benefit the IMF's measures, and would lead away from poor governance. Good as the intentions of the IMF may have been since the introduction of the good governance policies, however, the Fund has faced criticism. Many have questioned if the methods of surveillance can create a picture that really reflects what a country needs in order to introduce reforms that improves governance.[14] It is therefore reasonable to believe that if the IMF remained indifferent towards obvious poor governance in the Egyptian economy, this may have been a result of lack of knowledge and insight. This again may have caused the IMF to focus their advice on the economic sectors where they had oversight, and again made the Fund unable to realize the reality of the governance situation in Egypt.

To test this hypothesis, the thesis will discuss and quantify how frequently the IMF requests the Egyptian authorities to disclose more information about their economy, which includes how recurrently Egyptian economic transparency is requested as a part of the Fund's policy advice and assistance.

[13] IMF.2015. *IMF Factsheet: Surveillance*:1
[14] Woods.2000:837

The second hypothesis will be:

- *The IMF attempted to promote good governance in Egypt, as bound by policy after the introduction of the good governance initiative, but failed due to the Mubarak regime's unwillingness to comply with IMF advice and insistence.*

Despite the blame and frustration that has been directed towards the IMF, both before and after the fall of the Mubarak regime, it seems unlikely that the Fund would not actively attempt to promote good governance in a country like Egypt, and subsequently not follow up on the implementation of these suggested policy measures. However, as strongly as the IMF can promote good governance to a country, it is the IMF member country, and the authorities of that country itself, that eventually have to change and adjust towards good governance inspired policy practices, since the IMF only can make demands in certain circumstances such as economic loan and arrangement negotiations. Is it possible that the IMF attempted, but failed at promoting good governance in Egypt? Two arguments can be used to support this claim. The first argument is the fact that the IMF adapted its role as a promoter of good governance fairly recently. Policy wise, the IMF has historically been identified with the promotion of economic liberalization, multilateralism and neo-liberalism. It is therefore reasonable to believe that despite the IMF's sudden and firm promotion of the new good governance policies, it took time before the organization was able to efficiently promote the new initiative as a part of their official policy practices. The second argument is the fact that the IMF early labeled loan conditionality and loan negotiations as their best tools to promote good governance. The discussed period this thesis will cover includes one IMF-Egypt loan negotiation, but mostly covers the IMF's good governance promotion through policy advice and technical assistance through surveillance and official consolations. It is therefore reasonable to believe that how actively the IMF insisted on good governance reform in Egypt will reflect how the Egyptian governance situation was viewed by the Fund. Frequent insistence on reform from the Fund will imply that poor governance was a disruptive element for reform, while infrequent insistence will suggest that the IMF did not view the implementation of good governance inspired policy practices as a pressing matter.

To test this hypothesis, this thesis will comment and discuss how frequently the IMF inquiries into the governance status in Egypt. This includes how the IMF responded to good governance inspired reform measures that were introduced in Egypt, and how the Fund reacted to Egyptian unwillingness to implement suggested economic reforms they advised.

1. 3 - The IMF and the capacity of good governance promotion

It is important to stress that "governance" is a specific scientific term used by several international financial and political institutions. The International Monetary Fund defines governance as the sum of political, economic and institutional appliance by the ruling authority in a country. Good governance is thus the preferred result when all of these separate factors work for the common good of the country. Poor governance is the opposite of good governance. Poor governance is not the same as corruption, since the IMF defines corruption simply as "abuse of public office for private gain". While poor governance is closely connected to corruption, governance is a broader term also linked to several other factors such as how a country is regulated and managed, how transparent political and economic processes are and how well the authorities take care of their citizens.[15] The IMF argues that a large state apparatus is a usual breeding ground for poor governance as the state's power can include monopolistic tendencies and an ineffective government bureaucracy.[16] The Fund therefore concludes that direct causes of poor governance are linked to state and governmental factors such as trade restrictions, price control and government subsidies as these are prime examples of activities that create "rent-seeking."[17] The IMF promotes the values and importance of good governance through Article IV Consultations, loan negotiations, technical assistance, economic and structural assessment programs and by encouraging their member countries to adapt to standards and codes for transparency and financial regulation.

The IMF, however, still limits its own sphere of influence, emphasizing that they can only monitor and advise its member countries, having a special focus on the banking sector, financial institutions, taxation, laws and regulations.[18] Still, the IMF also stresses that as a part of their good governance policies, the organization has to take a stand whether countries, such as Egypt, are able or willing to accept their guidelines for good governance. The IMF further points out that the IMF will always speak up against poor governance as this is harmful for economic growth, political stability and the further implementation of financial reform that might be necessary for economic growth.

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[15] Kaufman.2005. *Back to Basics – 10 Myths about Governance and Corruption.*
[16] IMF.1998. *IMF Working Paper No.98/63*:10
[17] IMF.1997. *Good Governance-The IMF's Role*:2. "Rent-seeking" is the practice of manipulating demand and supply so that one can benefit from certain economic and political procedures. An example of this was the US government's efforts to reduce the imports of Japanese cars during the 1980s in order to create a smaller supply, thus selling more US manufactured cars.
[18] IMF.1997. *Good Governance-The IMF's Role*:3

1. 4 - Historiography: Egypt and the IMF

The public and academic interest in the economic and political history of Egypt has been considerable since the founding of the republic in 1953, and this interest has remained stable over decades. Scholars, writers and journalists have reflected on Egypt's role in the Middle East, the country's changing political and economic regimes and other questions about the most populated, and perhaps, most powerful country in the Arab world.[19] Egypt also attracted considerable attention in the 1990s and 2000s because of their fiscal stability and economic progress. This progress was credited by many observers as a result of Egypt's willingness to adapt to more Western inspired economic models, something which again led Egypt to be exemplified in a positive manner throughout much of the economic literature that was published in the 2000s.[20] The wars in Iraq and Afghanistan, combined with the political and social developments caused by the Arab Spring, prompted a new wave of interest in Middle Eastern related topics, which again triggered the production of a vast number of books, articles and papers about the Hosni Mubarak regime. This new literature, however, did not come without its options on both Mubarak and the IMF. There is a clear frustration directed towards the Mubarak presidency and the IMF's support for its economic policies in much of the post-revolutionary literature. Two examples of these biased attitudes come from writers such as the legal scholar Mohammad Fadel, who claims the IMF was indifferent to corruption in Egypt,[21] and the Egyptian economist Galal Amin, who in 2011 blamed the IMF for the income inequality that had developed during Mubarak's reign, calling the reestablishment of IMF-Egypt relations in 1986 "a significant negative event".[22] These biased approaches to the effects of IMF involvement are also evident in a considerable amount of the literature that deals with the history of globalization and post-WW2 multilateralism.[23]

Unbiased and balanced documentation and academic literature can be hard to identify, though this thesis is highly dependent on it. There are many claims about the connection between IMF-supported neo-liberal policies and poor governance, but it always boils down to the IMF-friendly writers being positive, claiming no connection, and the anti-globalization writers labeling the IMF an organization with a considerable negative global influence.

[19] El-Mahdi and Marfleet.2009:1

[20] See for instance Richards and Waterbury.2008:252 and Rivlin.2001:112

[21] Fadel.2011:300

[22] Amin.2011:73

[23] See for instance Marks.20007:217. Marks, when discussing third world poverty, claims that IMF and World Bank loans have directly financed corruption in authoritarian regimes.

1. 5 - Source material

The approach towards any source material of relevance to a specific historical question should be problem-oriented, especially when dealing with primary sources.[24] The questions this thesis will attempt to answer were first constructed, the sources identified and the sources functionality in relation to the questions made clear.

- **Primary source material**

The majority of the source material that this thesis will be based on comes from the archived records, publications, research papers and statements made by the IMF that deal with the organization's policy practices towards the Egyptian authorities during the era the thesis will cover. While the IMF has faced criticism because of their emphasis on structural adjustment and austerity measures as a part of loan conditionality, the organization attempts to remain open towards the public. In relation to this thesis, the openness of the IMF is essential, as the policy shift towards good governance in 1996 was also an effort from the IMF to increase the organization's own credibility by establishing institutional transparency.[25] This transparency and openness is visible through the Fund's online Archives Catalog, where tens of thousands of documents are available for anyone who wishes to research the internal policy procedures of the IMF and the correspondence between the Executive Board and IMF member countries. The documents that deal with these internal procedures are sub-categorized in a series called the *Main Executive Board Documents Collection*. These documents include informal and administrative papers and statements, requests for information and data from member countries, reports on Article IV Consultations, policy papers and press releases.[26] In addition to the correspondence documents, this thesis will also use the annual IMF economic publications, the *IMF Survey, IMF Annual Report* and other publications published by the Fund.

This source material is available to the public due to the *IMF's Open Archives Policy*, a policy practice implemented in 1996, as a part of the good governance initiative and most recently amended in 2013.[27] These documents give considerable insight into the process of decision making within the IMF, and exemplify the attitudes and options the Fund and its staff had towards Egypt in the era the thesis will cover. Yet it is still important to stress that

[24] Tosh.2006:89-91
[25] Wouters and Ryngaert.2004:21
[26] IMF.2015. *Executive Board Documents Collection*
[27] IMF.2015. *History of the Archives Policy since 1996*

there are IMF produced documents and records that are excluded from the Fund's openness policies, and therefore excluded from the public. This includes documents under attorney-client privilege, documents deemed confidential by the IMF's Executive Board and personnel files on specific individuals.[28] It should additionally be mentioned that the IMF specifically points out that the research paper series named *IMF Working Papers*, which is a part of the *Main Executive Board Documents Collection*, does not necessarily reflect the IMF or IMF policy. This is common practice with the working papers of several international financial organizations, and a challenging aspect of policy research that has faced criticism. Nonetheless, the IMF Working Paper series used in this thesis will be treated as a source of IMF policy opinion due to its availability through IMF archives.

Despite confidentiality and disclaiming, the IMF records, reports and papers provide extensive insight into the relations of the IMF, but treating these sources as a sole information provider can be problematic. The reason is that the IMF, unsurprisingly, will not want to link itself to any negative aspects of the structural adjustment programs they negotiate with debt-ridden nations, nor would they consider their own economic policy advice as damaging for their member countries. There is also the already discussed problem of government disclosure. The IMF, as they are today, was dependent on executive honesty from the Egyptian authorities, meaning that the Egyptian authorities had to inform the IMF on the reality of the economic and governmental situation.[29] This is, unfortunately, a reality about this thesis that has to be made clear. Due to IMF-member country confidentiality, there are records of the correspondence between the IMF and Egyptian authorities that are not available to the public and therefore not available for this thesis. For that reason, the questions this thesis aims to answer will based on the available source material provided by the Fund. This material must again be understood in light of the relationship between the Executive Board and Egypt as an IMF member country, and in relation to the Fund's own organizational sphere of influence and mandate in the promotion of good governance. As the IMF states, their mandate is that of a monetary organization that predominantly advises its member countries on economic policy questions, with a special focus on the banking sector, taxation, laws and state regulations.[30]

[28] IMF.2015. *Archives of the International Monetary Fund*
[29] Wouters and Ryngaert.2004:23
[30] IMF.2015. *Articles of agreement*, section 1

- **Secondary source material**

While the primary source material of this thesis will help analyze the relationship between Egypt and the IMF in light of the Fund's promotion of good governance polices between 1996 and 2011, the secondary source material will present the economic and political background and development that took place in Egypt in the same period. The IMF's partner organization, the World Bank, will provide some additional source material through their research, which includes joint IMF-World Bank programs that have been created to assess the state of governance in an IMF and World Bank member country. The thesis will additionally use research produced by several other international finance organizations and institutions such as the United Nations, the African Bank of Development and the OECD. The research and publications made by the German based think-thank Transparency International will provide the majority of the Egyptian data related to corruption and poor governance. By 2011, Transparency International consulted 17 different surveys to create a clear picture of the state of corruption worldwide, publishing several reports and papers annually.[31]

The writings of the IMF historian James Boughton will be widely used to document the origins of the IMF's good governance polices. Boughton's works, particularly *Tearing Down Walls: The International Monetary Fund 1990-1999*, much improve our understanding of how and why the IMF decided to introduce good governance as a part of their policy promotion. *The Globalization of World Politics*, edited by John Baylis, Steve Smith and Patricia Owens, and *The Globalization Paradox*, written by Dani Rodrik, will provide much of the background information about the growth of the globalized world economy and what challenges the developments have posed. Samer Soliman's book *The Autumn of Dictatorship. Fiscal Crisis and Political Change in Egypt under Mubarak* will be used extensively to document the developments of the Egyptian economy and comment on the changing dynamics of the massive Egyptian public sector. Tarek Osman's book *The Struggle for Egypt. From Nasser to The Muslim Brotherhood* and Lisa Blaydes' book *Elections and Disruptive Politics in Mubarak's Egypt* will be used to discuss and reference the political developments in Egypt, as well as the societal response to the changes that developed in the Egyptian economy. *Egypt. The Moment of Change,* by Philip Marfleet and Rabad El-Mahdi and *Egypt after Mubarak,* by Bruce Rutherford, will be used to reference the historical background of the Mubarak regime.

[31] Transparency International.2015: *Our Work on Conventions*

1. 6 - Method

The most important methodological approach to the questions this thesis will attempt to answer will be a critical analysis of the available source material that documents the correspondence between the IMF and the Mubarak regime between 1996 and 2011 and the IMF's promotion of good governance policies during the same period. For the sake of the thesis, there should be limitations to what source material actually matters and what could create the clearest picture of the reality of the economic and political situation regarding both the procedures of the IMF and the Fund's relationship with Egypt. For instance, the response to the IMF's relationship with the Egyptian authorities within in the Egyptian public, such as the Egyptian media, will not be widely documented as a broadening of such a character will be too extensive for this thesis to cover.

Chronology will be used in the narrative form of the thesis. The thesis will start in 1996, and the focus thereafter will be based on a year-by-year basis. The thesis will also observe and discuss specific events such as important economic reforms or significant political developments in Egypt, which the IMF comments on through research, press releases or consultations. A noteworthy factor that will be discussed in this relation is the contrasting interpretations between what the IMF considers a successful Egyptian approach to good governance and the actual implementation of good governance inspired policy practices in Egypt.

The format of the analysis chapters of the thesis will include an introduction and a summary conclusion for each chapter to make it easier for the reader to understand and contextualize the economic and political situation in Egypt during the years the chapter will discuss. The relevant time will also help to shape the perspective, as the results of political decisions can be seen relatively quickly, while the developments of economic policies, and the changes that that might create, can take considerable more time to show.[32] The thesis will then, through critical and chronological analysis, document how strongly the IMF attempted to promote their policies of good governance towards Egypt during the last 14 years of the Hosni Mubarak regime, what difficulties the Fund encountered and how successful they were at this policy promotion.

[32] Andersen, Rosland, Ryymin and Skålevåg:40

2. Historical background

2. 1 - The IMF: origins and development

The International Monetary Fund was together with the International Bank for Reconstruction and Development (today known as the World Bank) and the General Agreement on Tariffs and Trade (GATT) a result of the Bretton Woods Conference of 1944. Much of the international community was after the Second World War determined to work closer on economic and financial problems as the Great Depression and financial instability caused by the interwar period had convinced scholars, economists, and world leaders alike, that closer international cooperation was necessary for both economic prosperity and political stability. Financial monetary measures were a key aspect of this new policy, and the function of the newly formed IMF was to oversee and monitor the global economy and secure stability by ensuring stable exchange rate systems, controlling international capital flows, supporting free trade and provide temporary short-term loans to countries in economic crisis.[33]

However, as the Cold War intensified towards the 1950s, and the US developed its containment policy towards the Soviet Union, it became apparent that the Bretton Woods institutions had a new role, together with the one as international loan organizations and financial monitors. *Multilateralism*, meaning strong cooperation between countries on a global level through new institutions, such as the IMF and the United Nations, had provided the United States with considerable means of international influence, and the Bretton Woods institutions became known as the enforcers of the American financial systems and political interests. These international financial and political institutions were certainly independent, as they are today, of any particular country's interest, but the legitimacy of the organizations became severely dependent on support from the most powerful member countries, especially the US and other powerful Western economies. A major feature that would lead economists to conclude that the US exerted a significant influence on the systems was the US insistence that the international gold standard should be fixed on the US Dollar. This influence led economists to label the multilateralist economic policies that the US imposed on the Bretton Woods institutions as the "US hegemony".[34] Indeed, the "Bretton Woods System", as it was called, was for a long time solely associated with the policies of the US, as the IMF demanded

[33] Baylis, Smith and Owens.2011:248-249
[34] Rodrik.2011:70-71

that changing currency values of developing countries had to be fixed on the US Dollar.[35] The 1950s, 60s and early 70s would prove to be the heyday of these US supported economic systems. Nevertheless, changing oil prices, stagflation and international criticism of the US dominance of the "Bretton Woods System" led the US to abandon their policy of currency fixing which eventually led to the dissolution of the entire "US hegemony" in 1973.[36]

Despite this, the US effect on the further developments of the IMF were not over, as the Americans radically changed their international economic policies towards the 1980s. This started in 1979 when the US Federal Reserves raised their interest rates dramatically in order to stem domestic inflation and refocus the economic activity towards the domestic areas. These policy changes worked, and had positive results in the US, but the effects on the global economy were dire. Throughout the 60s and 70s, Western banks and creditors, many of which were based in the US, had provided has much as 55-60% of the loans given to developing Third World countries. The changed interest rates of 1971 made creditors and borrowing countries realize that they might not be able to pay back all the loaned money. The IMF was called upon to prevent a debt crisis that many feared might develop into a global financial crisis. These developments led the IMF to adapt two new roles in the global economy: one as an agency that disciplined and monitored indebted countries, and one preforming the role as the provider of a new type of loan agreements called *Structural Adjustment Programs*. These new loans were, in the wake of the currency crisis, first given to deprived Latin American and Sub-Saharan African countries. The SAP-programs strongly favored the neo-liberal economic mindset that emerged during the Reagan and Thatcher administrations, and the original Bretton Woods principles of Keynesian-inspired government control and oversight, was replaced with a system where the market ideally should control itself. As the Cold War came to an end, the US favored economic policies seemed, yet again, to take control of the IMF and the World Bank, and the organizations became followers of what was called the "Washington consensus" .[37] The IMF adopted these policies strongly, and insisted that economic adjustment and financial stabilization could only be achieved in SAP-loan-countries if the countries economically and politically reformed and swore to national privatization, currency devaluation, removal of government expenditure and a general state reduction.[38]

[35] Baylis, Smith and Owens.2011:250
[36] Rodrik.2011:100-101
[37] Baylis, Smith and Owens.2011: 251
[38] Randall and Theobald.1998:159-160

2. 2 - The IMF: structure and leadership

The International Monetary Fund is an international financial organization that by the year 2016 has 188 member countries, 2,663 staff employees and a total funding quota of 650 billion US Dollars.[39] The organization's headquarters are located in Washington DC, and the Fund's primary responsibilities are to maintain international financial stability through economic surveillance, provide financial and technical assistance to member countries and the promotion of good governance policy practices.[40] The highest decision-making body of the IMF is the Board of Governors, which has one representative from each member country. Through the IMF's legal arrangement, *The Articles of Agreement*, the Board of Governors delegates much of its power to the IMF's Executive Board, which is made up of 24 representatives. The Executive board handles the daily business of the IMF, which includes discussions on member countries, assessments of the global economy as well as voting on the approval of loan agreements or legal amendments.[41] The members of the Executive Board are called Executive Directors, who are elected by the Board of Governors, and represent either an individual IMF member country, or a group of IMF member countries. The individual versus group representation of each Executive Directors is determined by how much financial funding the country in question provides to the IMF. The more funding a country provides, the more exclusive the Executive Director is in its representation. For example, the Executive Directors from the US, Japan and Germany represent their home country exclusively, while an Executive Director from the Middle East can represent as much as 10 different countries at once. During the time this thesis will cover, 1996-2011, Egypt was represented by Executive Director Abdel-Shakour Shaalan. Shaalan, an Egyptian national, held the position on the IMF's Executive Board for 22 years until 2014, and represented 11 other Middle Eastern countries in addition to Egypt.[42]

The highest-ranking individual member of the IMF is the Managing Director, who organizes and heads the IMF. The Managing Director is elected by, and also chairs, the Executive Board, and serves on a term length of five years. The Managing Director is assisted by the First Deputy Managing Director and three Deputy Managing Directors, with the Deputy Managing Directors being selected directly by the Managing Director.[43]

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[39] Numbers are as of March 23, 2016
[40] IMF.2016. *IMF Factsheet: The IMF at glance*
[41] IMF.2016. *IMF Factsheet: How the IMF Makes Decisions*:3-4
[42] Taylor.2013. *Key Egyptian negotiator with IMF quits*
[43] IMF.2016. *Managing Director Selection Process*:1

2. 3 - The IMF and Egypt

In a historical perspective, it is interesting to note that Egypt was involved in one of the first events where the IMF truly displayed its power and global influence. Egypt's nationalization of the Suez Canal in 1954, and the failed attempt by Israel, France and Great Brittan to retake it by force, proved to be an immensely significant conflict, politically and economically, for both the involved countries and the IMF. All the involved countries had to seek emergency funding by the IMF, and Egypt received funds for the second time since 1949.[44] In the era of Arab nationalism, and under the rule of the Gamal Abdel Nasser regime, it is not surprising that the IMF was labeled as a tool of the Western powers and their interests. Despite this, Egypt continued to borrow money from the Fund throughout the Nasser reign, but Nasser himself was often reluctant to comply directly with the most common IMF loan-demands such as reduction of government expenditure, subsidy cuts and privatization of state owned companies.[45]As President Anwar Sadat later introduced the *open door* policy and decided to change the Egyptian dependency on Soviet economic support, the IMF was welcomed to serious loan discussions in 1975, which were the first of such talks since 1962.[46] The Fund and Sadat were, however, not popular among the Egyptian public, at least not after the ill-famed "bread riots" of 1977, where IMF-imposed reform had led to agricultural subsidy cuts, which again had led bread prices to skyrocket in Egypt. The riots were the largest of its kind in decades and made both Sadat and his successor, Hosni Mubarak, reluctant towards the sudden economic adjustments the Fund often promoted and proposed, as the adjustments often led to unrest and opposition.[47]

Nevertheless, Mubarak would eventually turn to the IMF for aid again. In 1987, Egypt entered a serious recession due to falling oil prices, lower tax revenues from migrant workers and reduced direct foreign investment in the Suez Canal.[48] The decision to side with the United States during the Gulf War of 1991 provided Egypt with a chance to break out of the recession and the immense debt Egypt had developed. The IMF and the Paris Club,[49] an informal group of creditor countries who find debt solutions, agreed to cut half of the Egyptian foreign debt and at the same time grant Egypt a standby loan through an Economic Reform and Structural Adjustment Program. Negotiations and arrangements between the IMF

[44] Boughton.2001: 425-428
[45] Waterbury.1984:95
[46] Rivlin.2001:101
[47] Soliman.2011:40
[48] Osman.2013:182
[49] Rieffel.1985:2

and the Mubarak regime continued throughout the 1990s as a part of this loan agreement. By 1996, the Egypt government had committed itself to adjustment reforms, and the mood of the Egyptian authorities had changed as they now considered subsidy reduction, tax reform, general economic liberalization, and other IMF suggested adjustments, as their highest economic priority.[50] It was an IMF success story, and the new "tiger on the Nile" was aiming to fight social inequality and create wealth for all of Egypt through political reforms and the economic adaptation to a capitalist market oriented economy.[51] Over a period of ten years, the Egyptian government had sold its stakes in 118 companies and the Fund considered the privatization process highly successful.[52] By 1998, the IMF reported that Egypt, between 1996 and 1997, had the second highest level of fiscal balance in the Middle East, and by 1998 Egypt no longer needed the IMF to dictate or oversee their political economy.[53]

Hopes were high for Egypt, and many economists, scholars and politicians praised the developments and reforms of the Mubarak regime as the country had changed into a more market-oriented economic system.[54] The new Egyptian economic ideology was liberal capitalism and neo-liberalism, strongly promoted by the National Democratic Party, which had controlled Egypt since being founded by Anwar Sadat in 1978. The ideology centered on economic and political liberalization and deregulation reforms, which forcefully pressed implemented monetary restructuring, currency floating, tax reform and reductions in government expenditure. This again paved the way for entrepreneurship, an increase in direct foreign investment and massive growth for, now privatized state companies, and the Egyptian national GDP. However, there was a serious, undesirable and adverse side to the economic reforms, and the seemingly endless liberalization reforms, that the NDP enforced. Unemployment was rising through the 1990s and 2000s, as was the population, a population that was also becoming considerably younger and more demanding.[55] Poverty was becoming ever more evident for the common Egyptian. The labor force, in both private and public sectors, experienced a political elite that passed laws which prohibited them from striking, cut their employment benefits and refused to raise their minimum wage despite higher costs of living.[56] Inflation, government subsidy cuts, deterioration in schools and health care services

[50] Rivlin.2001:105-109
[51] Osman.2013:147
[52] Ibid:141-142
[53] Soliman.2011:45
[54] Richards and Waterbury.2008:252
[55] Osman.2013:220
[56] Korany and El-Mahdi.2012:26

led even the once so proud Egyptian middle classes to protest against the government.[57] The anger directed towards Mubarak, like Sadat before him, had its origin in the clear favoring and cronyism of the economic and political reforms that had been introduced during their time as the President of Egypt.

Both Sadat and Mubarak had claimed that the economic "opening" and liberalization would eventually benefit Egypt as a whole, not just the upper classes. In the 1990s, and particularly the 2000s, this claim became hard to defend, as there was a sudden clash between what reference points the IMF and Egyptian politicians could show, and the reality of the economic situation for the common Egyptian. While the neo-liberals boasted about high GDP growth and higher sales of luxury items, the standard of living was declining, and political instability was becoming a serious problem for the regime.[58] After the Arab Spring of 2011, there was much speculation over what had upset the Egyptian people most during the 30 years Mubarak ruled Egypt. Some said it was the limits of democratic influence; others commented that the restriction of labor rights or the brutally violent behavior of the police and security forces. Nevertheless, there was one reason that Egyptians and experts agreed on, a socioeconomic and political issue that had plagued Egypt for decades and that was present on all levels of Egyptian society: the favoritism, inefficiency and corruption all connected to poor governance.

2. 4 - The IMF introduces their policies of good governance

On September 29, 1996, the Interim Committee of the IMF Board of Governors held its 47th meeting in Washington DC. Both the Chairman of the Board of Governors and the Fund's Managing Director attended the meeting. In the press release made by the IMF after, the committee reflected on the changing dynamics of the world economy, which included both the challenging economic situation in developing countries, and what they described as positive trends and economic progress in Asia, Latin America and the Middle East.[59] The Committee also declared that they had revised the *Declaration on Cooperation to Strengthen the Global Expansion*, also known as the *Madrid Declaration*, a declaration that had been introduced in 1994. The *Madrid Declaration* had mostly been dedicated to the IMF's focus on unemployment reduction, sustainable growth in industrialized countries, the prevention of

[57] Osman.2013:143
[58] Blaydes.2011:45
[59] IMF.1996. *Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund.*

inflation and the need for "bold" reforms in transitional, emerging and developing economies.[60] The new revised and broadened declaration, *The Declaration Partnership for Sustainable Global Growth*, focused on the much of the same as the original, but now included a stronger emphasis on the IMF's role in the promotion and advocacy of the global free market, international trade liberalization and an added element, the promotion of good governance. As the declaration states:

> *Promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper.*[61]

The IMF had worried about poor governance and its effect on international, and national, economies for a long time. As the Fund had already pointed out, the absence of good governance often led to loss of tax revenues, encouraged rent seeking, slowed GDP growth in developing countries and could shape the government expenditure in a negative direction.[62] Despite this, there are still many reasons why the IMF, rather suddenly, decided to take make a clear policy stand against corruption and actively promote good governance.[63] It is obvious that the world economy was rapidly globalizing, and the Fund was becoming more involved in developing, and corrupt, countries. In a new more internationally oriented economy, decisions made by a corrupt government could severely affect the global economic balance. With the Fund's increased good governance oriented policy mission, the need to visibly distance the organization from poor governance and corrupting practices was vital.[64] There is no doubt that the IMF took this effort seriously, as the *Declaration Partnership for Sustainable Global Growth* was the text first presented in the *World Economic Outlook* section of the 1996 *IMF Annual Report*.[65] The introduction of good governance policies was also in many ways a necessary rebranding for the Fund, as the already discussed financial crisis in Mexico, the IMF's increased global mandate and the Fund's strong promotion of a globalized world economy, had created negative sentiments towards both IMF and the organization's polices.

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[60] IMF.1996. Press release No.96/49. *IMF Interim Committee Madrid Declaration on Cooperation to Strengthen Global Expansion*
[61] IMF.1996. *Declaration Partnership for Sustainable Global Growth*:2
[62] IMF.1996. *IMF Working Paper No.96/98*:7
[63] Boughton.2012:149
[64] Ibid:14
[65] IMF.1996. *IMF Annual Report* 12

The question the Fund had to take on was whether the organization would make the promotion of good governance official IMF policy. This topic was discussed and debated in the mid-1990s, and many Executive Directors were uncertain if it was reasonable to include the promotion of good governance within the IMF's mandate. Nevertheless, Managing Director Michel Camdessus was able to convince the organizations leaders that this was a necessary move after circulating the Working Paper "Corruption, Government Activities and Markets", written by Vito Tanzi, who at the time was the director of the IMF's Fiscal Affairs Department. Tanzi's paper argued that poor governance, and particularly corruption, was connected to the conditions that the government provided, arguing that the public sector and ineffective tax system created corruption, and that state reduction was the most effective measure against corrupting practices and poor governance.[66] Persuaded, the organization's leadership decided to include the monitoring of poor governance in their official surveillance system as the Fund concluded that neglecting the damages of poor governance and corruption could harm economic growth, the integration of the world economy and the credibility of the IMF's entire surveillance system.[67]

[66] IMF.1996. *IMF Working Paper No.96/98:17*
[67] Boughton.2012:151

3. Egypt commits to liberalization while the IMF introduces good governance
1996-2001

3. 1 - Introduction

After the debt negotiations with the Paris Club, World Bank and IMF in the early 1990s, the Egyptian government proved itself ready for reform and adjustment, seriously committing the country to privatization and liberalization for the first time since the introduction of Sadat's *open door* polices in the 1970s.[68] The Mubarak regime started the Stand-By Arrangement - reform-process by introducing new laws and regulations aimed at making the private sector more investment friendly by reducing state involvement in the economy, and presenting the celebrated investment law of 1991. The rapid introduction of IMF-supported, neo-liberal-oriented reform presented by the Egyptian authorities was in line with the Mubarak regime's readiness to integrate Egypt into the global markets. The Egypt government further introduced new stock market laws, arbitration laws while selling away stakes in several public sector companies. [69] The Egyptian state remained a principal owner in several profitable companies, including several oil companies and The Suez Canal Authority, but Egypt's commitment to liberalization and reform became manifested in Egypt's decision to join the free trade-oriented World Trade Organization in 1995.[70]

While the IMF would commend the Egyptian authorities for rapidly adjusting in the early 1990s, the methods of liberalization used by the Egyptian government faced criticism from some observers. In 1994, The Egyptian Bottling Company and the El Nasr Boilers Company, both of which were profitable state owned companies, were privatized and sold by the Egyptian state. Despite protest from workers and the Egyptian media, the companies were sold under market value and later resold at a profit almost ten times the original prizing.[71] The Egyptian liberalization and adjustment reforms would, however, slow down and stagnate towards the mid-1990s, a development that unsurprisingly frustrated the IMF. Despite this, the Egyptian authorities would through the cabinet of Prime Minister Kamal al-Garnzouri, renew Egypt's reform initiative, resulting in the Stand-By Arrangement of 1996. This time, however, the IMF had introduced the new polices of good governance. These polices would make a solid presence in the reestablishment of Egypt-IMF relations.

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[68] Osman.2013:141
[69] Rutherford.2008:197-198
[70] Ibid:199
[71] El-Mahdi and Marfleet.2009:47-48

3. 2 - The IMF reaches out to Egypt

In early 1996, Egypt was under pressure from the IMF. The country was covered and closely monitored by the Fund, as Egyptian authorities were bound by agreement to implement IMF supported reforms as a part of the Structural Adjustment Program that had been introduced in 1991. This included economic privatization, trade liberalization and structural change, which had led to cuts in welfare, pensions and state subsidies.[72] Reports indicate that the IMF, at this point, was not entirely satisfied with the level and scale of liberalization that the Egyptian authorities had introduced within sectors such as the textile industry. The Fund also made a clear point that increased liberalization would be beneficial for the Egyptian economy as a whole, and further advised Egypt to lower trade barriers and fully enter the global economic markets.[73]

This pro-globalization attitude was obvious and well reflected when the Managing Director of the IMF, Michel Camdessus, addressed the Annual Meeting of the Union of Arab Banks in May 1996. Key aspects of the speech included the need for reform, economic transparency and the acquisition of more economic information from the Arab countries. Camdessus first stressed that the new, more globalized and internationally dependent economy presented challenges, but he was optimistic in his outlook for an Arab participation in the global markets. However, Camdessus also pointed out that the Arab countries needed economic and financial change and reform, without specifically mentioning Egypt or any other Middle-Eastern country. It is interesting to note here that Camdessus strongly emphasized the need for economic transparency, and he directly addresses this challenge under what he describes as “the agenda for reform.” Camdessus additionally made a clear point that transparency was necessary within all levels of the economic framework, including governments, the banks and the private sector, and he further urged the Arab countries to provide the IMF with reliable data that would enable the Fund to properly advise them on economic policy questions.[74] Camdessus’s reflection and eagerness to discuss subjects such as the need for global economic transparency may have been a result of the sudden growth in the number of IMF member countries, as 35 countries had joined the IMF between 1990 and 1995.[75] The IMF often faced challenging problems when dealing with these, often emerging,

[72] Rivlin.2001:109 and Osman.2013:182
[73] IMF.1996. *IMF Working Paper No.96/7*:1 and 4
[74] Address made by Michel Camdessus at the Annual Meeting of the Union of Arab Banks. *The Challenges for the Arab World in the Global Economy: Stability and Structural Adjustment*
[75] IMF.2012. *List of Members*

economies, and with the regimes of older member countries that now needed assistance and help to adapt to the global markets.

The IMF's role had become twofold: while the organization had to provide support to emerging post-Soviet economies, at the same time it had to oversee the international transition into a post-Cold war global economy. It was the Fund's prerogative, and role, together with the newly founded World Trade Organization, to oversee and monitor this economic transition.[76] This, however, did not happen without its difficulties. Problems emerged when the Fund held negotiations and consultations with highly corrupt and authoritarian regimes. Deputy Managing Director of the IMF, Stanley Fischer, had for instance reported to Michel Camdessus that he was shocked by the level of corruption in Indonesia, a country that had joined the IMF in the 1960s, but now needed increased IMF technical assistance in order to cope, and adapt, to growing competition from the global markets.[77] Problems and challenging developments had indeed been a common feature as the IMF's role in the international global economy, the Fund's sphere of influence and mandate, had increased considerably in the early 1990s. One example of this change was the Mexican currency crisis of 1994, which was a crisis of capital flight that, the IMF feared in the new global economy, might affect vulnerable countries, such as Egypt.[78]

In a time of IMF reform, the Fund's relationship with Egyptian authorities had been strained for several years. The Fund had not been satisfied with the pace of Egyptian reform measures, and had spoken up against the lack of insight into how the Egyptian government implemented the reforms the Fund and Egypt had agreed upon.[79] However, this relationship was, according to the IMF, developing in a positive direction after years of skepticism towards the IMF, as the new government of Egypt seemed more interested in complying with the Fund's polices and their suggested reform measures. Policy suggestions were often drastic in character due to the IMF's perception of the Egyptian economy being corporatist and isolated from the international economy.[80] In June 1996, just three months prior to the Fund's official introduction of the good governance policies, the IMF's Executive Board organized a delegation that went on a tour of Egypt, Yemen and Jordan. The delegation consisted of five "visiting directors", who, while in Egypt, held meetings with the newly appointed Prime

[76] Boughton.2012:16
[77] Ibid:517
[78] Ibid:488
[79] IMF.1996. *Statement by Mr. Shaalan on Arab Republic of Egypt. Executive Board Meeting 96/93*:1
[80] As quoted by Geir Skogseth: "Egypt's economy was so isolated in the early 1990s that it had the appearance of a Soviet republic."

Minister, Kamal Ahmed El-Ganzoury, as well as the Minister of Economy, the Minister of the Public Sector, the Speaker of the People's Assembly, the Governor of the Central Bank of Egypt and representatives from the Egyptian business community.

When reporting to the Managing Director and the Executive Board, the delegation dedicated much time to reflect on what they believed to be a demonization of the IMF in the Egyptian and Middle Eastern public. The delegation, for instance, described an Egyptian press that was unconvinced of the reform program the Fund had put together, adding translated transcripts from newspaper articles about the delegation's visit in the submitted report.[81] The Egyptian business community and government officials, on the other hand, were described as almost too enthusiastic about IMF reform, which the delegation considered a clear attempt from the authorities to create credibility and distance from the anti-IMF sentiments held by the media and Egyptian academics the delegation had met.[82] Virtually no disagreement in the meetings led both the IMF staff and Egyptian authorities to conclude that further acceleration of already existing IMF-supported reforms was necessary for the country. Some reform skepticism was, however, also visible with the Egyptian government representatives, as they feared that the consequences of certain measures would be too dramatic for the Egyptian public to handle, which could lead to, in the worst case, civil unrest, which had been the case in Egypt before.[83]

The anti-IMF sentiments, and somewhat ambivalent opinions of the Egyptian government representatives the delegation encountered, were further discussed when the Executive Board met in September. Transcripts from this meeting indicate that the delegation was encouraged by Egypt's willingness to implement the reforms the IMF mission staff felt needed, and that the Egyptian authorities had settled on a program the Fund could support.[84] The Deputy Director of The Middle Eastern Department agreed that this was a positive development, as sustainable economic growth through structural reform was crucial for Egypt. At the same time, the same Deputy Director emphasized that the delegation had dealt with regimes and governments that often benefited from rent seeking, and that the Fund faced challenges when attempting to direct and maneuver countries like Egypt away from poor governance and corrupt practices. The members of the delegation shared this view, and the IMF mission staff who participated on the tour had observed that there were strong ties

[81] IMF.1996. *Report on June 1996 Executive Board Travel to Egypt, Yemen and Jordan. Supplement One:*1-2
[82] IMF.1996. *Report on June 1996 Executive Board Travel to Egypt, Yemen and Jordan*:5
[83] Ibid:4
[84] IMF.1996. *Minutes of Executive Board Meeting 96/88*:24-25

between the Egyptian financial elites and government representatives present at the meetings. This again led the delegation to conclude that these close ties had resulted in the high consensus in the meetings, a consensus considerably higher than that of the other counties the staff had visited during their tour of the Middle East.[85] There is little doubt that the IMF staff had indeed witnessed the political corruption that was common in Egypt, since observers described the mid-1990s as a time where Egypt was controlled by President Mubarak's chosen cronies and business associates.[86] This was also observed by the Deputy Director of the IMF's Middle Eastern Department, who stressed that more knowledge about the political and socioeconomic patterns of Egyptian society needed to be disclosed, as more information would make it easier for the Fund to recommend realistic economic and political reforms for Egypt.[87]

Just days after discussing the delegation's report from their tour of the Middle East, the IMF received a request from the Egyptian authorities for a Stand-By Arrangement, where Egyptian authorities requested 271.4 million SDR[88] worth of credit, which would be covered by a 24-month program lasting from October 1996 until September 1998.[89] The IMF mission staff report from the consultation concluded that Egypt would benefit from the continuation of already existing agreements between Egypt and the IMF. The new policy program, as a part of the Stand-By Arrangement, included well-known IMF practices such as privatization, state deregulation, economic liberalization and tax reform, as the Fund considered this to be the most efficient measures for Egyptian GDP growth, stagnation of inflation and job creation.[90] The report also commented that the staff was pleased to see that the new government of Prime Minister El-Ganzoury had committed itself to intensify these IMF supported measures, while the Fund still stressed that the Egyptian state needed to make more way for the private sector.[91] Despite this, supplementary reports later added to the Article IV Consultation report describe discussions between IMF staff and Egyptian authorities in Cairo where the IMF

[85] IMF.1996. *Report on June 1996 Executive Board Travel to Egypt, Yemen and Jordan*:2
[86] El-Mahdi and Marfleet.2009:22
[87] IMF. *Minutes of Executive Board Meeting 96/88*:29-30
[88] IMF. *Factsheet: Special Drawing Rights*. (SDRs) SDR (Special Drawing Rights) – As quoted by the IMF: The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.
[89] IMF.1996. *Arab Republic of Egypt - Staff Report for the 1996 Article IV Consultation and Request for Stand-By Arrangement*:60
[90] Ibid:21
[91] Ibid:15

mission remained positive towards the economic developments and the mood of the Egyptian government.[92]

In the final discussion round made by the IMF Executive Board, poor governance, and particularly corruption, as a challenge to the Egyptian economy came under debate for the first time. Executive Director Jon Shields commented that corruption was a severe problem in Egypt, and that President Mubarak took the issue seriously. As pointed out in the new IMF good governance policies, the efficiency of the public sector was considered essential for good governance, the argument being that the public sector can potentially function as an incentive for both corruption and rent seeking behavior due to its lack of transparency and ineffectiveness. The size of the government bureaucracy and the political power of the public sector was a problem in Egypt that had to be dealt with, from both the Egyptian government and through the IMF's promotion of good governance polices.[93] The IMF's effort to promote transparency had been clear in the supplementary IMF staff reports that were released during the discussions for the Stand-By Arrangement. The supplementary reports stressed, for instance, the importance of openness and transparency in relation to the introduction of the new Egyptian *Unified Investment Law*, that would further open up for the sale of state owned companies to private and foreign investors. The report concluded that the investment law, hopefully, would pass through the Egyptian parliament quickly, adding that the existing regulations should be phased out over time and that the transition should be administrated in a "transparent and non-discretionary manner".[94]

On 11 October 1996, the IMF's Executive Board agreed to approve the Stand-By Arrangement and the subsequent loan, again praising Egypt's willingness to introduce necessary reforms in the official press release.[95] When summarizing the negotiations and the arrangement, the Acting Chairman of the Executive Board commented that he was pleased with the Directors who had negotiated the arrangement. As he noted, the Directors had laid considerable pressure on Egyptian authorities to provide reliable and transparent information about the Egyptian economy, and they had sought to motivate the Egyptians to lower trade tariffs and join the global markets. The Acting Chairman further stressed that fiscal discipline

[92] IMF.1996. *Arab Republic of Egypt - Staff Report for the 1996 Article IV Consultation and Request for Stand-By Arrangement. Supplementary Information*:5
[93] IMF.1996. *Minutes of Executive Board Meeting 96/93*:26-27
[94] IMF.1996. *Arab Republic of Egypt - Staff Report for the 1996 Article IV Consultation and Request for Stand-By Arrangement. Supplementary Information*:3
[95] IMF.1996. *Press Release No. 96/50. IMF Approves 24-month Stand-By Credit for Egypt*:1-2

from the Egyptian authorities was essential when the proposed reform processes such as privatization measures in the banking sector, the phasing out of subsidy programs and restructuring of the public sector, were to be implemented. The Acting Chairman concluded that both the IMF and Egyptian authorities had to closely monitor these accelerated reforms, and that the development was dependent on the introduction of proper Egyptian regulations and accurate IMF guidance. However, like his colleagues, the Acting Chairman was confident that the Egyptian economy would grow considerably in the coming future and that the relationship between the IMF and Egypt would prosper.[96]

The relationship between the IMF and Egypt would indeed change dramatically, which was clearly stated by the First Deputy Managing of the IMF, Stanley Fischer, when he reported to the Executive Board after traveling to Egypt and attending the Middle East/North African Economic Conference in November 1996. The Deputy Director describes the mood as a “honeymoon” between the Fund and Egyptian authorities, now represented by President Mubarak himself. Fischer further stated that he believed that Egypt would soon see the benefits of the IMF supported reforms.[97] Despite no mention of it in relation to Egypt, it is clear that good governance policies had made its way into the framework of the IMF. During the same Executive Board meeting where the Deputy Director expressed great optimism towards the developments in Egypt, the promotion of good governance was suggested as a new component in the transformation of state-economies into market-economies.[98] What is also clear is that the relationship between the IMF and Egypt had mended through the new Stand-By Arrangement, as President Mubarak spoke highly of the Egyptian, and the Middle Eastern, economic potential, if the region adapted to the reforms the IMF suggested.[99] Macroeconomic stability and structural reforms was, according to Fischer, critical for the Middle East if sustainable growth was to be achieved, and he described Egypt as a country that spearheaded this process of economic liberalization in the Middle East.[100] The IMF was also at this point determined to remain on Egypt’s good side as the Fund continued to elaborate on how immensely pleased they were with Egypt’s economic progress and economic stabilization. Behind the words of praise and confidence, however, it was clearly stated from IMF what the organization wanted and expected from the Egyptian authorities.

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[96] IMF.1996. *The Acting Chairman’s Summing Up at the Conclusion of the 1996 Article IV Consultation with the Arab Republic of Egypt Executive Board Meeting 96/93 - October 11, 1996*:1-2
[97] IMF.1996. *Minutes of Executive Board Meeting 96/103*:3
[98] Ibid:9. The discussed country was the Ivory Coast
[99] IMF.1996. *IMF Survey. MENA Conference Stresses Economic Potential of the Region*:1
[100] Ibid:4

Speaking on behalf of the Fund, Fischer outlined that privatization of Egyptian state owned companies was the most important factor in the stabilization of the Egyptian economy, and therefore stressed that the sales of these companies, under the regulation of *Law 1991/203*, had to continue.[101] While it could be argued that Fischer's statements underlined the IMF's fixation on government deregulation, Fischer also stressed the importance of economic transparency and a functioning financial regulatory system, as this was instrumental for creating confidence among foreign investors, which again was essential for Egyptian economic growth.[102]

Certain parts of the new good governance policies, particularly the increased focus on accountability and transparency, were clearly visible during the reestablishment of Egypt-IMF relations through the IMF's insistence and pressure on Egyptian authorities to be open towards the Fund. Whether this was a direct result of the new policies, however, is questionable as the IMF's hard line towards developing countries was a common feature at the time and the IMF's role as a promoter of good governance policy was at a very early stage. Nevertheless, it is clear that the Fund had been unsatisfied with Egyptian authorities for several years. But it is also clear that the Fund considered the openness of the Egyptian government representatives, and business elites, as a sign of increased confidence towards the Fund's preferred economic policies. The discussions between IMF staff and Egyptian authorities, and the visits by the First Deputy Managing Director to Egypt, had indeed brought new life into the relationship between the Fund and Egypt, and the IMF was confident that the organization's policy advice would guide the country forward towards economic stability and growth.[103]

3. 3 - The IMF's good governance policies takes form

As previously discussed, the IMF had become increasingly concerned with corruption and poor governance in the 1990s, as the end of the Cold War and the rapid globalization of the world economy had confronted the IMF with widespread poor governance in several of the organization's member countries. At the same time as the IMF had reestablished its relationship with Egypt, the Fund had, after the *Declaration Partnership for Sustainable Global Growth* in 1996, progressively taken on the role as a promoter of good governance and anti-corruption, producing new research material and more actively defining the causes and

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[101] IMF.1996. Speech by First Deputy Managing Director of the IMF, Stanley Fischer, at The Egyptian Center for Economic Studies: *Egypt and the Fund*:4-5
[102] Ibid:5
[103] IMF.1997. *Minutes of Executive Board Meeting 97/15*:3-4

consequences of poor governance. Much of the IMF research literature on corruption and poor governance that was produced in 1996 and 1997 continued with the previously specified IMF arguments. Ultimately, government intervention in the economy, such as price control, subsidies and trade restrictions, was labeled as mechanisms for increased corruption and rent-seeking behavior.[104] At a first glance, much of the policies that the Fund presented as measures to reduce corruption can easily be interpreted as policies the IMF already stood for, that being economic liberalization and support for the global markets. However, the Fund would also become less symbolic, and suggest concrete methods for dealing with corruption in areas such as the civil service and public sector, arguing, that for instance, underpayment of public officials and lack of oversight could cause tax evasion, which again could have dire consequences for developing countries and their potential revenues.[105]

The Executive Board continued its discussions of how the organization was to adapt to their new role as a promoter of good governance, and eventually, in July 1997, approved and released the guidance note *Good Governance: The IMF's Role*.[106] The guidance note stressed the importance of economic transparency within member countries, and additionally pointed out that IMF staff would speak up against corruption and poor governance whenever it was within their mandate, such as Article IV Consultations and loan negotiations.[107] The Fund also pointed out that their involvement was to be limited to macroeconomic questions, and that the organization’s main contribution would come through policy advice and support for decent good governance inspired reform measures.[108] The IMF rhetoric and message would also make a clear point that the challenges of poor governance and corruption was most evident in transitional and developing countries, like Egypt, and that this was a serious issue. If developing countries did not tackle problems, such as inefficient financial sectors, high government intervention in the economy and corruption, developing economics would be considered a high risk for foreign investment, which again could lead to isolation from the globalizing world economy for countries that did not approach these problems.[109] The message from the IMF was clear, countries had to reform and deal with poor governance, or the consequences could be increased seclusion form the benefits of the interaction with the world economy.

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[104] IMF.1997. *IMF Working Paper No.97/100:4-5*
[105] Ibid:6
[106] IMF.1997. *Good Governance: The IMF's Role*:1
[107] Ibid:5-7
[108] IMF.1997. *IMF Survey.26/15:234-236*
[109] IMF.1997. *IMF Annual Report*:17

3. 4 - Reviews of the Stand-By Arrangement

The 1996 Egypt-IMF Stand-By Arrangement came under revision for the first time in March 1997. The general impression of IMF Middle Eastern Department, the department that provided the review reports, was that the Egyptian authorities were carrying out the suggested, and supported, policy changes at a solid pace, which had resulted in the privatization of 22 state owned companies, shrinking of external debt and GDP growth.[110] In good governance related matters, it is interesting to note that Egypt had complied with the Fund's insistence on introducing reforms to restructure the Egyptian civil service, a restructuring process that included the introduction of a new general sales tax, a new income tax and the reduction of the public sector and thus the reduction of state employees.[111] Despite much praise, the report pointed out delays and areas where the staff was unpleased. The Egyptian authorities had not been able to pass and introduce the previously discussed *Unified investment law* through parliament, an investment law that, more than any other point of the Stand-By Arrangement identified the need for governmental regulation and financial transparency.[112] The Fund's report was also not content with some of the financial data the Egyptian authorities had provided. However, the staff was pleased to note that Egypt was interested in adapting, with the help of IMF's technical assistance, the newly developed IMF *Special Data Dissemination Standard*,[113] which was considered a part of the IMF's increased country surveillance, and a significant part of the IMF's new good governance policies.[114]

The second review report of the Stand-By Arrangement, published in June 1997, focused on much of the same topics as the first report, again stating that Egypt was quickly becoming more economically stable and responding to the implementation of IMF suggested structural reform initiatives.[115] On the financial sector, the IMF mission staff who completed the report noted that the privatization program was moving into a new phase, and that Egyptian authorities would soon begin the privatization of insurance companies, transportation, the construction industry and state owned hotels.[116] The second review report would again point out the lack of data in certain areas, but the overall assessment was that

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[110] *Arab Republic of Egypt – First Review Under the Stand-By Arrangement*:5 and 20
[111] Ibid:21-22
[112] Ibid:24
[113] IMF.2015. *Factsheet: IMF Standards for Data Dissemination*. – As quoted by the IMF: The Special Data Dissemination Standard (SDDS) was established in 1996 to guide members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public.
[114] Alexander, Cady and Gonzalez-Garcia.2008:83
[115] IMF.1997. *Arab Republic of Egypt – Second Review Under the Stand-By Arrangement*:19
[116] Ibid:67

Egypt's reform process was preforming at solid pace.[117] The acclaim Egypt authorities received from the IMF staff review report was confirmed when the report later was later subjected to discussion in the Executive Board. Despite consensus regarding the progress on economic stabilization, some Executive Directors were not entirely satisfied with certain parts of the Egyptian performance, and encouraged Egypt to accelerate both the process of financial liberalization and the lowering of trade barriers.[118] Most of the Executive Directors still agreed, however, that Egypt was preforming well, and pointed out the importance of the newly introduced monetary regulations in the Egyptian banking sector, which was considered an important step in creating fiscal stability and investor confidence for Egypt.[119]

It is clear that the IMF had so far been satisfied with the implementation of suggested reforms of the Stand-By Arrangement. The Egyptian authorities received much recognition for the pace of the reform process, the willingness to liberalize the economy, restructure the civil service and present a tax reform. The Egyptian authorities also received much acclaim for their willingness to reform the country's banking sector, a reform process that was lauded during both the Executive Board discussions and in analytic working papers that the IMF published on "the Egyptian stabilization experience".[120] The third and fourth reviews of the Stand-By Arrangement, presented through the 1997 Article IV Consultation, continued to highlight the IMF staff's approval of the Egyptian stabilization process, which was continuing at an acceptable pace.[121] The report, like the two previous ones, also pointed out certain data issues, noting that the Egyptian authorities hoped to be able to introduce the *Special Data Dissemination Standard* soon.[122] The report also welcomed the Egyptian authorities' now solid plans to create better regulations in the banking sector and reduce the bureaucracy related to investment and licensing in the country. The report also, interestingly enough, expressed clear good governance related disapproval, when it criticized the Egyptian government for not introducing a legislative bill in parliament that would increase the penalties for falsified tax declarations.[123] The report, however, did not comment on the Egyptian government's intention to construct the widely criticized "New Valley" project, a

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117 Ibid:44
118 IMF.1997. *Minutes of Executive Board Meeting 97/73*:22-23
119 Ibid:24 and 33
120 IMF.1997. *IMF Working Paper No.97/105*:37
121 IMF.1997. *Arab Republic of Egypt - Staff Report for the 1997 Article IV Consultation and Third and Fourth Reviews Under Stand-by Arrangement*:4
122 Ibid:30
123 IMF.1997. *Arab Republic of Egypt - Staff Report for the 1997 Article IV Consultation and Third and Fourth Reviews Under Stand-By Arrangement. Supplementary information*:2 and 5

planned irrigation development in the Egyptian Nile delta that had been described as unnecessary and dangerous by both national and international observers.[124] The discussions of this particular Executive Board meeting, which was the first meeting of 1998, was also marked by the recent Asian financial crisis, and Executive Director Karin Lissakers urged Egypt not to be concerned with the financial turbulence of the world economy and continue with the reform process as planned.[125]

When the fifth and sixth review reports, and the 1997 Article IV Consultation report, came under discussion in the Executive Board, both the IMF staff and Directors continued to acclaim Egypt for their steadfast implementation of privatization and liberalization reforms. The review report also continued to highlight progress in the development of Egyptian banking supervision, liberalization and civil service reform, and noted that Egypt was underway in implementing the *Special Data Dissemination Standard*.[126] In the Executive Board meeting, Executive Director Shaalan reported that the Egyptian authorities were satisfied with the assistance the IMF had provided them, and assured the Executive Board that the reform process was well underway, further stating that the Egyptian authorities wanted a healthy working relationship with the IMF after the expiration of the Stand-By Arrangement.[127] The Executive Directors would yet again point out the absence of some data from Egyptian authorities, but also give acclaim for the efforts to develop transparency and regulatory reform in the banking system, which considered highly necessary as the existing system was described as having a "minimum standard" compared to the international standards set by the Basel Committee on Banking Supervision.[128]

The seventh and final review report of the Stand-By Arrangement was marked by the fact that the IMF-Egypt arrangement was about to expire. The staff from the IMF's Middle Eastern Development and Review Departments presented a summary list of Egypt's completed liberalization and deregulation reform process as well as a staff appraisal where it was concluded that Egyptian economy had managed to remain relatively unaffected by the outcome of terrorism, the Asian financial crisis and falling oil prices.[129] In September 1998, the IMF-Egypt Stand-By Arrangement expired, and a new arrangement was not introduced as

[124] Young.1997. *Egypt launches controversial Peace Canal project*
[125] IMF.1998. *Minutes of Executive Board Meeting 98/1*:41
[126] IMF.1998. *Arab Republic of Egypt – Fifth and Sixth Review Under the Stand-By Arrangement*:22, 35 and 40
[127] IMF.1998. *Minutes of Executive Board Meeting 98/72*:6-7
[128] Ibid:16 and 22
[129] IMF.1998. *Arab Republic of Egypt – Seventh Review Under the Stand-By Arrangement*:29 and 45

neither the IMF, nor the Egyptian authorities, found it necessary.[130] There was both optimism and some skepticism when the Fund's direct involvement ended. Many observers feared that the reform process would not continue at an acceptable pace without the IMF's watchful eye. Egypt still had a lot of work to do in terms of reform, and the IMF's role was now reduced to that of a consultant and policy advisor.[131]

3. 5 - Did the IMF promote good governance during the Stand-By Arrangement?

The IMF's approval of the developments of a solid Egyptian banking system and support for the signals sent by the Egyptian authorities to create more transparency and regulation in the economy was undeniably in line with the organizations approach to the recently introduced good governance policies. Openness and transparency in banking, and the reporting of statistical data from member countries was considered greatly important, particularly after 1997 when the Fund had officially presented good governance as a new mechanism in the IMF economic "surveillance system".[132] This was also particularly important for a country such as Egypt, where the country's banking system was well known for its slack oversight and lack of transparency, and the IMF would continue to insist that Egypt reform and improve its banking supervision.[133] The Egyptian banking system had additionally become notoriously well known for being bias in their loaning policies, with the Egyptian magazine *Rose-al Yousef* noting that as much as 40% of credit given in 1995 was provided to families and business elites closely associated with the Mubarak regime.[134] The same conclusion can be made about the IMF supported reforms to liberalize and open the state owned companies, such as the insurance firms, for sale, as the insurance sector was also known for poor supervision and corruption.[135] Egypt's compliance with making concrete plans to reduce government intervention in the economy can similarly be regarded an aspect of the good governance polices, as IMF Managing Director Michel Camdessus considered state reduction essential if corruption was to be limited in any transitional or developing country.[136] Directly confronting corruption, particularly corruption that had the potential of damaging macroeconomic stability, was also labeled as critically important by Evangelos A. Calamities,

[130] Hussein and Nos'hy.2000:5
[131] Dowell.1998. *Egypt moves away from the IMF*
[132] IMF.1997. *IMF Survey.26/8*:114
[133] El-Shazly.2001:8
[134] Osman.2013:144
[135] The Economist.1999. *The IMF's model pupil* and IMF.1998. *Arab Republic of Egypt - Staff Report for the 1998 Article IV Consultation*:47
[136] IMF.1997. *IMF Survey.26/11:*176

Director of the IMF African Department, who was clear when stating that the IMF would help member countries to confront governance and corruption related problems, if these problems were brought to the IMF's attention.[137]

Words and phrases such as "corruption" and "good governance related polices" were hardly mentioned by neither the IMF staff nor the Executive Board in any of the reviews, board discussions or research papers that the IMF produced in relation to the IMF-Egypt Stand-By Arrangement of 1996. It is evident, however, that the Fund had through the arrangement insisted on the creation of transparency legislation and decentralization in the Egyptian financial institutions, which included reform measures that the Fund had labeled as necessary for developing counties to tackle corruption and poor governance. The Executive Board welcomed all these proposed Egyptian reform measures as a part of the overall arrangement process. This included the reduction of the general government interference in the Egyptian economy through financial restructuring, liberalization, state deregulation, taxation and public sector reform. It is also clear that the IMF policy advice to Egypt throughout the years of the Stand-By Arrangement was marked by the Fund's efforts to introduce and guide Egypt into the rapidly globalizing international markets, something which was considered a significant measure to increase foreign investment and economic growth in the country.[138] Egypt had great economic potential according to the Fund, but was also vulnerable in the new increasingly globalized economy. A vulnerability, which had become more noticeable for Egypt, particularly after the Luxor terrorist attacks in 1997, when Egypt witnessed a sharp decline in tourism and tourist related revenues.[139]

While it is clear that the IMF was in line with the good governance polices concerning the promotion, and support, of the Egyptian authorities' transparency and economic openness reforms, the absence of directly addressed poor governance and corruption related concerns can be brought into question. This is particularly significant considering the fact that, at this point, the IMF and its Executive Board had no problem with addressing corruption directly through Article IV Consultations and Executive Board sessions, and even discussed the consequences of poor governance in other member countries during the same meetings where

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[137] IMF.1997. *IMF Survey.26/13:*202-203

[138] IMF.1997. *Arab Republic of Egypt - Staff Report for the 1997 Article IV Consultation and Third and Fourth Reviews Under Stand-By Arrengemetn*:46

[139] IMF.1998. *The Acting Chairman's Summing Up at the Conclusion of the 1997 Article IV Consultation with the Arab Republic of Egypt Executive Board Meeting 98/1 - January 7, 1996*:1-3

Egypt's 1997 and 1998 Article IV Consultation meetings were debated.[140] The IMF was also undoubtedly aware of the Egyptian corruption rate, as both corruption and rent-seeking behavior had been discussed in Executive Board sessions. Egypt had additionally been ranked poorly in both the 1996 and 1997 Transparency International Corruption Prediction Index and other international governance related rankings during all the years of the Stand-By Arrangement.[141]

So why did the IMF not speak up against and debate these issues in relation to Egypt when the organization had so thoroughly specified that they would address these matters? A significant factor that has to be considered is that the IMF, at that time, had defined its good governance promotion mission the same way as it had defined its organizational mission, that is as a macroeconomic one. First Managing Director of the IMF, Michel Camdessus, referred to this definition when he addressed Transparency International in Paris in early 1998.[142] Although the IMF's focus had redefined the organization's role to include the promotion of good governance, it is obvious that their approach to this role was limited, since the Fund only found it necessary to discuss corruption and good governance directly in situations where member countries were at risk of severe damage and instability due to corruption and poor governance. This had been the case in Russia, Thailand and Indonesia during the years of 1996-1998, which had promoted the IMF to propose reforms and a legal framework for how the Fund could better guide member countries away from poor governance and economic instability.[143] The problems related to poor governance and corruption in Egypt were thus not directly addressed by the IMF during the procedures of the Stand-By Arrangement, probably because the Fund did not consider corruption to be a problem serious enough for their immediate attention. The Fund was more concerned with Egyptian financial growth and the country's economic introduction into the global markets and with poverty reduction, which had been key elements in much of the reforms the IMF had suggested during the time of the Stand-By Arrangement. Corruption and poor governance had, however, not been directly addressed as a problem, which is strange considering that it was evident that the privatization

[140] IMF.1998. *Minutes of Executive Board Meeting 98/1*:17. (The discussed country was Cameroon)

[141] Transparency International.1996. *Corruption Prediction Index*:2 and Transparency International.1997. *Corruption Prediction Index*:14 (In the 1997 CPI, Transparency International admitted that data was not sufficient for Egypt, but stated that they believed corruption to be worse than the previous year). See also: World Bank.2014. *Country Data Report for Egypt, Arab Rep., 1996-2014*

[142] IMF.1998. Address made by Managing Director of the IMF, Michel Camdessus, at Transparency International, *The IMF and Good Governance*

[143] IMF.1998. *IMF Survey.27/18:288*

process of some state owned companies, such as the Al-Nasr Casting Company, had been carried out in a questionable manner.[144]

Despite this, the Fund had taken a stand and remained within their mandate, strongly promoting what the organization had determined to be the best remedies for reducing poor governance by advocating liberalization, state deregulation and economic transparency. It may be argued that this was a somewhat pragmatic approach towards the organization's good governance concepts, but Egypt had achieved what the IMF wanted in the country, economic stability, which was also the key element in much of the praise the IMF received for the organization's role in the stabilization of the Egyptian economy.[145] This was also pointed out by Executive Director Shaalan when he briefed the Executive Board during his opening statement of the 1998 Article IV Consultation report discussion, a meeting where Egypt was lauded for the absence of corruption and irregularities during the implementation of the Stand-By Arrangement.[146]

3. 6 - In the wake of the Asian financial crisis

The Asian financial crisis of 1998 had captivated much of the attention to the Executive Board, and the IMF as a whole, during 1998 meetings and sessions. During the crisis, the Fund had provided loans worth billions of SDR to the member countries most severely affected by the economic instability, and considered their level of involvement to be the most active in the history of the entire organization.[147] Lack of financial oversight had been a significant cause of the crisis, which had led the IMF to further broaden the organization's good governance polices and introduce the *Code of Good Practices on Fiscal Transparency* in April 1998.[148] The most central components in the codes are the IMF's observation of the separation between the governments and the economies of member countries, the transparency of the national budget processes, disclosure of economic information and a general assertion of integrity.[149]

The IMF would also reassure its member countries that despite the alarming turmoil of the financial crisis that the world had just witnessed, the benefits of joining the global markets were still greater than the risks of not joining. This was clearly stated when Deputy Managing

[144] Clement and Springborg.2001:141
[145] Zaki.2001:1879
[146] IMF.1999. *Minutes of Executive Board Meeting 99/5*:13 and 26
[147] IMF.1998. *IMF Annual Report*:23-24
[148] Ibid:38
[149] IMF.2007. *Code of Good Practices on Fiscal Transparency*:1-4

Director of the IMF, Shigemitsu Sugisaki, addressed the Oman International Economic Conference and discussed the implications of globalization to Middle Eastern countries. In his speech, Sugisaki acclaimed Egypt for being one of the Middle Eastern countries that had best adapted to the global economic transmission, and further stated that the IMF strongly suggested that the region's economies continue to improve financial regulation, which would enhance transparency and good governance.[150] It is clear that the IMF had dedicated much resources and time to progressively promote good governance at a stronger rate since the presentation of the new good governance policy practices in 1996. Nevertheless, the Fund increased their efforts considerably following the Asian financial crisis, and the organization's promotion of the importance of good governance to the international community was amplified through both research papers, official statements and other publications. Despite this, some observers had begun to question if the IMF's policies really could have an effect on the promotion of good governance, and if an organization as secretive as the IMF, dominated by Western interests, was really to be trusted with such an important mission.[151] Some had also begun to question the IMF's rosy view[152] of the economic situation and governance in Egypt, as Egyptian business executives and other private actors were uncertain if the Mubarak regime was able to introduce the reforms that the IMF felt were necessary.[153] Other observers had additionally pointed out that the IMF neglected the dangers of the aggressive liberalization programs the organization had supported, as it was claimed that the Egyptian privatization process had mostly been at the benefit of the new, emerging, Egyptian business elite.[154]

Much of the IMF-produced research on poor governance and corruption had in the mid-1990s been centered on these undesirable developments as a consequence of the absence of free trade, liberal economic policies and efficient bureaucracies. The Asian financial crisis had undoubtedly made the IMF aware that the good governance concept of anti-corruption had to be broadened, and that the IMF's policies at the same time had to be enforced and promoted more strongly. The new IMF research would continue to argue that the absence of liberal economic policies bred corruption. But it would also politicize the concept, arguing

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[150] IMF.1998. Address by Deputy Managing Director of the IMF, Shigemitsu Sugisaki: *The Benefits and Risks Associated with the Wider Integration of International Financial Markets*
[151] Welch.1998.*The IMF and Good Governance* and Woods.2000:827
[152] As quoted by Aled Williams: "International financial organizations tend to have a "rosy" view of the governance situation in the countries they lend money to."
[153] Marr (Editor).1999:84
[154] Ibid:10

that corrupt leaders preferred this absence in favor of monopoly and ineffective bureaucracies, and that the absence of free trade and deregulation would create an economy described as "the kleptocratic state" and "institutionalized corruption."[155] The Fund would additionally emphasize that transitional and emerging economics were at great risk if their governments did not take action during the developments of the economy. The Fund's research argued further that GDP growth would lag behind and investment could halt if reforms to promote the private sector were not introduced, arguing that structural liberalization reform, such as decentralization, privatization and monetary regulation were strong measures against poor governance and corruption.[156]

The creation of improved monetary supervision system, of a character the IMF had supported, had been constructed during the Stand-By Arrangement in Egypt, and was considered one of the arrangement's finest results. The new and improved system was again acclaimed by the Executive Board in early 1999, when the Directors concluded that Egypt's new banking regulations was a significant reason why the country had remained relatively untouched by the Asian financial crisis. The Acting Chairman additionally stressed that the Fund was encouraged by both this stability and by Egypt's steadfast continuation of the liberalization and reform process, which had been sustained since the expiration of the Stand-By Arrangement .[157] The Fund was, however, concerned about delays in the implementation of Egyptian tax reforms and the economy's high dependency on revenues from tourism and the Suez Canal.[158] The First Deputy Director of the IMF would discuss these IMF worries further when he met with the Egyptian political elite in late 1999. As First Deputy Managing Director Stanley Fischer explained to the Executive Board, both he and the staff from the IMF Middle Eastern Department were concerned that the economic policies of the Egyptian authorities were becoming too "rigid", which could potentially lead to financial loss. Fischer had strongly encouraged more flexibility in the Egyptian economy, indicating that the Mubarak regime might already have started to tighten up and slow down the liberalization reforms that the IMF wanted Egypt to introduce since the expiration of the Stand-By Arrangement.[159]

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[155] IMF.1999. *IMF Working Paper No.99/91:*13-14 and 19
[156] IMF.2000. *IMF Working Paper No.00/132:*8
[157] IMF.1999. *The Acting Chairman's Summing Up at the Conclusion of the 1998 Article IV Consultation with the Arab Republic of Egypt Executive Board Meeting 99/95*:3
[158] IMF.1999. *Minutes of Executive Board Meeting 99/5*:31 and 47
[159] IMF.1999. *Minutes of Executive Board Meeting 99/17:4*

3. 7 - Towards and after the new millennium

The IMF's Executive Board was not presented with an Article IV Consultation for Egypt in 1999 because of a cabinet reshuffle that had taken place within the Egyptian government following President Mubarak's referendum on his presidential candidacy in September 1999.[160] First Deputy Director Fischer would still make another trip to Egypt during the same year, this time meeting President Mubarak and the newly appointed Prime Minister, Atef Ebeid, personally. When he briefed the Executive Board of the meeting, Fischer assured the Executive Directors that he had explained to President Mubarak that more privatization and trade liberalization was needed, again indicating that Egyptian authorities were not as compliant towards IMF supported reforms as they had been during the Stand-By Arrangement. Fisher's report to the board also discussed "New Valley" irrigation project, now renamed the "Toshka" project, which was described by Fischer as a part of a series of successful "mega" construction projects that had led to increased investment.[161] Reports from the same year documented that the IMF supported liberalization reforms in Egypt had made the construction business the third largest source of revenue in the country, only beaten by tourism and oil. Several of these construction firms were family owned businesses, whose firms had quickly grown into massive conglomerates that invested in other sectors, eventually creating monopolistic tendencies in lucrative markets such as automobiles and telecommunication. [162]

This was a development in sharp contrast to the IMF's concepts of good governance, but in line with the organization's definition of unfavorable corrupt tendencies.[163] While it is interesting to note that the IMF would still not address poor governance in Egypt directly, it is clear that the IMF's Middle Eastern Department was concerned about recent changes, reporting several worrying developments to the Executive Board. Economic growth had stalled in Egypt, which now made the IMF staff concerned about the "mega construction projects" that First Deputy Managing Director Fischer had viewed as positive developments for increased investment.[164] Despite this, there were progressive trends, as the staff could report that Egypt was close to finalizing the largest privatization reform yet, privatizing

[160] IMF.2000. *Report on Delayed Completion of Article IV Consultations and Extension of Approval of Exchange Measures*:3
[161] IMF.2000. *Minutes of Executive Board Meeting 00/54:*3
[162] Mitchell.1999:6-7 and 16
[163] IMF.2000. *IMF Annual Report*:22
[164] IMF.2000. *Arab Republic of Egypt – Staff Report for the 2000 Article IV Consultation*:3-6

Egyptian Telecom, and that the authorities had implemented a promising and a new capital markets law that would require more disclosure from companies listed on the Egyptian stock exchange.[165] However, the report also focused on serious issues. The staff explained that they feared that the Egyptian financial reporting systems were so outdated and old fashioned that misreporting could potentially happen during Article IV Consultations. The problems were identified as a result of the split responsibilities of data saving from the Ministry of Planning and the Ministry of Finance, and that the National Investment Bank had shortcomings in their accounting records. The staff did not fear that the Egyptian authorities were intentionally keeping anything from the IMF mission staff, but were still concerned and therefore encouraged to learn that the authorities were planning to audit the National Investment Bank, further advising the Egyptian government to accept an IMF offer for technical assistance to review and update the current system.[166]

The 2000 Article IV Consultation had made the IMF mission staff uneasy about certain developments in the Egyptian economy and legislative branch, and the Executive Board spent considerable time discussing the mission's staff report when the board met in July 2000. Executive Director Shaalan used much of his opening statement to elaborate on the positive sides of the staff report the board was presented with, discussing privatization and structural reform processes that were well underway in Egypt.[167] Several of the Executive Directors would commend the new Egyptian government for this reform process, but other Executive Directors were outright upset, stating that their impression of the Egyptian authorities was changed and that the Fund's surveillance system was a matter of trust between the IMF and its member countries.[168] Several Executive Directors also called for more transparency and disclosure from the Egyptian government and welcomed the motion to have the National Investment Bank audited, which Executive Director Shaalan reminded the board was an idea suggested by President Mubarak himself.[169]

Still, in conclusion, the Directors categorized the shortcomings of data as a serious institutionalized problem, pointing out that the IMF would be unable to properly guide Egypt on economic policy questions, and again urging Egypt to accept technical assistance from the Fund and fully adapt to the *General Data Dissemination System* and the *Special Data*

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[165] Ibid:22-23 and IMF.2000. *Republic of Egypt – Recent Developments*:39
[166] IMF.2000. *Arab Republic of Egypt – Staff Report for the 2000 Article IV Consultation*:7
[167] IMF.2000. *Minutes of Executive Board Meeting 00/77*:68-68
[168] Ibid:98 and 101
[169] Ibid:90

Dissemination Standard.[170] Nevertheless, the prominent concern that the IMF focused on, and what the Executive Board criticized Egypt the most for, was not what the lack of oversight might potentially lead the IMF to not observe faults related to the Egyptian economy or governance, but the fact that there was a potential for lack of oversight in itself. The Fund apparently did not consider the governance situation, or the corruption in the country, to be at a dangerous level, at least not as dangerous as in countries such as Kenya or Russia, where the Fund had actively proposed and demanded action against corruption and poor governance.[171] These problems of data and governmental transparency were therefore not discussed with President Mubarak when the newly elected Managing Director of the IMF, Horst Köhler, traveled to Egypt in early 2001 and met with the president and the political elite.[172]

In March 2001, the IMF had reviewed the implementation and progress of the good governance policy practices since the first introduction in 1996. The Directors and IMF leadership concluded that the Fund's efforts had indeed increased the organizations focus and awareness on improved economic transparency and the promotion anti-corruption polices.[173] The report further assessed that the IMF Directors believed the codes and standards the IMF had introduced to improve transparency and accountability had made the Fund's governing bodies more aware of the perils of poor governance, un-transparent economies and corruption. This attention to the dangers of poor governance had again made the Fund more eager to address corruption in member countries where this was a matter of concern. Good governance inspired reform initiatives had become a guiding aspect of both the IMF's loan conditionality and their economic assessment systems, and the IMF considered several of the organization's anti-corruption efforts to be successful in cases where the Fund had managed to rid member countries of state monopolies and improve their tax systems.[174] The Egyptian corruption rate was still not a matter of debate for the Executive Board, however, but the problems of data feedback and transparency would not be overlooked by the IMF, as this was a matter of concern. As a result, prior to the 2001 Article IV Consultation the Executive Board ordered a report from the IMF Middle Eastern Department on Egypt's compliance with the "Observance of Standards and Codes" (*ROSC)*.

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[170] IMF.2000. *The Acting Chairman's Summing Up at the Conclusion of the 2000 Article IV Consultation with the Arab Republic of Egypt Executive Board Meeting 00/77 – July 27, 2000*:2-3
[171] Naím.2000. *A Talk with Michel Camdessus about God, Globalization, and His Years Running the IMF*:41
[172] IMF.2001. *Minutes of Executive Board Meeting 01/52*:4
[173] IMF.2001. *Review of the Fund's Experience in Governance Issues*:22
[174] Ibid:34 and 37

The first discussed subject in the *ROSC*-report was related to the serious issue of data problems between the Egyptian government and the IMF staff that had happened the previous year. The report explained the shortcomings by presenting the framework used by the Egyptian authorities in both budget planning and the introduction of economic legislation. The report noted a lack of coordination between governmental financial institutions and the ministries, which again had led to minimal public insight and transparency on budget and financial related policy matters (this with the exception of the member of the People's Assembly).[175] The report also concluded that the IMF defined accounting standards of the *General Data Dissemination System* were not met, and that the Egyptian government did not uphold the codes of *Good Practices on Fiscal Transparency*. The IMF staff suggested a long list of measures to improve the situation, advising Egypt to introduce strategies for better transparency and more functional financial legal framework, clearly stating that Egypt still had a long way to go in good governance related policy matters.[176]

3. 8 - Summary conclusion

Considering the failures and slow implementation of the previous IMF-Egypt agreements of the early 1990s,[177] the IMF quickly identified the economic reform initiatives most critical for Egypt, and fiscal stabilization therefore became the most essential component during the reestablishment of IMF-Egypt relations in 1996. The Fund's new good governance policy initiative made a solid presence in the reestablishment of these relations, starting with the Stand-By Arrangement that lasted from 1996 to 1998. Through research, mission consolations and Executive Board discussions, the IMF strongly promoted the values of economic transparency, anti-corruption and governance related integrity. However, the IMF would recognize that promoting good governance in Egypt would be challenging as long as the Egyptian state continued to uphold such a strong presence in the country's economy. While the Fund was in no position to directly criticize corrupt politicians that benefited from rent seeking and the status quo of the "kleptocratic state", they were able to demand reform where the organization's mandate was valid, and made appropriate suggestions on how the country could become better governed by insisting on good governance inspired regulations and decentralization. The IMF also took advantage of the fact that the Mubarak regime undoubtedly recognized that economic reform was necessary in Egypt, and that the IMF's

[175] IMF.2001. *Arab Republic of Egypt – Report on the Observance of Standards and Codes – Fiscal Transparency Module:*8-11
[176] Ibid:12 and 16
[177] Osman.2013:141

assistance was needed the enable the country to introduce the required reform measures. This again paved the way for a healthy working relationship between the authorities and the Fund, even in uncertain times such as the Asian financial crisis of 1998.

The IMF's promotion of good governance in Egypt between 1996 and 2001 was therefore marked by the Fund's insistence that the Egyptian state decentralize and liberalize the economy, and that the Egyptian public sector reorganize through tax restructuring, subsidy reduction and banking reform. These reform initiatives were identified as necessary for economic growth, global financial integration and the development of good governance in any IMF member country. Egypt complied with much of these good governance inspired policy practices, privatizing state owned companies, making more room for the private sector and participating in new good governance programs such as the *Report on the observance of standards and codes*. The participation in this program, however, revealed issues that would remain a constant problem for the IMF's further promotion of good governance in Egypt during the coming years: data, information and transparency issues.

4. Global economic instability and new approaches to good governance
2001-2005

4. 1 - Introduction

The first years of the new millennium would prove too be challenging for the developing and transitional economies of the Middle East, but would also present new opportunities for the IMF's promotion of good governance. One challenging issue for countries like Egypt was the region's geopolitical and economic turmoil, starting with the 2001 September 11 terrorist attacks, which had a massive impact on tourism and the global economic stability. Then the start of the Iraq war of 2003 led to further economic uncertainty and instability. However, these events, particularly the September 11 terrorist attacks, would give the IMF momentum to broaden and expand good governance, including the fight against money laundering, terror financing, and a renewed emphasis on the need for good governance policy practices in a stable globalized economy. Egypt would mostly comply with the Fund on good governance related issues between 2001 and 2005, participating in financial assessment programs and agreeing to adapt to codes and standards the IMF deemed necessary for fiscal transparency, banking supervision and improvement of the "rule of law", which the Fund considered some the most important elements in the entire good governance initiative. Egypt would additionally show great progress in other economic reforms initiates that the IMF had identified as being closely associated with good governance, liberalizing the economy and making more room for the private sector while at the same time furthering international trade through tariff reduction and tax simplifications.

Nevertheless, the constant problems of data feedback would make the Fund and its Directors nervous about the potential prospects of an internationally integrated Egyptian economy. The IMF's concepts of good governance would therefore at times be difficult to promote in Egypt, and the Fund's Executive Board were frequently divided in their prioritizations between economic progress or improved governance. Still, the period between 2001 and 2005 wars undoubtedly the years when good governance made the strongest presence during the IMF's consolations and assistance to Egypt and the Mubarak regime. Good governance had become a concept closely associated with globalization due to its necessary function in the prevention of international financial instability and IMF surveillance, and the IMF therefore actively promoted good governance in Egypt to make sure the country was not failing to realize its economic potential.

4. 2 - Post 9/11 economic slowdown

In the report for the 2001 Article IV Consultation, the staff from the IMF consultation mission to Egypt informed the Executive Board that economic growth in Egypt was stagnating. This was a matter of great concern, particularly considering the economic backlash after the September 11 terrorist attacks in the United States, which had led to a decline in tourism to Egypt at a time with a reduced global performance.[178] The report stated that, in uncertain economic periods, the need for transparent data was essential if the Fund, and its staff, were to guide and aid countries like Egypt on economic policy matters. The staff was therefore pleased to report that the Egyptian authorities had made concrete plans and committed themselves to address the faults that had been discovered in the year 2000 *ROSC*-report, while the staff still found it necessary to encourage Egyptian authorities to make proper economic data reporting a higher priority.[179] A more positive development was, however, that the Egyptian authorities had agreed to take part in the joint IMF/World Bank *Financial Sector Assessment Program*,[180] a program that aimed to document if countries followed the economic codes and standards that the IMF had introduced through the implementation and promotion of good governance since the introduction of the polices in 1996. Other more positive trends the IMF mission staff could report included that Egypt had made good progress in the areas of general market liberalization, privatization of state owned companies, the improvement of banking supervision and the introduction of new anti-money laundering legislation.

The IMF's role in the international combating of money laundering had been officially introduced as a part of the Fund's good governance initiatives and polices in April 2001. It was the opinion of the IMF's Directors that an increased focus on anti-money laundering was necessary considering the damaging effects the practice could have on the global economy. However, similarly to other good governance polices, the Directors argued that their role had to be limited to the mandate of the IMF surveillance system, which, among many proposed initiatives, led the anti-money laundering initiative to include a further strengthening and

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[178] IMF.2001. *Arab Republic of Egypt – Staff Report for the 2001 Article IV Consultation*:4 and 17

[179] Ibid:21

[180] IMF.2014. As quoted by the IMF: «The *Financial Sector Assessment Program* was first introduced in 1999. The program is a mandatory part of the obligations of the IMF Article IV and the Fund's economic surveillance program. The program is carried out with each member country every five years. The aim of the program is for the IMF and World Bank to assess the financial stability (which is assessed by the IMF) and potential for financial development (which is assessed by the World Bank), and produce and overall take on the financial situation of the country."

expanding of the mentioned *Financial Sector Assessment Program*.[181] Executive Director Shaalan was eager to point out the proposed anti-money laundering legislation and increased anti-terrorist financing effort from the Egyptian Attorney General, when the 2001 Article IV Consultation came under discussion during an Executive Board session in October the same year. Shaalan further stated that the Egyptian government considered the data reporting issues that the IMF mission staff had identified as a serious matter. He assured the Executive Board and the Directors that the Egyptian authorities would increase economic transparency efforts and introduce reforms and legislation that would make the national data reporting systems in line with the *Codes of Good Practices on Fiscal Transparency*.[182] The proposed anti-money laundering legislation, the Egyptian authorities' determination to take on the faults found in the *ROSC*-report, and the Egyptian government's plan to participate in the *Financial Sector Assessment Program* were considered signs of great improvement. Several Executive Directors in effect considered the proposed reforms a step towards both greater financial transparency and greater political confidence.[183] The deteriorating economic growth was, however, the Executive Board's greatest concern and the most discussed topic of the meeting. The Acting Chairman therefore ended the board discussion by acclaiming Egypt for a timely implemented *Association Agreement* with the European Union, the introduction of a new tax reform and a reinforcement of statistical economic data gathering, but still urged Egypt further to subscribe fully to the *General Data Dissemination System* and the *Special Data Dissemination Standard.*[184]

4. 3 - New focus on economic transparency

After the financial crises of the 1990s, including the Mexican and Asian financial crisis, the Fund had introduced several new organizational efforts to promote global economic transparency, proper international data gathering systems and standards for banking regulation as a part of the IMF's overall good governance polices. This included the discussed IMF-defined standards and codes on transparency and dissemination (feedback), which the IMF had labeled as necessary tools if global financial instability was to be avoided, and macroeconomic stability and good governance policies was to be promoted on a global level. Promoting these polices was particularly important in developing countries like Egypt, where observes had begun to question if the IMF supported liberalization reform-process really

[181]IMF.2001. *IMF Survey.30/9:*155-156
[182] IMF.2002. *Minutes of Executive Board Meeting 01/111*:7-9
[183] Ibid:33, 43, 47 and 53
[184] Ibid:62-63

could alter the worrying lack of transparency and hampering public sector ineffectiveness.[185] Other IMF good governance policy efforts included a continued determination to rebrand the Fund and make the institution more open to the public, which had led the IMF to insist that both member countries, and the Fund itself, publish reports named "Public Information Notices", where the IMF assessed the state of the country's economy and evaluated the organizations own activities.[186] This included a Public Information Notice on the progress and developments of the IMF's good governance policies, where the Directors stated that the Fund would research and explore more on subjects such as corruption, and continue with a "proactive approach" to how the organization could remain within its mandate and still promote and suggest good governance polices to member countries.[187] This came at a time when not only the IMF-supported liberalization reform in Egypt was brought into question, but the entire introduction of the IMF's transparency codes was being debated, with some observers identifying the initiative as a new step in the Fund's efforts to legitimize and spread their neo-liberal economic policies.[188]

In the first Public Information Notice published on Egypt, the IMF's Directors assessed and stated that they believed that the Egyptian government was taking steps in the right direction, acclaiming the authorities for their efforts to improve transparency by addressing the faults found in the 2001 *ROSC*-report. The Directors, however, still found it necessary to implore the Egyptian authorities to follow the feedback and data standards promoted through the *General Data Dissemination System* and *Special Data Dissemination Standard* more thoroughly and directly.[189] While Egypt had yet to adapt to several concrete good governance practices that the Fund had suggested, such as the mentioned transparency standards, the Egyptian government had quickly responded and agreed to take part in the international initiative to combat money laundering and terror financing. This was an Egyptian effort that had been well received as these poor governance related issues had been highlighted by the Fund during loan negotiations with other IMF member countries.[190] Throughout April and May 2002, the Egyptian authorities had also agreed to take part in the

[185] IMF.2001. *IMF Annual Report*:22 and 46. Zaki.2001:1880
[186] IMF.2000. *Progress in Strengthening the Architecture of the International Financial System*
[187] IMF.2001. *Public Information Notice. No.01/20*
[188] Soederberg.2001:859
[189] IMF.2001. *Public Information Notice*. *No.01/116:3-4*
[190] IMF.2002. *Egypt – Notification of Restrictions under Executive Board Decision No. 144-(52/51*), IMF.2002. *IMF Survey.31/4*:50 and IMF.2001. *Transcript of a Press Briefing By Thomas C. Dawson*

mentioned joint IMF/World Bank *Financial Sector Assessment Program*, a move the IMF staff considered a positive attitude from the Egyptian government and Mubarak regime.[191]

4. 4 - Financial Sector Assessment

The report submitted by the *Financial Sector Assessment Program*-team outlined several faults within the Egyptian financial sector; strongly underlining that Egypt should continue the processes of liberalization and privatization, explaining that these processes constituted important groundwork for a much-needed economic reform process. The IMF/World Bank team based this economic liberalization-argumentation on the fact that the report had uncovered that remnants of the old state-controlled economy were slowing Egyptian economic growth significantly, and that the remaining elements from these old systems made corruption, rent seeking and other poor governance related activities both easy and profitable.[192] The IMF/World Bank-team therefore made several recommendations and suggestions on how the Egyptian economy could become more financially transparent and open, identifying the banking sector, the insurances companies and the Egyptian Social Insurance System as the areas where the most significant financial changes were needed.

The report, interestingly enough, also highlighted what the team described as "concerning links" between the Cantal Bank of Egypt and the Egyptian government. The team believed that a financial system controlled by the Egyptian state would prevent modernization and competition from the private sector and private banking division, further backing the IMF's claims that good governance could not be properly introduced in Egypt as long as the state continued to have such control over the economy.[193] The *Financial Sector Assessment Program*-report additionally commented that the Egyptian Social Insurance Fund, the Egyptian social security system, was in in a dire state, an observation that hardly was new, as the system a few years earlier had been deemed un-transparent in a research paper published by the United States Agency for International Development.[194] While the *Financial Sector Assessment Program*-report would highlight the need for public sector reforms that the Fund had long insisted on in Egypt, such as transparency measures in the taxation systems and a structural upgrading of the country's public sector companies, the increased and highlighted focus on the banking sector is an interesting feature.[195] The most prominent focus

[191] IMF.2002. *Arab Republic of Egypt – Staff Report for the 2000 Article IV Consultation*:35
[192] IMF.2002. *Arab Republic of Egypt – Financial System Stability Assessment*:6
[193] Ibid:10 and 25
[194] McLindon, Chapman, Powell, Tiffit, Mazhar, Hamid and Bark. (USAID).1999:116
[195] IMF.2002. *Arab Republic of Egypt – Financial System Stability Assessment*:34-35

from the *Financial Sector Assessment Program*-report was therefore suggested measures for the rearrangement of the Egyptian banking system. Policy suggestions included proposals for reformed state regulations granting the banks more governmental independence, upgraded supervision, including bank audits and system revisions, and increased public disclosure from especially the Central Bank of Egypt and the state owned National Investment Bank. A greater focus on the integrity of the central banks, particularly regulation measures for proper supervision and independence from government intervention, had been a central aspect in the development of the IMF's good governance policies, and was considered a new and important stage in the progression of the IMF's governance related policy initiatives of the early 2000s.[196]

By the year 2000, Egypt had some 57 banks, 28 of which was commercial and 26 business oriented. The public banking sector was dominated, however, by four banks: the Bank of Alexandria, the National Bank, Bank Misr and Banque du Caire.[197] Suggested reforms measures for the improvement and regulatory modernization of the state, joint venture, and private owned banks had been a common recommendation in much of the policy advice the Fund had provided Egypt since the reestablishment of IMF-Egypt relations in 1996. The IMF's decision to increase their policy focus on the Egyptian banking sector was probably a result of the findings of the *Financial Sector Assessment Program*-report and what had become a progressive development in the expanding scope of the IMF's anti-corruption and good governance polices. The IMF had found it necessary to insist on minimum regulation standards for the central banks of their member countries, predominantly in developing countries under loan agreements or arrangements, as the Fund feared that IMF resources could potentially be misused if the most essential economic safeguards were not in place.[198] This was not the case with Egypt, as the Fund had no loan agreements with the country at the time. But the focus on disclosure from the banks, and other financial institutions, was in line with the organization's emphasized effort to promote economic data standards and transparency codes, which was a part of an international effort to avoid financial turmoil. The Fund was possibly also concerned with the monetary power of the Central Bank of Egypt, which had remained relatively unchanged, and highly autonomous, since its founding in 1960.[199]

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[196] Abed and Gupta.2002:8-9
[197] Woronoff.2013:71
[198] Op de Beke.2002:3
[199] International Business Publications.2013:57-58

The IMF had stated that the organization considered their introduced codes and standards as successful measures that had improved the Fund's efforts to promote global economic transparency and good governance. Despite this, the Directors at the same time agreed that the Fund's systems for transparency and feedback measurement had to be progressively updated in order to keep up with the challenges of the globalizing world economy, signaling that the development of the good governance policies was far from over and not isolated from improvement. [200] Lack of institutional transparency and the absence of disclosure in relation to economic practices such as foreign direct investment, had indeed been credited as key components in both the crises and uncertainties of the Mexican, Asian and Russian financial crisis of the 1990s.[201] In Egypt's case, it is interesting to note that George Abed, who was appointed Director of the IMF's Middle Eastern Department in mid-2002, expressed concern over how the Middle Eastern member countries reacted to the IMF's transparency efforts, noting that the Fund often had difficulties promoting good governance polices without overstepping the organizations political and economic mandate.[202]Abed, who credited Egypt for the implementation of solid economic reforms and the participation in the *Financial Sector Assessment Program*,[203] pointed out that the tackling of corruption and introduction of good governance polices, such as the IMF's codes and standards, was also a question of economic integrity and investor confidence. This was also an unambiguous message from the IMF on an organizational level, with the Fund stating that the introduction of anti-corruption and transparency efforts was almost to be considered necessary for economic growth in the developing and transitional economies of the Middle East.[204]

The *Financial Sector Assessment Program*-report and George Abed had in summary pointed out serious transparency problems in several Middle Eastern countries, which in Egypt's case included the most central financial institutions such as the ministries, the banking sector and social security systems. The combination of these faults did not go unnoticed, and Executive Director Shaalan spent considerable time informing the Executive Board that the Egyptian authorities had begun the process of introducing several new reforms to address these problems, including revisions of the systems used in the National Investment Bank and the Social Insurance Fund.[205] Despite Executive Director Shaalan relatively unclear

[200] IMF.2002. *IMF Annual Report:29-30*
[201] IMF.2002. *IMF Working Paper No.02/174*:4
[202] IMF.2002. *IMF Survey.31/16*:261
[203] Ibid:259
[204] IMF.2002. *IMF Survey.31/23*:399
[205] IMF.2002. *Statement by Mr. Shaalan on Arab Republic of Egypt. Executive Board Meeting 02/113*:3-4

presentation of what plans the Egyptian regime had made for financial stability reform, the IMF's Executive Board remained positive towards the developments, stating that the Fund was pleased to see that Egypt's liberalization, privatization and tax reform processes had not been significantly affected by the global financial stagnation of 2001/2002.[206] The Fund was more concerned with Egypt's economic performance, which was still considered to be below its full potential, particularly regarding foreign direct investment and international trade.

4. 5 - Good governance and globalization

By the early 2000s, the IMF seemed somewhat divided in terms of policy goals towards developing and transitional economies and was at times ambiguous in some of their statements. It is evident that the Fund hoped to influence emerging countries and economies, such as Egypt, and create financial progress, GDP growth and poverty reduction through well-known IMF-supported neo-liberal economic policies. Nevertheless, the IMF also clearly hoped to influence Egypt and other third-world countries with the promotion of enhanced economic transparency with the establishment of a greater focus on good governance inspired practices. While the Fund had uncovered serious transparency faults and poor governance in the *Financial Sector Assessment Program*-report, the IMF did not put considerable pressure on Egypt to deal with these matters, and felt settled with the Egyptian authorities' claims that a considerable reform initiative was underway. And the Fund had reason to be at ease; the IMF's insistence on a restructuring in the Egyptian banking sector had made results in Egypt.

The Egyptian government had responded after the IMF mission staff, as discussed in Chapter 3, had identified problems connected to the split responsibilities between the ministries and state owned banks during the 1999 Article IV Consultation. Egypt had responded to this observation from the IMF, and the split responsibilities between the Ministry of Planning, the Ministry of Finance and the National Investment Bank had been simplified and restructured in a manner that the Fund approved of. This had led the Ministry of Planning to lose its powerful position in the Mubarak regime, and by 2002 the Ministry of Finance had taken over much of the responsibilities of the Ministry of Planning previously held, even gaining direct supervision over the National Investment Bank.[207] The IMF would additionally acclaim Egypt for the country's steadfast introduction of liberalization and privatization reforms, as these reforms were considered critical if Egypt was to join the global

[206] Ibid:5. When Executive Director Shaalan discusses the proposed Egyptian reforms, he stated: "The initiative appears to be proceeding well, but details are not available as of yet."
[207] Soliman.2011:135

markets and experience an economic growth at a level the Fund found acceptable. The IMF was undoubtedly interested in the integration of the Egyptian economy into the international economy, and the Fund would approve and support any measures that could smooth and ease this transition. This was clear when the IMF welcomed suggested Egyptian reforms that would make both trade and investment easier, such as reduced tariffs and modernization of the custom services. The Fund additionally applauded Egypt's decision to adapt to a floating exchange rate, a move considered significant if Egypt was to compete on the international economic arenas.[208]

This attitude from the IMF might be interpreted as a reduced focus on good governance in favor of greater attention to the policy practices the Fund had predominantly and historically been associated with, that being financial liberalization and the reduction of state intervention in favor of an increased internationalization of the world economy. However, the Fund had through both research and official statements, made it clear that globalization, liberalization and good governance were connected economic policy concepts. It was also clearly the opinion of the IMF that reform was necessary in the Middle East and Egypt, and this was because the need for foreign investment and trade was significant if economic growth was to be increased. According to the United Nations *World Investment Report*, Singapore, on an annual basis, received more foreign direct investment than all 22 Middle Eastern countries combined. When Singapore participated in the *Financial Sector Assessment Program* in 2004, the IMF/World Bank team concluded that the country had very little corruption, a well-function legal system against money laundering and solid transparency regulations in the banking sector, all of which had led to a high and profitable investment rate.[209] Being excluded from this type of investment would not only reduce the chance for profitable trade and GDP growth, but would also isolate countries like Egypt from the benefits of globalization. Important benefits of internationalization that could enhance development and progression in other arenas such as technology, management expertise and access international trade.[210] The issues and challenges of good governance were therefore, understandably, not overlooked by the Fund, and the IMF's primary advice was for the

[208] IMF.2003. *Press Release No.03.12. "IMF Welcomes Arab Republic of Egypt's Decision to Adopting a Floating Exchange Rate Regime."*
[209] IMF.2003. *2004. Singapore: Financial System Stability Assessment, Including Reports on the Observance of Standards and Codes on the following topics: Banking Supervision, Insurance Regulation, Securities Regulation, Payment and Settlement Systems, Monetary and Financial Policy Transparency, and Anti-Money Laundering*:54, 67 and 77
[210] Al-Hamad.2003. *The Arab World: Performance and Prospects*:12

Middle Eastern countries to move away from the practices related to the bureaucratic state-owned economic structures and systems, as stated in Egypt's *Financial Sector Assessment Program*-report, in favor of greater transparency and legislation that limited poor governance.

It was clearly stated that entire systems and practices had to be altered if the Middle East was to avoid a recession and financial crisis of a character that had happened in Latin America and Asia.[211] In countries like Egypt, the privatization of state owned companies, the downsizing of the public sector and liberalization of the economy would theoretically reduce poor governance, as greater transparency was a key component if Egypt was to compete internationally after the introduction and implementation of such reform measures. While the IMF was in no position to directly pressure Egypt into to adapting to more good governance inspired policy practices, the risk of seclusion from the global markets, and the dire consequences it might have, was a growing financial peril that Egyptian authorities had taken seriously. This had led Egypt to take action and make the country more attractive for investment and trade, which the IMF had highlighted as a positive development.[212] The Fund, however, continued to find it necessary to warn the countries of the region that if proper reform was not introduced, the problems already facing the Middle East, such as rising poverty and unemployment, could potentially worsen.[213]

4. 6 - Good governance as an economic incentive

By early 2003, the focus on the implantation of good governance related polices received considerable attention from the Fund. At least in relation to developing economies, attention to the polices reached new heights and was presented as a necessary tool for a country's financial merger into the international markets. The Fund strongly stressed that the two practices and concepts were closely linked, as economic transparency was deemed necessary for both investor confidence and crisis prevention. A strong signal sent by the Fund that, despite the opinion that Egypt was not financially reformed to its full potential, the IMF still viewed the introduction process of good governance polices and economic reform to be at an acceptable pace compared to the financial situation Egypt was in. Moreover, while the Fund would complement Egypt's firm reform process, the organization would continue to

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[211] Ibid:14-16
[212] IMF.2003. *IMF Survey.32/18*:300
[213] Ibid:299

recommend Egypt to fully adapt to good governance initiatives such as the *Special Data Dissemination Standard*.[214]

The IMF's observation that Egypt was lagging behind its full economic potential became a central viewpoint when the Middle East became the focus of much IMF and World Bank research and interest in the early 2000s. It had come to the attention of both organizations that the Middle East as a region was, despite enormous oil reserves, in severe economic stagnation and not preforming to its full financial capacity. This had made the IMF, in particular, concerned that the countries would fall behind the rest of the developing world if the region did not adapt to the "challenging aspects of globalization."[215] With international trade and investment becoming increasingly more crucial for economic growth in the globalizing economy, financial reform processes were labeled as key components for increased economic growth, with ineffective political and financial institutions being among the areas where reform was considered most urgently needed due to the interference it could make on economic growth and financial transparency.[216]

Egypt was highlighted by the IMF for positive developments in areas such as tax reform and the sale of government assets, but was still categorized as a country where the need for improvement was urgent if corruption and poor governance was to be dealt with in an appropriate way.[217] Egypt was in consequence ranked as a "medium" country in terms of financial development, which was significantly better that other Middle Eastern countries such as Iran and Libya, but far behind more developed economies like Lebanon and Jordan. The comprehensive review study, conducted by the IMF in March 2003, included an emphasis on banking regulation, financial supervision and financial openness, where increased good governance was presented as an important step towards economic growth in the region.[218] The improvement of good governance and transparency measures was also categorized as essential for economic growth in a study conducted by the IMF's Middle Eastern Department the same year. In the study, Egypt was among the countries acclaimed for positive developments within privatization, the introduction of anti-terror financing, anti-money laundering legislation and efforts to increased free trade through the agreements with

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214 IMF.2002. *The Acting Chairman's Summing Up at the Conclusion of the 2002 Article IV Consultation with the Arab Republic of Egypt Executive Board Meeting 02/113*:3
215 Abed and Davoodi.2003:8
216 Ibid:9
217 Ibid:5,12 and 20
218 IMF.2004. *IMF Working Paper No.04/201*:14 (The study was conducted in 2003, but presented as a Working paper in 2004)

the European Union.[219] The EU, which the IMF had described as one of the world's most well-functioning economic institutions,[220] had drafted an agreement that not only would increase trade, but also included a set of comprehensive regulations for transparency and anti-money laundering polices.[221]

The IMF's attitude towards good governance was evidently still in the methodology and context that the introduction of good governance and anti-corruption polices, in countries like Egypt, would have long-term positive effects in several economic and political arenas. The transparency and good governance inspired legislation would increase investor confidence and economic integrity. Downsizing the state, in combination with efficiency measures in the public sector, would reduce corruption among civil servants and the IMF standards and codes for data feedback, supervision and government disclosure would provide the IMF with better insight in the economy as a whole, enabling the organization to foresee and prevent potentially dangerous economic developments.[222] The introduction of good governance polices would then work on two fronts, creating economic progress through liberalization and de-regulation while at the same time making Egypt more attractive for both foreign direct investment and international trade.[223] In response to the significant role of poor economic oversight in the financial crises of the 1990s, the IMF had spent considerable amounts of research and time convincing its member countries of the dangers made by insufficient transparency and corruption. This had resulted in the IMF itself becoming ever more transparent in an effort to inspire its member countries, going as far as exploring the possibility of the mandatory public release of Public Information Notices whenever the IMF consulted a member country.[224] Unsurprisingly, the question of how the Fund could promote and support good governance and anti-corruption as a multilateral economic organization, while at the same time remaining within the organization's political mandate, became a significant feature of the Fund's approach to these questions. This again created what could only be described as dissimilar messages and statements from the IMF, something which would eventually become a center of much criticism.

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219 IMF.2003. *The IMF and the Middle East and North Africa*
220 IMF.2003. *IMF Annual Report*:11
221 European Union.2001. *Euro-Mediterranean Agreement. Establishing An Association Between The European Communities And Their Member States, Of The Part, And The Arab Republic of Egypt, Of The Other Part*:26 and 42
222 IMF.2003. *IMF Survey Supplement:*7-8
223 IMF.2003. *Transcript of a Press Briefing by the Managing Director, Mr. Horst Köhler at the Burj Al Arab Hotel*
224 IMF.2003. *IMF Survey.32/18*:297

The IMF, and its Directors, would for instance become more politically identified with a good governance and anti-corruption agenda, visibly marked by the Director's unanimous agreement that good governance was a vital part of the IMF's country surveillance program.[225] The Fund would at the same time present research that limited the potential scope of the organization's ability to promote good governance. The Fund was, for example, of the opinion that directly breaking a cycle of corruption in a member country, and insisting on the introduction on proper good governance polices, was difficult when the Fund was not in a position to make demands through loan negotiations or other incentives. Poor governance related issues, such as corruption, were therefore often considered a persistent phenomenon that the IMF's efforts hardly could affect unless the Fund was in a position to make efficient demands. Some elements of poor governance therefore received little attention in some IMF member countries, despite the well-known and documented negative effects these elements could potentially have on economic growth. The research produced by the Fund continued to state and emphasize what the organization had claimed since the introduction of the good governance polices in 1996. If a country's corruption rate had little effect on macroeconomic stability, the IMF would not involve itself unless the organization found it necessary to do so.[226] Egypt's strong efforts and concrete plans to modernize and structurally adapt the economy were therefore likely viewed by the IMF as an improved Egyptian initiative for transparency and other good governance related policies, and at the same time considered an efficient measure for economic growth, increased trade and more foreign direct investment.

4. 7 - In what direction was Egypt moving?

The Egyptian authorities had for the most part carried out the country's economic policy plan of privatization, liberalization and deregulation as agreed upon through the Stand-By Arrangement that originally lasted from 1996 to 1998. Egypt had at the same time made progress in addressing the faults that had been discovered in the *ROSC*-report and *Financial System Assessment Program*, which had led reforms for more transparency in the country's financial institutions, banking sector and improved regulations for data feedback to the IMF. Between 1998 and 2003, the country had privatized, or partially privatized, 79 state owned companies, and the Fund had therefore remained relatively pleased with the developments in Egypt throughout the late 1990s and early 2000s.[227] Egypt's attempts to address corruption

[225] IMF.2003. *IMF Annual Report*:3-4
[226] IMF.2002. *IMF Working Paper No.00/213*:20
[227] IBM Business Consulting Services Funded by USAID.2004:4

and poor governance had not received much attention from the IMF, probably because the Egyptian authorities had in fact been attending to the problem in a serious manner and the Fund and its Directors consequently did not find it necessary to focus on it. In 2002, the Administrative Control Agency, Egypt's public sector anti-corruption agency had made several arrests of business executives, bureaucrats and state officials on corruption charges. This crackdown on corruption was not only limited to the financial and bureaucratic elites and other common scapegoats, but also included former government ministers, a governor and even a former Attorney General.[228] Despite this, Egypt had by 2003 not improved on international corruption rankings, but the Egyptian authorities had finally concretely addressed the problems the IMF had identified in the banking sector through the *Financial Sector Assessment Program* by introducing and passing the *Unified Banking Law* (Law 88/2003). This law had considerably limited the power of the Central Bank of Egypt and thus reduced the influence the Egyptian authorities could have on the developments of the economy. The law had additionally ended the Central Bank's obligations to lend money to regime supporters and made it easier for the Central Bank to make decisions without the approval of the ruling National Democratic Party, which further had called for the "complete independence of the Central Bank."[229]

It is important to keep in mind that the IMF had admitted that poor governance and corruption was a serious problem in Middle Eastern countries like Egypt, even acknowledging that the promotion of good governance and anti-corruption was at times a challenging task for the organization due to its institutionalized presence in the region. At the same time, the Fund seemed content with the developments that were taking place in Egypt, and they had reason to be. The country had showed signs of improvement by introducing reforms and taking action against poor governance. Egypt had also continued with and carried out, at least partial, privatization reforms that the IMF could conclude had led to reduced unemployment.[230] A new *Report on the Observance of Standards and Codes* published by the World Bank in 2004 had also assessed that the new transparency regulations for Egyptian corporations and companies listed on the Egyptian stock exchange had taken effect. This new legislation included enforced transparency regulation, disclosure procedures and mandatory company audits by independent inspectors.[231] While the *ROSC*-report commented that the current

[228] International Business Publications.2013:59
[229] Rutherford.2008:222 and 242-243
[230] IMF.2003. *Creating Employment in the Middle East and North Africa*
[231] The World Bank.2004. *Report on the Observance of Standards and Codes*:9-10

Egyptian system was below OECD standards, the IMF mission staff for the 2004 Article IV Consultation was still pleased and viewed the developments as a step in the right direction towards a full implementation of a data gathering system in accordance with the IMF's *Special Data Dissemination Standard*.[232] The staff of the IMF Middle Eastern Department would also report to the Executive Board and the IMF Directors that they judged the country's banking regulations and supervision systems to have been improved, but that was one of few positive developments the staff could report when Egypt consulted the IMF for the first time in two years in May 2004.[233] The fragility of the Egyptian economy towards international, geopolitical and global economic developments was again to become a matter of great concern for the IMF mission staff after the launch of the Iraq war in 2003. The outbreak of the war came at a time where the IMF mission staff also observed that the pace of the Egyptian reform process and GDP growth, which had maintained an acceptable 3-3, 5% level over the previous years, was dramatically slowing down.[234] The IMF was again jammed in a difficult position where the promotion of good governance, at least in the IMF mission staff report for the Article IV Consultation, became secondary to other economic problems in Egypt that needed the IMF's attention more urgently, such as reduced investment and a growing budget deficit.[235]

A significant question that should be addressed in this relation is whether the manner of prioritizing by the IMF mission staff who completed the report for the 2004 Article IV Consolation, was appropriate. Should the IMF mission staff have paid more attention to problems related to poor governance, and not been predominantly focused on Egypt's economic stagnation, the financial effects of the ongoing regional wars and reduced privatization reforms? The IMF had for many years acclaimed Egypt for the country's success with remaining relatively unharmed by the dramatic developments in the global economy, particularly after the September 11 terrorist attacks, with the Fund labeling neoliberal-economic-and-structural adjustment as a predominant reason for this Egyptian success. Despite this, by 2004 it is evident that the IMF Middle Eastern Department and IMF mission delegations had noticeably neglected certain well-document governance related developments that took place in Egypt. These developments were in sharp contrast to the Fund's own definition of desirable economic reform for developing and transitional economies. The IMF

[232] IMF.2004. *Arab Republic of Egypt – Staff Report for the 2004 Article IV Consultation*:22
[233] Ibid:14
[234] Ibid:23
[235] Ibid:14 and 25

had for many years encouraged Egypt to take on petty and bureaucratic corruption by suggesting modernization measures in the public sector, reform in the tax system and by offering technical assistance to improve banking regulations. These were policy suggestions that had also been described as incentives for increased trade and investment by both the IMF and the World Bank, and they were considered fundamental if Egypt was to reach its full economic potential.[236] Nevertheless, despite reports that Egypt had introduced better transparency regulations in the banking sector, the country had remained blacklisted by the Financial Action Task Force as a country where banks, private and state, were frequently used to conceal corrupt practices. Egypt's new anti-money laundering and anti-terror financing legislation, rapidly introduced after the September 11 terrorist attacks in 2001, had also been criticized by observers who claimed that the Egyptian judiciary was incapable of carrying out the legislation in an appropriate manner.[237] Accusations had also surfaced by 2004 that President Mubarak's IMF supported anti-corruption campaign was in fact just a front for his own personal agenda of making way for the political career of his son, Gamal Mubarak.[238] Nevertheless, the focus of the IMF's mission staff, with a reduced emphasis on poor governance and Egypt's deteriorating corruption rankings, would not go unnoticed, nor be approved, by some members of the Executive Board.

The majority of the Executive Directors would, like the mission staff and the IMF Middle Eastern Department, primarily focus on the state of the Egyptian economy when the staff report for the 2004 Egypt-IMF Article IV Consultation came under discussion. Several Directors were worried about the slowdown of privatization in Egypt, and they were therefore reassured when Executive Director Shaalan informed the board that an ambitious privatization program, which would involve 111 of the remaining 178 state-owned public companies, was to begin in late 2004.[239] While the news of this privatization program would gain a positive response from several Executive Directors, it was still clear that the Executive Board was generally not satisfied with the recent developments in the Egyptian economy, noting that state deregulation and a better business and investment climate were needed if the negative trend was to be turned around.[240] However, the discussion about Egypt's economy would take an unusual turn when the Executive Director from the United States, Nancy Jacklin, gave her

[236] The World Bank.2003. *MENA Development Report. Better Governance for Development in the Middle East. Enhancing Inclusiveness and Accountability*:60
[237] Transparency International.2003.*Global Corruption Report*:204
[238] Transparency International.2004.*Global Corruption Report 2004:Political Corruption*:14
[239] IMF.2004. *Minutes of Executive Board Meeting 04/50-1*:6
[240] Ibid:11 and 21

statement. Executive Director Jacklin thoroughly questioned the priorities of the IMF mission staff who had completed the report for the Executive Board and stated that she was surprised that the mission staff had yet to follow up on Egypt's handling of the supposed dangers of misreporting that had been uncovered in the 2001 *ROSC*-report. The statement went on to criticize Egypt, emphasizing that reform was more urgent than ever, especially concerning good governance policies such as transparency, data access, improved money laundering and anti-terrorism legislation.[241] What is interesting to note is that Executive Director Jacklin was hardly the only member of the Executive Board to make such statements and comments. Other Executive Directors made similar observations and specified that they all agreed with the statement Executive Director Jacklin had made, also pointing out the obvious lack of governance related issues discussed in the mission staff report submitted to the Executive Board, with one Director indirectly stating it was surprising given Egypt's deteriorating international corruption rate.[242] While Egypt received some credit and acclaim for the improvement and strengthening of the banking sector and other financial institutions, the issues and problems related to data and transparency received much attention, so much, that Executive Director Shaalan was asked to answer follow-up questions to his statement and the staff report. Shaalan later asked Executive Director Jacklin to reconsider what he described as a "rather strong" statement, as he felt the statement implied that the Egyptian authorities were not cooperating fully with the Fund.[243]

4. 8 - A divided Executive Board and a renewed Egyptian reform initiative

Egypt had enjoyed a relatively stable and pleasant working relationship with the IMF throughout the late 1990s and early 2000s, with the Executive Board for the most part being content with the IMF-supported Egyptian reform process. These reform measures had been both presented and implemented at what the Fund considered an acceptable pace. While the Executive Board and the IMF had discussed and debated poor governance and transparency related problems several times, Egypt's economic reforms and structural adjustment process had a tendency to overshadow the country's slow handling of these governance related problems. The Fund would often demand more insight, better data and a more active approach towards good governance reform measures from the Egyptian authorities. Nevertheless,

[241] Ibid:14-15
[242] Ibid:27 and 30. As quoted in the meeting transcript: "Last, but not least, we were somewhat surprised that staff has not made any reference of the issue of governance in Egypt, including in view of Egypt's deteriorating ranking on the Transparency International Survey."
[243] Ibid:41

despite the fact that Egypt had worsened on international corruption rankings, and that serious poor governance related issues and accusations had emerged in the early 2000s, corruption and the absence of good governance in Egypt was seldom debated during Executive Board sessions or discussed directly in IMF research on the developing and transnational economies of the Middle East. Egypt's steady reform process, which had led to progression in privatization and economic liberalization, had properly shielded the Egyptian authorities from any noticeable criticism from the Executive Board, which again was a result of the Fund not deeming their poor governance involvement necessary due to Egypt's steady economic growth and liberalization. However, the recent economic slowdown had upset and distressed several Executive Directors, and the questions about poor governance and its role in the economic stagnation had divided the members of the Directors in terms of what policy practices that should be considered the most urgent for Egypt. This can certainly be interpreted as a sign that the IMF and the Executive Board, at this point, not only worried about difficulties such as the economic stagnation and oil dependency in Egypt, but also worried about the absence of good governance and how it could potentially be an obstacle to both investment and economic growth.[244] Nevertheless, Egypt had remained on the good side of the IMF because of the ambitious privatization program that was to be initiated soon. These plans to renew focus on privatization had impressed the new Managing Director of the IMF, Rodrigo de Rato, when he met President Mubarak and newly appointed Prime Minister Ahmed Nazif during a tour of the Middle East in October 2004. The press release made by Managing Director de Rato did not state if he had discussed the Executive Board's worries about poor governance and data errors with the Egyptian authorities. However, the Managing Director elaborate on his optimism towards the planned privatization program, tax cuts and financial sector adjustment reform.[245]

While Managing Director de Rato had seemingly not addressed problems related to corruption and poor governance in Egypt, the IMF as a whole had continued with its "proactive approach" to how the organization could promote good governance better and assist developing countries with the integration into the global economy. In the Middle East, the IMF's efforts to support this economic integration had manifested itself in the opening of the *Middle East Technical Assistance Center* in Beirut, where an IMF team would assist countries like Egypt to increase economic growth by promoting improved banking regulations

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[244] IMF.2004. *IMF Annual Report*:11

[245] IMF.2004. *Statement by IMF Managing Director Rodrigo de Rato at the Conclusion of a Visit to the Arab Republic of Egypt*

and financial stability.[246] The IMF would also continue its efforts to rebrand the organization and closely associated the Fund with the good governance agenda by strengthening the *Financial Sector Assessments Program* and publicly listing the good governance policy practices among the organization's most important tools for promoting "healthy economics".[247] The issues related to poor governance were therefore perhaps not as disregarded by the IMF as it might seem at first glance, with the somewhat pragmatic and no-confrontational approach from Managing Director de Rato and the Executive Board members who considered poor governance secondary to Egypt's economic slowdown. Importantly, while Managing Director de Rato did not address poor governance in the official statements from his meetings with President Mubarak and the Egyptian authorities in October 2004, First Deputy Managing Director of the IMF, Anne Kreuger, had addressed these matters when she visited Egypt just a few months after the Managing Director. In the report submitted to the Executive Board, a report withheld from the public, First Deputy Managing Director Kreuger stated that she had discussed how important transparency would be during the implementation of the new privatization program with the Egyptian Minister of Investment. Kreuger had also strongly argued that Egypt needed tax and public sector reform, discussing these topics with both the Minister of Finance and the Prime Minister. At the same time, Kreuger also implored that Egypt solve what she described as "outstanding data issues" by recommending that Egypt should fully subscribe to the IMF's *Special Data Dissemination Standard*.[248]

Managing Director de Rato's and First Deputy Managing Director Kreuger's visits and insistence on change and reform in Egypt would have a rapid and extensive effect on the developments and policy implementations after their visits. In January 2005, Egypt accepted *Article VIII*, sections 2, 3 and 4 of the IMF's *Articles of Agreement*.[249] By accepting these obligations, Egypt did not commit to any particular good governance related polices, but sent a strong message that the country was willing to collaborate fully with the IMF. Moreover, just a few days later, the IMF could celebrate a major achievement when Egypt, as the second country in the Middle East, officially became a subscriber of the *Special Data Dissemination Standard*.[250] For the Fund, the developments in Egypt were certainly looking better, with the IMF mission acclaiming the Egyptian authorities for initiating economic reforms that would

[246] IMF.2004. *IMF Survey.33/20*:131
[247] IMF.2004. *IMF Survey.1/1*:5 and IMF.2004. *Volume 33 Supplement – The IMF in Focus:14*
[248] IMF.2004. *Minutes of Executive Board Meeting 04/114-1*:6-8
[249] IMF.2004. *Press Release No. 05/12: Arab Republic of Egypt Accepts Article VIII Obligations*
[250] IMF.2004. *Press Release No. 05/14: The Arab Republic of Egypt Subscribes to the IMF's Special Data Dissemination Standard*

contribute in the country's own financial recovery.[251] In addition to the subscription to the IMF's data standards, Egypt had also ratified the *United Nations Convention against Corruption*. This was, however, a move considered symbolic by several observers due to the continued government interference in the Egyptian judiciary, and a general lack of transparency and information access.[252]

While the renewed reform initiative from the government of Prime Minister Nazif and Egypt's readiness to carry out IMF supported reform measures had improved investor confidence, and even restored some economic growth in Egypt, the issues of data reporting and transparency problems would continue to be a challenging aspect of the IMF-Egypt relations.[253] The IMF mission to Egypt for the 2005 Article IV Consultation reported some positive developments in terms of good governance, for instance that the new government seemed more committed to transparency than its predecessor and that the Egyptian authorities were considering publishing the 2003 *ROSC*-report to the Egyptian public. There were still serious faults, however, and the Egyptian authorities would still not elaborate nor respond properly to the IMF's accusations of deliberate misreporting that it had brought up during several Executive Board discussions.[254] In July 2005, the Executive Board was also presented with a new *Report on the Observance of Standards and Codes*, which this time detailed Egypt's financial data quality. The new *ROSC*-report concluded that several of Egypt's most important collectors of financial statistical data, such as the Ministry of Planning and the Ministry of Finance, still did not follow or observe proper standards of public transparency and professionalism which in result could potentially harm both economic growth that the IMF's ability to assist Egypt on economic policy questions.[255]

In his opening statement for the Executive Board meeting where the 2005 Article IV Consolation staff report and the new *ROSC*-report were discussed, Executive Director Shaalan was eager to point out the positive developments that the IMF mission had uncovered during the consultation. Shaalan noted that he was surprised by some of the observations the IMF mission staff had made in the consultation report, stating that there must have been

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[251] IMF.2005. *Press Release No. 05/2. IMF Mission Concludes Discussions for the 2005 Article IV Consultation with Egypt:*1
[252] U4 Anti-corruption Research Center.2007. *Overview of Corruption in MENA Countries*:2-3
[253] IMF.2005. *Arab Republic of Egypt-Staff Report for the 2005 Article IV Consultation*:4-5
[254] Ibid:22
[255] IMF.2005. *Arab Republic of Egypt—Report on the Observance of Standards and Codes—Detailed Assessments Using the Data Quality Assessment Framework*:30 and 80

misunderstandings between the mission staff and the Ministry of Finance in terms of what polices the IMF recommended and that the Egyptian authorities had problems with accepting the IMF staff's debt predictions. On the progress of the economic liberalization process, Executive Director Shaalan announced to the Executive Board that the Egyptian authorities had made concrete plans to reduce the public sector in favor of the private. One of Egypt's four major public banks, the Bank of Alexandria, was also to be privatized, while the Central Bank of Egypt was working closely with the European Union to create a new system of proper banking supervision. Executive Director Shaalan also elaborated on the country's newfound commitment to economic transparency, noting that government subsidies would now be included in state budgets and that the People's Assembly was taking steps to introduce legislation that would simplify the tax structure and thus make it more transparent. [256] Egypt's rapid economic and policy turnaround became much of the focus of the session, with several Executive Directors acclaiming Egypt for acting quickly against the economic stagnation the country had experienced.[257] The questions of transparency and good governance remained a frequent topic despite this, however, with some directors stating that they felt uneasy about the apparent misunderstandings and disagreements between the IMF staff and Egyptian authorities.[258] The connection between economic transparency and investor confidence was also discussed several times, with one Executive Director noting that transparency reform should be considered equally important to liberalization reform, as it would create both international legitimacy and national support for the reform process and its most important measures.[259]

The tone of this Executive Board meeting was certainly lighter than the previous, with the present Directors predominantly being positive towards the economic developments and the Egyptian reform momentum. The tough questions about the absence of transparency, which had been much of the focus of the previous meeting, had ceased in favor of optimism and praise for the implementation of solid reform measures. Again, it could strongly be argued that the Executive Board, and the IMF as a whole, had regained confidence in the Egyptian authorities and therefore had no reason to doubt the intentions and statements the authorities had made through the Article IV Consultation. While IMF mission staff and Executive Directors had inquired into the absence of some data, the cooperation of the

[256] IMF.2005. *Minutes of Executive Board Meeting 05/44-2:*4-7
[257] Ibid:21
[258] Ibid:29
[259] Ibid:46

Egyptians had convinced the Executive Board that Egypt was back on the right track, and this included the Egyptian reform in good governance, anti-corruption and data transparency related policies. Egypt had for instance followed the recommendations of the 2003 *ROSC*-report and introduced transparency regulations of the Central Bank and had carried on with the IMF's policy advice to continue with privatization measures in the public banking sector, which had led to the proposed denationalization of the Bank of Alexandria. Egyptian authorities had also signaled that they were considering publishing both the 2003 *ROSC*-report and the Article IV Consultations to the Egyptian public, a move that the IMF's Directors had agreed was of fundamental importance if the global economy was to become more transparent and better financially integrated.[260]

During the final minutes of the Executive Board meeting where the 2005 Article IV Consultation staff report was discussed, one Director inquired into the current state of the anti-money laundering and anti-terror financing legislation in Egypt. The representative from the IMF's Middle Eastern Department could inform the Executive Board that the staff had not evaluated the current state of this system. He could report, however, that Egypt had been removed from the list of uncooperative countries made by the Financial Action Task Force.[261] This was indeed, in the IMF's opinion, a positive development for Egypt, visibly stated by Mohsin S. Khan, the new Director of the IMF's Middle Eastern Department, who had taken office in 2004. Concrete plans for liberalization and economic reform combined with a new emphasis on transparency and good governance related policy practices had created greater economic confidence for Egypt and the Middle East as a whole, and good governance would lead the way for economic growth in the entire region.[262]

4. 9 - Summary conclusion

It could be strongly argued that Egypt's participation in the 1999 and 2005 *Report on the Observance of Standards and Codes*, and the partaking in the 2002 *Financial Sector Assessment Program* had truly made the IMF aware of deteriorating governance situation in Egypt. Where good governance between 1996 and 2001 had been marked by the IMF's instance on the improvement of the rule of law through tax administration restructuring and civil service reform, the Fund shifted its focus to other governance related issues connected to Egypt's most important financial institutions: the ministries, the banks, the insurance sector

[260] IMF.2005. *IMF Annual Report*:21
[261] IMF.2005. *Minutes of Executive Board Meeting 05/44-2*:57
[262] IMF.2005. *IMF Survey.34/6*:84

and the social security systems. There was also a marked shift in prioritizing from both the Executive Board and the IMF as a whole, where the need for good governance as a mechanism for a functioning, stable global economy was greatly enhanced in the wake of the Asian and Russian financial crises and after the turmoil caused by the 2001 September 11 terrorist attacks. Anti-terror financing, anti-money laundering and financial transparency became the IMF's good governance mantra of the early 2000s, with an optimistic view that these good governance inspired policy practices would enhance global economic cooperation and preserve financial stability. This shift in prioritizing came at a cost, however. The Fund would turn its attention away from corruption and rent seeking, deeming these poor governance related problems as institutionalized issues that IMF could not take on unless a member country sought assistance directly from them.

Nevertheless, the IMF's insistence on Egyptian good governance reform made progress in the prioritized areas. The Egyptian banking sector implemented disclosure regulations and state owned companies, insurance companies and banks were privatized. Egypt additionally agreed to ratify international anti-corruption conventions while internally dealing with serious poor governance connected to the public sector's officials and politicians. But the reform pace was at times much too slow and lacked initiative. Several Executive Board Directors criticized this slow execution. Combined with a global economic slowdown, Directors questioned the Egyptian authority's willingness to reform, having been made uneasy by the lack of data transparency and occasional miscommunication between the IMF's mission staff and the Egyptian authorities. The IMF would become more positive however. The Egyptian reforms of 2004 would see a renewed initiative form the Egyptian government, and the country would follow the IMF's advice and adapt to the *Special Data Dissemination Standard* making room for further implementation and promotion of the Fund's good governance policies.

5. Escalation of poor governance and “bold” Egyptian reform initiatives 2005-2011

5. 1 - Introduction

The IMF’s promotion of good governance polices had been a significant part of the Fund’s relationship with Egypt 11 years after the introduction of the policy initiative and the reestablishment of IMF-Egypt relations. The Fund had been steadfast in its promotion of improved transparency regulations, liberalization, anti-corruption and the enhancement of governmental integrity. Egypt had addressed faults that had been uncovered while participating in financial assessment programs and adapting to disclosure standards that the IMF had developed. The restructuring of financial institutions such as the banks and ministries, the sales of government owned companies would prove to be a significant success for the IMF’s promotion of the good governance polices.

Another major good governance success the IMF would credit Egypt for was the streamlining and improvement of the tax service and subsidy programs, service and policy practices that the IMF had early identified as breeding grounds for corruption and poor governance. While the problems of data feedback would be highlighted by the IMF during Executive Board meetings, there were elements of poor governance that the IMF would hardly address nor pressure Egypt to improve. With the exception of the tax administration, the civil service remained highly corrupt. The circumstances around the 2005 parliamentary elections would prompt questions whether the Egyptian judiciary, while still relatively independent, really would be able to uphold the financial regulations that were intended to supervise the new more private sector oriented economy.[263] The IMF would in addition to governance related problems have to face an Egyptian economy that was increasingly suffering under a budget deficit, high inflation and slow job creation while the global economy again would experience a crisis in 2008. The IMF’s program of neo-liberal reform in Egypt would furthermore face criticism, as observers noted that the country was becoming increasingly socially unequal and autocratic, a development the IMF was accused of ignoring in favor of economic growth and the continued integration of the Egyptian economy into the global markets.[264]

[263] Transparency International.2010. *Press release - Strengthening good governance in Egypt*
[264] Shenker.2009.*And the rich got richer.*

5. 2 - From frustration to optimism

In the opening statement for the IMF's 2005 *Annual Report*, Managing Director Rodrigo de Rato stated that the IMF had a positive outlook for the developments in the global economy, which included encouraging economic progress for the Middle East and Egypt. Frustration over stagnating economic growth and unwillingness to adapt to global financial markets had turned into optimism as the Middle Eastern regimes had reformed, adjusted and adapted at a faster pace than expected, while rising oil prices had created stronger growth for the region's oil exporting countries.[265] This trend of a positive regional outlook included Egypt, where the GDP had risen and exports had been increasing at a steady pace since the reforms of Prime Minister Nazif's cabinet had taken effect in mid-2004.

Egypt's agreements with the European Union had led to a steady textile trade with the European markets, which again had facilitated an improved trade regime with the United States and made way for further regional trade arrangements with Morocco, Jordan and Tunisia.[266] Additionally, the governmental reform process had led to increased investment and improved investor confidence, which had made the IMF's Executive Board cautiously optimistic towards the economic progress, while still noting that much reform remained necessary.[267] Notably, the IMF implored Egypt to focus on job creation, as this was a challenge the Fund felt that the Egyptian authorities had yet to address properly. The Fund would therefore continue to advise Egypt to carry on with bureaucracy reduction, government deregulation and privatization. These were all economic reform measures that the IMF had identified as necessary for increased for private sector investment and the further expansion of good governance policy practices in both developing and transitional economies. In addition to solid economic development, the IMF mission for the 2006 Article IV Consultation could also report that Egypt had made good progress in developing better systems for data collection, but still noted that Egypt needed to improve the statistics on prices and public finances.[268]

Despite a seemingly positive outlook, the Fund warned developing and transitional countries alike that a more globally integrated economy, which Egypt increasingly was

[265] IMF.2005. *IMF Annual Report*:2 and 9
[266] IMF.2005. *Regional Economic Outlook*:9 and IMF.2006. *The Euro-Mediterranean Partnership Ten Years On: Reassessing Readiness and Prospects*.
[267] IMF.2005. *IMF Survey.34/14*:219
[268] IMF.2005. *Press Release No.06/74*. *Statement by the IMF Mission on the 2006 Article IV Consultation with the Arab Republic Of Egypt*:1-2

becoming a part of, could pose challenges, as the Egyptian economy could potentially become more vulnerable to international political and economic circumstances. The IMF maintained the opinion that the most important factors in preventing such undesirable financial developments were a continued emphasis on economic liberalization, privatization, structural reform and subsidy reduction.[269] It is interesting to observe that over a period with stabilization and growth of the world economy, which included a notable absence of financial crises since the 2002 Argentinian financial crisis, the IMF would not reduce its focus on the promotion of good governance. In fact, the organization had continued to advise developing and transitional countries to adapt and more actively work for increased governmental and financial transparency. Furthermore, with the absence of any immediate threats to global economic stability, the Fund could turn its attention to the promotion of good governance where it was most critically needed. This had led the Fund to become especially interested in promoting good governance and anti-corruption in developing countries that were experiencing economic growth as a result of rising oil prices and what would later be known as the "commodities boom" of the 2000s.[270] The Fund subsequently advised these oil-booming developing countries not to neglect the importance of transparency and fiscal accountability by introducing the *Guide on Resource Revenue Transparency* while additionally continuing with the organization's promotion of the well-known good governance policy initiatives such as the *General Data Dissemination System*. [271] The promotion of this specific good governance initiative had in fact made good results, and by 2005, 83 member countries of the IMF had decided to subscribe to the system.[272]

Besides its focus on transparency codes and dissemination standards, the Fund also continued to highlight the need for and the important role of good governance in the global integration of the international economy. This had led the organization to encourage more countries to participate in the IMF's good governance assessment programs, such as the *Financial Sector Assessment Program* and the *Report on Observance of Codes and Standards*.[273] The Fund had likewise sustained its promotion of transparency measures in the banking sectors and particularly the central banks, specifying that the IMF's good governance

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[269] Ibid:10
[270] IMF.2008. *Finance and Development. Volume 45, Number 1*:4
[271] IMF.2005. *IMF Survey.34/2*:19 and IMF.2005. Address by Deputy Managing Director of the IMF, Agustín Carstens: *The Role of Transparency and Accountability for Economic Development in Resource-rich Countries*
[272] Ibid:21
[273] IMF.2005. Address by Deputy Managing Director of the IMF, Takatoshi Kato: *Financial Integration in Asia, Good Governance, and the IMF*

policy standards demanded accountability, and that disclosure from the central banks of member countries was essential, especially in countries where the central banking authority remained under considerable government interference and influence.[274]

The Egyptian authorities were certainly commended for their commitment to the restructuring of the Egyptian banking system in the staff report from the 2005 Article IV Consolation. But despite the authorities' dedication to reform, described as "impressive", the IMF mission staff still detailed in their report that the Central Bank of Egypt needed more governmental independence. The banking system was, however, also the area where the IMF mission staff acknowledged that immediate reform measures were the most difficult to achieve, but further stated that the suggested reform plans from the authorities gave reason for optimism. The Bank of Alexandria, one of the four dominating public sector banks, would soon be fully privatized, following the scheduled plan, and the government had assured the Fund that two additional public sector banks would be merged and restructured over a period of three years. The mission staff reported that still, after the completion of the banking reform, as much as 40% of Egypt's banks would remain under government control, but this was a number likely to decline further now that the authorities were committed to giving the private sector more room.[275] In addition to reforms in the banking system, it was the overall assessment of the IMF mission that the Egyptian economic outlook was positive. Liberalization, government deregulation and privatization were making good progress while investment, both foreign and domestic, was growing. The mission staff could also report that Egypt's transparency on public finances had improved considerably, and that the authorities had given much attention to the problems of data dissemination, a move the staff considered important considering that much of the statistical issues presented at the time was associated with the rise of foreign direct investment that Egypt was experiencing.[276]

In addition to the promises of improved data feedback from the authorities, the IMF mission staff report included a wide-ranging listing and insight into Egypt's subsidy programs, an oversight of a character and extent that had neither been included in nor presented to the IMF's mission staff before. This move from the Egyptian government was probably a result of both improved transparency feedback and more confidence towards the IMF. The Egyptian authorities could also report progress in the proposed implementation of

[274] IMF.2005. *IMF Working Paper No.05/80*:6
[275] IMF.2006. *IMF Country Report No.06/253*:16 and 20
[276] Ibid:19

good governance related policies and legislation, which included concrete plans to reduce import tariffs and the proposed creation of specialized economic courts and legislation designed to reduce inefficient bureaucracy. The staff could additionally report that Egypt was interested to again participate in the *Financial Sector Assessment Program* in order to assess their own financial restructuring, which led the IMF staff to conclude that the Egyptian authorities were committed to a reform process that both the IMF mission, and Executive Board, should agree with and support.[277]

5. 3 - Towards a turning point?

The Article IV Consultation report submitted by the IMF mission to the Executive Board in July 2006 certainly signaled that the tone between the IMF staff and the Egyptian authorities had improved. Egypt had also responded to the IMF's demands for more economic insight, and the report subsequently included considerably more transparent information on the progress of Egypt's reform measures and policy implementation. This expansion of information feedback included considerably more data on the development of Egypt's good governance inspired policies as well, which included a list of the IMF's technical assistance programs that had aided and assisted Egypt with decentralization, public sector reform and the Egyptian government's anti-corruption agenda.[278] There were, unsurprisingly, some elements where the IMF mission staff felt that Egypt had not delivered, such as the consistent statistical data issues, a problem that the Fund regarded as particularly critical considering that the relevant data faults had been identified three years prior in the 2003 *Report of the Observance of Standards and Codes*.[279] Executive Director Shaalan gave little attention to data and transparency issues when he made his opening statement to the Executive Board, and was more eager to demonstrate the progress that Egypt had made in the reforms and adjustment processes the IMF long had suggested and insisted on. Executive Director Shaalan was confident in his statement, announcing that both he and the Egyptian authorities believed that the following years could mark "the turning point" for the Egyptian economy.[280]

Executive Director Shaalan had reason to be self-assured in his opening statement for the Executive Board meeting. The Egyptian authorities would receive considerable praise during the session, with the majority of the Directors being satisfied with the developments

[277] Ibid:18 and 21
[278] Ibid:37
[279] Ibid:39
[280] IMF.2006. *Minutes of Executive Board Meeting 06/61-1:*4

that the IMF mission had reported. State ownership in the economy was still a worrying element for some Directors though, who commented that further decentralization needed to be prioritized by the government. However, the Egyptian authorities' commitment to economic liberalization and IMF supported reform measures reassured most of the Directors that Egypt was moving in the right direction, that being the direction of a private sector supported market economy.[281] Egypt would also be highly acclaimed for its efforts to make the economy and the country's financial institutions more transparent and open to both the Fund and the Egyptian public. This acclaim included approval for the suggested measure to create new legislation against inefficient bureaucratic practices and administrations, a move that was, unsurprisingly, well received by the Fund considering that corruption in the Egyptian bureaucracy remained a serious and frequent problem for both investors and Egyptian private sector business executives.[282] Continued tariff reduction, reforms for a more efficient subsidy program and increased budget insight were all moves and good governance inspired policy practices that the Executive Board welcomed.[283] But, transparency issues were still regarded as an area where much improvement was needed, particularly if Egypt was to become more attractive for foreign investment and trade, a matter which was becoming more urgent.[284] Because, while the IMF was pleased to see that the liberalization and privatization reform had taken effect in Egypt, there was still a great concern about both the budget deficit and rising unemployment. The clearest signal communicated from both the IMF-mission and the Executive Board, was therefore that economic reform and adjustment was necessary in order to deal with these issues. Continued liberalization reform had to be on the agenda, and the result, the Fund argued, would improve economic growth and enhance both transparency and economic efficiency.

In terms of anti-corruption policy practices, Egypt was also moving in the right direction. The country had complied with several concrete suggested policy measures for corruption reduction and enhanced good governance that the IMF had promoted and advised. Egypt had for instance already agreed to subscribe to the *Special Data Dissemination Standard,* which in effect meant that the Egyptian authorities had committed themselves to disclose economic data towards both the Fund and the Egyptian public. Egypt had

[281] Ibid:16-17
[282] Ibid:12 and Freedom House.2006. *Freedom in the world*
[283] IMF.2006. *Press Release No. 06/283. IMF Mission Reviews Economic Developments and Policies in the Arab Republic of Egypt*:2
[284] IMF.2006. *Minutes of Executive Board Meeting 06/61-1*:27,29,30,33,38 and 40

additionally made decent progress in reforming the economic sectors where the IMF had defined that corruption was most likely to develop, that being inefficient and un-transparent governmental systems and institutions such as tax and customs administration. These were systems and institutions, which in Egypt's case, were labeled as significant obstacles for global economic integration and growth, and therefore in need of great reform.[285] While the IMF undoubtedly had reason and cause to believe their promotion of good governance polices was taking effect in Egypt, there was a serious negative side to the recent political and economic developments that the Fund had yet to comment on.

As discussed and analyzed earlier in the thesis, the overall concept of the IMF's good governance policies is linked to anti-corruption, public sector efficiency, transparency and what the Fund described as the "rule of law". The "rule of law" aspect of the good governance policies implies that the judiciary of a member country is independent and free to prosecute and take action against corruption and poor governance and that a country's financial institutions operate through a functioning economic legal system. Since the reestablishment of IMF-Egypt relations in 1996, the Fund had progressively promoted good governance polices in Egypt by predominantly focusing on breaking up the immense power and control the Egyptian state held over the development of the country's economy. This promotion of such policy practices had primarily come through advocacy for transparency measures in the country's most central financial institutions, two significant actors being the governmental ministries and the central bank, and a general decentralization and reduction of the Egyptian state's public sector ownership. Suggested policy changes for breaking governmental control of such a character, and thus reducing corrupt practices and systems, had taken the form of well-known IMF supported neo-liberal polices such as privatization and liberalization.

Egypt had gradually complied with such demands and IMF suggested policy practices by agreeing to take part in the Fund's reform and assessment programs, and by accepting some of the IMF's codes and standards for data dissemination and financial transparency. However, by 2006 the question of the judiciary independence had surfaced yet again in Egypt, with several observers reporting that the Mubarak regime had surprisingly crossed an unusual line by taking on Egypt's powerful, and relatively independent judges and court systems. The reason behind the regime's sudden disapproval of the judiciary was the judge's role in the protest against the circumstances surrounding the 2005 parliamentary elections, where

[285] IMF.2006. *Economic Issue. Volume 37*:14

President Mubarak's National Democratic Party won by a large majority, despite the president's decision to allow more candidates and parties, notably independent candidates associated with the Muslim Brotherhood, to stand in the election.[286] Correspondingly, with a civic and pro-democratic reform protest, which included a record number of strikes in public sector companies that underwent IMF supported privatization; the judges had demanded more independence. This had resulted in a hard and visible crackdown on protesters and strikers, but also a more silent crackdown from President Mubarak on the Egyptian judiciary.[287] The president proposed and forced an amendment to the 1972 *Law on Judicial Authority* through the People's Assembly, an amendment which dramatically changed the country's legal dynamics by giving the government the power to appoint public prosecutors. This legal amendment severely limited the independence and integrity of the Egyptian judiciary and reduced the court's ability to prosecute against corruption and poor governance and uphold the supervision and regulation reforms that had been implemented in the Egyptian financial institutions.[288]

5. 4 - Neglecting poor governance?

By 2007, the IMF had yet to comment on the dramatic political changes that were taking place in Egypt, seeming relatively indifferent towards the obvious corrupt practices and poor governance that had steadily developed in the country's political sphere. With oil-prices remaining high, Egypt had transformed into one of the world's fastest growing developing economies. Mohsin Khan, Director of the IMF's Middle Eastern and Central Asia Department, still cautioned these developing countries, even strong transitional economies like Egypt, to remain alert to the risks associated with rapid economic growth, and advised the regimes of the region to retain focus on how to increase investment and reduce the further debt to stabilize the economy.[289] Why the IMF chose not to address the escalation of poor governance in Egypt may have been a result of the IMF's long lasting attitude that issues, such as corruption, in certain cases was a phenomenon so persistent that it was difficult, almost impossible, for an organization like the IMF to influence a member country to deal with the problems. Research produced by the IMF on the development of oil-booming countries, Egypt being one of these countries, had also concluded that corruption, while a problematic phenomenon, did not necessarily have a damaging effect on what the Fund

[286] Soliman.2011:147
[287] Rutherford.2008:227-228
[288] Transparency International.2007. *Global Corruption Report. Corruption in judicial Systems*:203-204
[289] IMF.2007. *IMF Survey.36/ 9*:140-141

predominantly focused on and considered the most important: sustained economic growth and fiscal stability.[290] Despite this, the Fund had continued to acknowledge that Egypt had to somehow address poor governance in certain economic and bureaucratic areas. The Fund was, for instance, still evidently aware of the widespread corruption in the Egyptian bureaucracy, and was made uneasy by the restraints it made on investor confidence, public sector investment as well as domestic loan financed entrepreneurialism.[291] It could be questioned why the Fund's Directors and researchers chose this manner of prioritization in Egypt, especially considering that the country continued to deteriorate on international corruption rankings and that the Executive Directors just a few years earlier had reacted strongly to the suspicions of deliberate misreporting and lack of transparency from the Egyptian authorities.[292] At the same time, corruption and poor governance related issues in the Egyptian economy continued to be a highlighted focus for the Fund. Nevertheless, this was economic policy research primarily linked to poor governance and corruption that could harm or reduce the strong economic growth the country was experiencing, not the political and elitist corruption that had involved within President Mubarak's closest associates, increasingly represented by Mubarak's own family.[293] This is an illustrative example of the mandate limits of the IMF's promotion of good governance, as the Fund's attitude towards Egypt's governance situation was indeed predominantly marked by the clear constraints and damages that corruption made on the country's foreign direct investment and trade exports.

Despite much improvement since the reforms of 2004, Egypt had not become as investor or business-friendly as the Fund had hoped for, as was disclosed by a substantial World Bank report presented in September 2006.[294] However, research produced by the IMF in 2007 concluded that the Middle Eastern countries, and particularly Egypt, had made great progress in reducing tax related corruption. While the IMF recognized that corruption remained a problem in the Middle Eastern tax administrations, the Fund noted that reform tax measures in Egypt had made considerable progress. These claims were backed up by a substantial research produced by the World Bank, which concluded that Egypt, with IMF technical assistance, had simplified the tax laws, broadened the tax base and reduced tax

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[290] IMF.2007. *IMF Working Paper No.07/52*:20
[291] IMF.2007. *IMF Working Paper No.07/57*:5,13 and 19
[292] Transparency International. From 2006 to 2007, Egypt fell from 70th to 105th on the list of the world's least corrupt countries.
[293] Soliman.2011:151
[294] The World Bank.2007. *Doing Business 2007*:109

evasion.[295] In fact, a research paper of a major IMF conducted study of Middle Eastern tax administrations concluded that corruption, in particularly the Egypt tax systems, had been significantly reduced. The Fund further made surprising statements and remarked that organizations like Transparency International were misleading in their claims that corruption was becoming a more serious problem for the tax administrations, and that corruption made little to no effect on international trade for Egypt.[296] The report, in conclusion, assessed that enhanced transparency had to be considered the most important component if corruption was to be reduced in all Middle Eastern countries, acknowledging that there was corruption, but not that it was damaging, which was an opinion similar to much the IMF's promotion of good governance polices at the time. The Egyptian authorities had made success in taking on transparency issues, thus following the IMF's continued initiative to highlight financial transparency as a part of both the IMF's surveillance program, and as a significant part of the organization's good governance policy initiatives. [297] Egypt had additionally followed up on its promise to again participate in the joint IMF/World Bank *Financial Sector Assessment Program*, which this time was focused on the stability of the Egyptian financial system. The IMF/World Bank report submitted to the Executive Board noted that the Egyptian banking reform had made progress that was satisfactory, further stressing that Egypt was complying with most of the recommendations that had been given during the 2002 *Financial Sector Assessment Program*.[298]

5. 5 - "Bold reforms"

The *Financial Sector Assessment Program*-report, presented in 2007, commented that transparency measures could still be enhanced within the Egyptian financial institutions, but further stated that the IMF/World Bank team was reassured by the Egyptian authorities' plans for improvement. These plans included measures to privatize another commercial bank, this time Banque du Caire, a privatization process that would be completed in 2008.[299] However, despite positive developments in terms of privatization, improved regulations and upgraded bank supervision, the IMF/World Bank team stated that the Egyptian government continued to have significant power over the most central financial institutions such as the Central Bank of Egypt. Following the introduction of the banking law, *Law No.88* in 2003, representatives

[295] The World Bank.2007. *Celebrating Reforms 2007*. *Egypt: Adding a million taxpayers*:34-36
[296] IMF.2007. *IMF Working Paper No.07/270*:4 and 19
[297] Ibid:24 and IMF 2007. *IMF Annual Report*:13
[298] IMF.2007. *Arab Republic of Egypt-Financial System Stability Assessment-Update*:5
[299] Ibid:8 and 19

from the ministries of Finance, Planning and Foreign Trade were legally obliged to act as board members of the Central Bank, a situation the IMF/World Bank team feared could lead to a reduced independence of the central banking authority.[300]

Greater governmental influence over financial institutions was a development in sharp contrast to the IMF's concepts of good governance and more similar to what the IMF had defined as a "kleptocratic state". The report therefore assessed and concluded that enhanced transparency measures were needed, further recommending that the Central Bank of Egypt design new regulations that would secure the institution's governmental independence.[301] The recommendations made in the 2007 *Financial Sector Assessment Program*-report were also highlighted in the mission staff report for the 2007 Egypt-IMF Article IV Consultation. The IMF mission staff noted that accelerated financial sector reform was needed in Egypt, which included a suggested motion for improved regulations and supervision of the most central financial institutions such as the banks, social security funds and the insurance companies.[302] While the staff report was quick to point out that reform was still necessary in Egypt, the mission staff generally reported uplifting developments in financial arenas and sectors where the Fund formerly had shown great concern. Egypt had successfully taken on economic and financial issues that had been highlighted during the two previous Article IV Consultations, which had resulted in a budget deficit reduction, as well as the creation of 2.5 million jobs, which in consequence had led to an unemployment reduction from 11.8 to 9 percent.[303]

The appraisal made by the staff report therefore concluded that the Egyptian reform initiative of 2004 was starting to show results, further assessing that the Egyptian authorities were prioritizing correctly by continuing to focus on further reducing the country's national debt. The report did, however, highlight shortcomings in one of the IMF's most prominent good governance initiatives, the *Special Data Dissemination Standard*. This worried the IMF mission, considering that the statistical data on the growing oil sector, as well as foreign investment, had not improved since Egypt's decision to subscribe to the standard in 2005.[304] In terms of less favorable developments, the report additionally commented on a planned move from the Egyptian authorities that the staff felt skeptical about, and subsequently urged the Executive Board to oppose. While privatization and liberalization of banks and state

[300] Ibid:14
[301] Ibid:56 and 58
[302] IMF.2007. *Arab Republic of Egypt-Staff Report for the 2007 Article IV Consultation*:4
[303] Ibid:14
[304] Ibid:17-18

owned companies had progressively taken place since the introduction of the Egyptian reform initiative in 2004, the Egyptian authorities had rather suddenly presented plans to merge all of the country's insurance companies into one state owned "national champion."[305] This planned move worried the IMF's mission staff, who noted that nationalization was not the correct method to take on the inefficiency problems and obstacles that continued to delay Egypt's economic development, further stating that periodical privatization of the state owned insurance companies would be a better alternative.[306] The *Financial Sector Assessment Program*-report and the 2007 Article IV Consultation report presented the IMF's Executive Board with an Egyptian economy that was moving in both a favorable and unfavorable direction. In his opening statement for the Executive Board meeting, Executive Director Shaalan commented that Egypt had eagerly complied with the IMF policy advice on privatization and tax reform measures, and further stressed that the Egyptian authorities were still in agreement with the recommendations from *Financial Sector Assessment Program* and the assessment of the IMF mission's Article IV Consultation report. Executive Director Shaalan could further elaborate on the Egyptian authorities' plans to continue with tax reform, banking privatization and a gradual phasing out of the country's subsidy program.[307] The *Financial Sector Assessment Program*-report, Article IV Consultation report and Executive Director Shaalan's opening statement were well received by the Executive Board's Directors, who generally commended Egypt for quickly transforming the country's economy by implementing privatization, creating jobs, focusing on deficit reduction and shifting the economy away from government control to free market macroeconomic structure.

It is evident that the Directors agreed with the Egyptian authorities' prioritizing, as questions and policy suggestions on how Egypt could achieve economic growth and enhance investment had changed to questions and policy advice on how the country could preserve its reform momentum, while at the same time reducing poverty and public governmental dependence.[308] Several Directors did, however, question the planned merger of the Egyptian insurance companies, which had been describes as a potential "national champion" by the IMF mission staff. While some Directors noted that consolidation in the insurance sector in

[305] A "national champion" is a term used to describe a state owned company which is intended to seek profit and at the same time advance national interests. The policy practice is closely associated with corporatist and regulatory economies, and thus often opposed by the liberal economic viewpoint. An example of a "national champion" is the Russian company Gazprom, which serves its purpose by creating state revenue while additionally securing the Russian public affordable energy prices.
[306] Ibid:19
[307] IMF.2007. *Minutes of Executive Board Meeting 06/61-1*:4-6
[308] Ibid:16-18

itself was not necessarily a problem, the Directors strongly recommended that a company of such a character should be privatized after a potential merger.[309] Executive Director Shaalan explained during the question session that the insurance company merger was indeed a part of the Egyptian authorities' plans to restructure the insurance sector, noting that if the mergers were to take place, the resulting insurance company would become the largest of its kind in the entire Middle East. However, Executive Director Shaalan further stated that the Egyptian authorities did not intend to create a "national champion", but he would notify the Egyptian authorities that the IMF's Directors, regardless of the company's potential function, viewed the plans with great skepticism.[310]

It is interesting to observe that while the Fund's Executive Board remained predominantly positive towards the development of Egyptian economy, the policy concepts of good governance remained a strong presence in much of the suggested policy advice of both the IMF mission staff and the Executive Board's Directors. With the exception of the almost universal skepticism towards the planned nationalization of the insurance companies, the Executive Board continued to support the Egyptian government's efforts to restructure, streamline and privatize the banking sector and further follow the recommendations of the *Financial Sector Assessment Program.* These recommendations, including the creation of improved banking supervision, transparency measures and bureaucracy reduction, suggested good governance inspired policy practices that were included in Managing Director Dominique Strauss-Kahn's final statement of the board meeting.[311] In addition to the Director' support off the recommendations of the *Financial Sector Assessment Program*, several Directors would voice their approval for the phasing out of the Egyptian subsidy program, a policy practice well known for lacking transparency and encouraging rent seeking, and the suggested establishment of specialized economic courts designed to take on inefficient and corrupt bureaucracies.[312]

However, while the Directors certainly encouraged and promoted several good governance inspired polices, there was still a striking absence of criticism towards poor governance mentioned in the mission staff's report. For instance, the slow, and still inadequate, implementation of the *Special Data Dissemination Standard* was neither discussed nor mentioned during the entire board meeting. This is a surprising manner of

[309] Ibid:15,23,28 and 44
[310] Ibid:50
[311] Ibid:13,16,28,34,38,48 and 61
[312] Ibid:29 and 41

prioritizing, especially considering that the IMF had vigorously promoted the *Special Data Dissemination Standard* and the *Guide on Resource Revenue Transparency* towards oil booming African emerging economies. The IMF's own research had additionally noted that limited data quality made it difficult for the Fund's surveillance program to satisfactorily assess the transparency of the Egyptian economy, which prompts the question why the Executive Board and the IMF Directors did not mention these obvious transparency problems.[313] It had been acknowledged by the IMF on several occasions that corruption and poor governance was a significant problem in Egypt, going as far as claiming that poor governance could be an obstacle for the country's global economic integration. However, Egypt had successfully taken on several poor governance related policy practices since the introduction of the Egyptian liberal reform initiative of Prime Minister Nazif's cabinet in 2004. Privatization and efficiency measures in the public sector had led Egypt to both record high investment and exports, while the Egyptian authorities at the same time had achieved success in streamlining the immensely unproductive Egyptian state bureaucracy.[314] Restructuring and the reduction of state ownership was not the only arena where the Egypt had delivered in terms of good governance inspired policy practices. The IMF's efforts to promote economic transparency and other good governance inspired polices had paid off, as was disclosed by a substantial governance report presented by the African Development Bank in March 2007. Like the IMF, the African Development Bank concluded that Egypt had improved considerably in terms of transparency, regulation and supervision of financial institutions and anti-corruption initiatives.[315]

A central viewpoint, shared by the IMF, African Development Bank and the United Nations, was that the reason behind this development was that the economic opening towards the global markets had created a new political atmosphere in the Middle East, which had drastically reformed and modernized the region, and in Egypt's case, introduced good governance polices while preserving the political stability.[316] But while several international economic organizations would laude Egypt for initiating programs against poor governance, there were observers who questioned the praise the Mubarak regime was receiving. A report published by the OECD in 2007 would like the IMF, WB, UN and ADB, acclaim Egypt for

[313] IMF.2007. *IMF Working Paper No.07/52*:14
[314] Soliman.2011:155-156
[315] African Development Bank.2007. *Egypt – Country Governance Profile*:10, 20 and 39
[316] United Nations.2007. *Challenges and Priorities In Reforming Governance and Public Administration In the Middle East, Northern Africa, and Western Balkans*: 5, 11 and 13

acknowledging the problems the country experienced with corruption, transparency issues and lack of institutional integrity. Nevertheless, as the OECD pointed out, the absence of an overall national strategy, the inefficient juridical branch and irregularity of anti-corruption sentencing made the Egyptian governments attempts to take on poor governance questionable, particularly considering that the new emerging private sector seemed completely isolated from the reform initiative.[317]

5. 6 - Social inequality and global financial crisis

By 2008, the IMF, World Bank and the United Nations had recognized Egypt as reform country. This reform country status was based on several Egyptian adjustment and restructuring measures, including improvement in the use of several good governance inspired policy practices. Tariff reduction, tax reform, privatization and improved financial governance had led to a steady decline in the budget deficit from 9 to 7.7 percent, while willingness to reform had in effect attracted more foreign investment. The Fund was additionally pleased to see that the Egyptian authorities were committed to sustaining growth by continuing to take on poor governance related issues by improving financial regulations, reducing bureaucratic burdens and streamlining the country's insufficient social security systems.[318]

It is notable that the IMF, through both research and policy advice, clearly was of the opinion that the organization had succeeded in promoting the most central good governance policies in Egypt, as the financial adjustment polices of the Mubarak regime were praised by Managing Director Dominique Strauss-Kahn when he visited Egypt in September 2008. The Fund's confidence in the adjustment and developments of the country was grounded in genuine, positive trends that were emerging in the Egyptian financial sector. Egypt had, for instance, complied with the Fund and participated in technical assistance programs initiated by the IMF's Middle East Regional Technical Assistance. These technical assistance programs were aimed at improving statistical data on foreign direct investment, an issue where the Executive Board had implored Egypt to take action.[319] But, while Egypt would be commended by the Fund for the country's economic turnaround, the IMF would continue to insist that Egypt further adjust to good governance policy practices. However, where the Fund previously had requested and implored Egypt to improve on transparency, anti-corruption and

[317] OECD.2007. *Competitiveness and Private Sector Development Competitiveness. Egypt Business Climate Development Strategy*:89-90
[318] IMF.2008. *IMF Survey.37/3*: 44
[319] IMF.2008. *IMF - Middle East Regional Technical Assistance Center Annual Report*:14-15

regulation policies, the IMF had shifted its prioritizing towards redistribution of wealth, noting that while it was commendable of Egypt to phase out its subsidy program, this had to be done in a reasonable manner where the country's disenfranchised had to be better targeted.[320]

It is not surprising that the IMF would rather suddenly turn away from transparency and financial regulation and rather insist on the implementation of more good governance related policies aimed at improving the livelihood of the Egyptian public. The global financial crisis of 2008 had sent several world leading economies into recession, and the IMF, expectedly, worried about the consequences if the Egyptian inflation levels, as well as food and energy prices, came out of control. The IMF undoubtedly recalled the chaos and dramatic results of the subsidy cuts and the "bread riots" of 1977. Nevertheless, good governance polices could not be implemented without a continued overall reform initiative. Managing Director Dominique Strauss-Kahn therefore consequently called for the Egyptians to preserve their reform momentum and deal with the economic issues that could potentially harm the Egyptian public the most, as this was highlighted by the Fund and other observers as the most important aspect of both sustained growth and the preservation of economic as well as political stability.[321] The Egyptian authorities calmed the Fund by stating that they would continue with their commitment to reform measures, clearly signaled by the Egyptian Minister of Finance, Mahmoud Mohieldin, who stated that, despite the impending financial crisis, he saw no reason too drastically change Egypt's policy practices and reform initiative.[322]

Nevertheless, the effects of the global economic slowdown had reached Egypt, and the country's resistance towards a possible recession would receive much attention from the IMF mission for the 2008 Article IV Consultation. The mission staff reported that both the economic reform process and foreign direct investment in Egypt were suffering due to the international financial uncertainties, which had ultimately led to the postponement of the planned privatization of the Banque du Caire. The mission staff would, however, note that the Egyptian authorities had preserved the reform momentum in certain areas, as the authorities planned to push through with the sales of both government assets and the intended subsidy phase-out reform. The mission staff report would again highlight the problems of data

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[320] IMF.2008. *Press Release No. 08/206. Statement by IMF Managing Director Strauss-Kahn at the Conclusion of his Visit to Egypt*

[321] Ibid and The Brookings Institution.2008. *Global Economic Crisis: Can Egypt Emerge as a Winner?*

[322] IMF.2008. *IMFSurvey Magazine: In the News*. "*Setback for All' if Financial Turmoil Slows Globalization*"

feedback and comment that Egypt's subscription to the *Special Data Dissemination Standard* was still insufficient, which again made it difficult for the IMF mission to survey the Egyptian economy in a sufficient manner.[323] The staff would not highlight or discuss these data issues further, though the mission report would update the Executive Board on the technical assistance Egypt was receiving from both the IMF and the World Bank, which included collaboration projects focused on decentralization, banking supervision and anti-corruption reform initiatives.[324]

The Executive Board would predominantly focus on the Egyptian authorities' efforts to avoid the fallout of the global financial crisis when the Executive Directors met to discuss the Article IV Consultation report in December 2008. Executive Director Shaalan, unsurprisingly, upheld the same manner of prioritizing, and could report that while Egypt fortunately had remained relatively unaffected by the global financial turmoil so far, the crisis had led to decline in foreign direct investments and tourism, which again had halted some reform initiatives such as the privatization of the Banque du Caire. Executive Director Shaalan was, however, also clear in his statement that the Egyptian authorities were committed to continued reform. Shaalan noted for instance that the crisis, and its potential economic consequences, would not be an obstacle to the implementation of several good governance inspired policy practices such as subsidy, tax and public sector reform. While the delayed privatization of Banque du Caire would be questioned by several Directors during the meeting, the majority of the Directors still stated that they were impressed by the Egyptians continued reform process and calm performance during a time of impending crisis. Additionally, several Directors credited the Egyptian authorities for continuing to take on the issue that had been the main topic of the previous discussion, the budget deficit. They further stated that the reformed banking system should be recognized for shielding the Egyptian economy from much of the damage caused by the global financial turbulence.[325] Several Directors would further additionally credit Egypt for the collaboration with the World Bank and the IMF's Middle East Regional Technical Assistance Center on technical assistance projects against money laundering and terror financing, but also questioned whether the authorities were doing enough to prevent the poor from suffering under the economic slowdown.[326]

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[323] IMF.2009. *IMF Country Report No.09/25*:3, 9 and 14-15
[324] Ibid:6
[325] Ibid:7-8 and 20-21
[326] IMF.2009. *Minutes of Executive Board Meeting 08/104-2*: 3,5-6, 15 and 23

In other good governance related areas, the Executive Board would follow up on several developments closely associated with poor governance that had been discussed during the previous session, such as the development of the "national champion" and the continued problems with data and statistics.[327] The question of data and information was indeed highlighted significantly more frequently than in the previous meeting, with one Executive Director questioning if Egypt, in the near future, would at any point be able to fully adapt to the *Special Data Dissemination Standard* as they had vowed to do four years earlier.[328] The representative from the IMF's Middle Eastern Department, who was present at the meeting, agreed with the Executive Director's assessment of the data problems and admitted that the information provided to the IMF's mission staff and the Middle Eastern Department often was insufficient.[329] This led the meeting to be concluded with a remark that improved macroeconomic data was needed if the IMF was to conduct its economic surveillance properly, while the overall assessment form the Executive Board was that Egypt remained on the right track despite a delayed financial reform process.[330]

Considering the Executive Board's reaction to the political and economic development's in Egypt, it is interesting to observe that while the Board would question some elements of poor governance in Egypt, the Directors would seemingly continue to neglect and overlook the negative aspects of governance that had evolved over the recent years. For instance, several Directors, and the Executive Board as a whole, had insisted on better data and transparency measures from the Egyptian authorities, noting that the Egyptian subscription to the *Special Data Dissemination Standard* was still obsolete. The need for transparency during times of the global economic instability would again be highlighted by the Fund as having a significant function in preventing financial uncertainty and stabilizing the international economy.[331] But while the IMF would on several occasions demand more insight and better information from the Egyptian authorities, the Fund had yet to comment on the fact that the Egyptian legal system still did not include any transparency laws or articles that obliged Egyptian politicians to disclose their assets to the public. This was a type of disclosure regulation considered one of the key elements of the entire *Special Data Dissemination Standard*.[332] Moreover, while the Fund opposed any form of nationalization,

[327] Ibid: 8, 25 and 37
[328] Ibid:11
[329] Ibid:51
[330] Ibid:55
[331] IMF.2009. *IMF Annual Report*:40
[332] Transparency International.2009. *National Integrity System Study. Egypt 2009*:55

such as the planned devolvement of the “national champion” in the insurance sector, and supported good governance initiatives for improved banking supervision, the Egyptian civil service remained flooded with corruption and nepotism. It was a system so corrupt that observers had highlighted its malfunction as one of the reasons for the delayed implementation of liberalization reforms that the IMF itself had been insisting on, which again begs the question whether the IMF was hopefully awaiting its improvement or deeming it impossible to alter.[333]

5. 7 - In the wake of crisis and towards revolution

The IMF would credit an improved banking system and an internationally unintegrated Egyptian economy as the reasons why Egypt managed to preserve a favorable economic growth despite the global economic slowdown.[334] The IMF mission staff for the 2010 Article IV Consultation would follow up on this and would equally credit Egypt’s willingness to reform as one of the most prominent reasons why the country, unlike other developing Middle Eastern countries, remained resilient in the face of the fallout of the financial crisis. The IMF mission staff additionally praised the Egyptian authorities for the implementation of a stimulus package aimed at securing economic stability, and would further comment that the Egyptian government showed an admirable commitment when they stressed that the planned fiscal and structural reforms would not be more delayed than necessary by the global economic slowdown.[335] Despite this, the Egyptian government had informed the IMF mission staff that certain reforms, such as the tax and subsidy reforms, had been postponed, but new pension and healthcare reforms were still underway and would hopefully reach parliament as soon as the worst of the crisis fallout was over.[336]

While the overall assessment of the mission staff was that Egypt had withstood the international crisis well, the reformed banking system being recognized one important reason for this, the problems of data transparency would again be brought up as a pressing issue. In this relation, the mission staff report would highlight the damaging effects of Egypt’s corruption problems, and while the mission staff noted that Egypt had improved in some areas, the corruption remained an obstacle for both investment and the potential reform pace. The mission staff subsequently advised the Egyptian authorities to deal with these issues,

[333] African Development Bank.2009. *Egypt Private Sector Country Profile*:63-64
[334] IMF.2009. *Arab Republic of Egypt—IMF Staff Visit, Concluding Statement*
[335] IMF.2010. *IMF Country Report No.10/94*:2 and 11
[336] Ibid:11

suggesting that improved regulation be introduced to secure a business friendly environment and increase investor confidence.[337] The consistent data issues from the government would therefore be brought up frequently. This is not surprising given the IMF's insistence on the importance of transparency in times of crisis, with the mission staff commenting that data disclosure was fundamental if the Fund was to guide Egypt further on economic policy questions.[338]

The Executive Board would agree with most of the appraisal of the IMF's mission staff report, with the Directors particularly praising Egypt's economic maneuvering during the fallout of the financial crisis, with one Director calling it a feat of "remarkable resilience."[339] Executive Director Shaalan could eagerly report that the Egyptian authorities would press on with several IMF supported reform initiatives despite the setback from the financial crisis, and stressed that reforms in the tax administration and subsidy systems would be introduced, while the Egyptian government at the same time aimed at further reducing the budget deficit and enhance banking supervision through improved regulations.[340] The Egyptian willingness not to lose reform momentum was met with much praise by the Executive Board. The planned moves to further develop the tax administration and phase out the subsidy program were particularly well received, with a number of Directors stating that they believed these reforms would over time create greater state revenues, spark job creation and foster an environment for further structural adjustment.[341] Nevertheless, like the previous Article IV Consultation report discussions, several Directors urged the Egyptian authorities not to forget the effects the crisis fallout could have on the Egyptian public. One Director encouraged the government to show caution during the subsidy phase out reform, advising the Egyptian government not to forget how the changes in subsidy polices could harm the country's disenfranchised when food and energy prices would be modified. Another Director strongly advised the government to focus more on controlling inflation, with the deliberate message being that an economy overwhelmed by inflation would harm both the country's financial status and the poor.[342]

Furthermore, while the majority of the Directors supported the continued Egyptian efforts to economically stabilize the country and press on with the planned reform initiatives, the Executive Board payed close attention to the mission staff's reporting of obvious poor

[337] Ibid:24-25
[338] Ibid:47-48
[339] IMF.2010. *Minutes of Executive Board Meeting 10/27-3*:30
[340] Ibid:3-6
[341] Ibid:11, 17 and 19
[342] Ibid:7 and 10

governance. One Director, for instance, insisted that the Egyptian authorities not postpone any reform measures aimed at tackling corruption, strongly advising that neither the upcoming parliamentary elections nor the uncertain financial situation should stand in the way of any reforms aimed at improving governance and the economy.[343] Another issue related to poor governance that received considerable attention was the continued problem of data transparency. The IMF's mission staff had noted that the data they received from the Egyptian government was adequate to conduct surveillance. Still, several Directors implored the Egyptian authorizes to improve the data statistics that were provided to the IMF's missions.[344] Requesting and arguing for better data quality had been frequent appeal from the Executive Board for several years, but during this particular meeting, there was an overwhelming consensus from the Executive Directors that Egypt had to become more transparent towards the IMF if the organization was to guide the country further. Several Directors further commented that the globally unstable economy had made the world aware of how important timely and transparent macroeconomic data was for both the stability of the global economy, policy debate and business environment.[345]

5. 8 - Summary conclusion

On 25 January 2011, Hosni Mubarak stepped down as President of the Arab Republic of Egypt amidst the popular uprising that would become known as the Arab Spring. In the years leading up to the revolution, the IMF had reduced its focus on the promotion of good governance in Egypt, instead concentrating on what was determined as more pressing issues such as job creation, an unstable budget deficit and the economic stabilization after the 2008 global financial crisis. The IMF at the same time seemed confident that the Egyptian authorities would be able to improve the governance situation on their own initiative through new financial regulations, enhanced institutionalized supervision and public sector reform. Moreover, while the Fund did reduce its focus on some good governance related issues, for example by not commenting the problems related to the widespread corruption in the Egyptian civil service, the organization did not fully neglect its role as a promoter of the policy practices. The IMF would for instance endorse Egypt's willingness to continue with their planned reform initiatives during the financial crisis, and the Egyptian government was acclaimed by a number of international economic organizations and institutions for its efforts

[343] Ibid:19 and 26
[344] Ibid:9
[345] Ibid:50

to take on corruption and make the country more business and investor friendly. The Fund would also continue to challenge Egypt on several poor governance related issues, such as the absence of transparent data and proposed plans for nationalization in the insurance sector.

But there were still serious issues connected to the increased social inequality that had developed in Egypt. It is not fair to claim that the IMF fully or deliberately ignored these negative developments, as several Executive Directors urged the Egyptian government not to forget the disenfranchised and poor during the restructuring process of the subsidy programs and reduction of the public sector or to postpone good governance related reform initiatives till after the planned elections of 2010. Nevertheless, the promotion of good governance in Egypt became secondary to other economic issues such as stabilization and growth during the final years of the Mubarak regime. The insistence on improved data quality and continued economic liberalization was one of the few good governance inspired policy practices that remained frequently brought up during the Executive Board meetings and through the IMF produced research on governance in the Middle East. Towards 2011, the Fund would applaud the Egyptian authorities and their bold reforms, but realized the severity of the governance situation and subsequently implored Egypt to deal with data transparency and corruption while not forgetting how the Egyptian public could potentially be victimized during the reform process.

6. Conclusion

6. 1 - Main research question

The primary aim of this thesis was summarized in the following research question:

- *To what extent did the International Monetary Fund promote good governance inspired policy practices towards Egypt between 1996 and 2011?*

The IMF actively promoted their good governance inspired policy practices towards Egypt during the period this thesis has covered. From the Stand-By Arrangement negotiations of 1996, to the last Article IV Consultation with the Mubarak regime in 2010, the Fund promoted the importance of good governance by advocating financial integrity, economic transparency, public sector efficiency and the necessity of a functioning legal system that provided disclosure and anti-corruption regulations. The promotion of the need for good governance inspired reform was visible through loan negotiations, Article IV Consultations, press releases from delegation visits and research, with the IMF constantly stressing that Egypt and the Middle East as a whole had to turn away from economic and political structures and systems that facilitated poor governance, rent seeking and corruption. The country accepted the IMF's advice on how to deal with these governance related issues, and willingly participated in good governance programs such as the *Financial Sector Assessment Program, The Report on the Observance of Standards and Codes* and accepted the terms of good governance transparency standards such as the *Special Data Dissemination Standard*.

But the IMF's insistence on good governance reform was often marked by the Fund's changing attitudes towards their own concepts of good governance. These concepts were in constant development due to the changing dynamics of the global economy, which in effect made the strength of the IMF's good governance promotion vary. For instance, the Fund early identified liberalization and privatization as being crucial for good governance reform, which again made neo-liberal reform measures almost synonymous with the IMF's good governance. In the wake of the 1998 Asian financial crisis, transparency in financial institutions became the key point of good governance, while the international fight against money laundering and terror financing became the most central good governance polices after the 2001 September 11 attacks. Towards the mid-2000s, good governance as a mechanism for the stability of the international economy was strongly encouraged, as the Fund promoted good governance as an economic incentive for increased investment and trade.

Nonetheless, these frequent modifications to good governance promotion from the IMF did not necessarily affect the Fund's instance on good governance inspired reform in Egypt. While the Fund had undoubtedly been aware of the poor governance in the country prior to the Stand-By Arrangement of 1996, Egypt's participation in economic assessment programs and the Egyptian authorities slow adaptation to the IMF's transparency standards, made the Fund more aware of how poor governance could be a potential obstacle to economic reform in Egypt. This consequently made the Fund more insistent on good governance measures, and the Fund's Executive Board thoroughly questioned the Egyptian authorities on their willingness to reform and their disclosures towards the Fund. This eventually led the Egyptian government to take action, and the Executive Board was at times confident that their good governance promotion had made results. And the IMF had reason to believe so. For instance, a significant poor governance related issue that the IMF successfully improved in Egypt through their promotion of good governance was the liberalization and decentralization of the Egyptian corporatist state, which in effect limited the sphere of influence the Egyptian authorities held over the country's most important financial institutions. The IMF's promotion of good governance changed, modified and improved the regulations of the Central Bank of Egypt, while the political responsibilities between the ministries and the state owned banks were streamlined and simplified. Several banks, commercial and public sector, were privatized, and the insurance sector and tax administration improved. Moreover, social security funds were upgraded while inefficient subsidy programs were modernized and slowly phased out.

Nevertheless, while the Fund succeeded in promoting good governance in some areas, which led to significant liberalization and privatization reform, the strength of the Fund's promotion of good governance was inadequate in certain extents. First, the promotion of good governance became secondary at times, where issues related to unemployment, financial instability and reduced investment were given considerable more attention by the IMF's Executive Board than the implementation of good governance policy practices in Egypt. This, in effect, made the IMF's mission staff and the Executive Board Directors less focused on good governance reform in Egypt, which again reduced the IMF's pressure on the Egyptian authorities to implement good governance reform such as improved transparency and anti-corruption regulations. Second, another noteworthy area where the extent of the IMF's good governance promotion fell short was in the judicial sector. The IMF's concept of good governance called for the rule of law through functioning legal systems that limited the opportunities for poor governance and corruption. While the IMF strongly promoted the necessity and importance of a functional legal system, the Egyptian judiciary was under considerable pressure from the Mubarak regime. This was particularly evident during and after the 2005 parliamentary elections, something the IMF failed to comment on or mention. The legal framework of the liberalization reforms that the Egyptian authorities presented both limited and facilitated poor governance. Third, the Fund and the Executive Board responded slowly to the growth of social inequality that had evolved during the final years of the Mubarak presidency. Significantly, it took years before good governance in relation to the Egyptian public became a seriously debated topic in the Executive Board. Executive Directors called for the improvement of health care, education and pension systems, while urging the Egyptian authorities not to forget the country's disenfranchised during the phase out of the subsidy programs. This phase out process was backed by the IMF, and supported through the organizations defined concepts of good governance.

In summary, the extent of the IMF's promotion of good governance towards Egypt between 1996 and 2011 was essentially focused on the reduction of poor governance through liberalization, privatization and reorganization of the most significant Egyptian financial institutions as well as a decentralization of the state operated economic structures. It is clear that the IMF aimed at improving governance in Egypt by promoting the long-term effects of good governance through market-oriented reforms, which in effect would limit the Egyptian authorities', political elite's and government bureaucracy's ability to profit from poor governance and over time improve governance as a whole.

6. 2 - Hypothesis

This thesis operated with two hypotheses to support the main research question, the first being:

- *The IMF was unable to obtain a clear picture of the economic and governance situation in Egypt due to failure of their official research system known as "surveillance", and the Fund was therefore unable to advise Egypt properly.*

The problems of data feedback and lack transparency from the Egyptian government were a constant issues highlighted by IMF missions, research and the Executive Board Directors. The economic assessment programs that Egypt participated in as a result of the IMF's promotion of good governance uncovered serious transparency shortcomings within the Egyptian state bureaucracy and the most central financial institutions, which the Fund urged

Egypt to deal with through renewed legislation and government restructuring. There is no doubt that these shortcomings were a serious issue, as the IMF's Executive Board Directors frequently insisted on transparency and data enhancement, with some Directors at times questioning whether the Egyptian authorities were deliberately misreporting to the IMF mission staff. But the Fund's insight and knowledge of the Egyptian economy was, according to the IMF itself and other observers, adequate, and despite the organization's constant insistence on improvement, the issues of transparency did not prevent the IMF's surveillance system from having a clear picture of the economic and governmental situation in Egypt. The hypothesis can therefore be disproved as the thesis has found that the IMF's surveillance system did not fail and that the Fund was provided with a clear picture of the economic and governmental situation in Egypt in the period 1996 to 2011.

The second hypothesis the thesis operated with was:

- *The IMF attempted to promote good governance in Egypt, as bound by policy after the introduction of the good governance initiative, but failed due to the Mubarak regime's unwillingness to comply with IMF advice and insistence.*

The Egyptian authorities willingly adapted to several good governance inspired policy practices that the IMF promoted between 1996 and 2011. The country responded quickly to the most central reform measures such as liberalization and privatization reforms that would reduce poor governance in the public sector and other government operated areas. Theses reform measures were suggested and insisted on through the IMF's loan negations, mission delegations, research and assessment programs. There is still no doubt that the IMF certainly wanted Egypt to reform at a faster pace, with the Executive Board urging Egypt not to reduce the reform initiative during times of financial uncertainty, such as the Asian financial crisis of 1998 and the global financial crisis of 2008. The implementation of good governance reform in Egypt was indeed notorious for being slow, with the Fund at times having to directly intervene, pressuring Egypt to accept the terms of good governance programs such the *Special Data Dissemination Standard*. This produced results in some areas and led to the improvement of the tax administrations while the business climate became considerably better, which again led to increased investment and trade. Nevertheless, sectors such as the civil service and parts of the government bureaucracy remained poorly governed, highly corrupt and unchanged due to a lacking overall national Egyptian reform initiative. The hypothesis can therefore be confirmed: the IMF failed to promote good governance reform initiatives in some parts of the Egyptian economy and governance due to the slow and inadequate implementation of the IMF-suggested measures from the Egyptian authorities and the Mubarak regime.

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Sammendrag

I 1996 introduserte Det Internasjonale Pengefondet (IMF) sin «good governance»-politikk for å signalisere at organisasjonen ønsket aktivt å promotere nytteverdien og betydningen av finansiell integritet, effektivitet i den offentlige sektoren, økonomisk åpenhet og anti-korrupsjon. Egypt og pengefondet ble samme år enige om en «Stand-By Arrangement», som videreførte et «Structural Adjustment-program» fra 1991 og la til rette for massive liberaliserings-, privatisering- og omstruktureringsreformer som ble presentert og gjennomført over de neste 14 årene. Egypt ble som et resultat av dette samspillet en av pengefondets nærmeste samarbeidspartnere i Midtøsten og landet opplevde en økonomisk omstrukturering som førte til sterk jobbvekst, økonomisk stabilitet og økte investeringer. Men til tross for økonomisk framgang var det egyptiske styresettet dårlig, og landet var notorisk kjent for å være svært korrupt og vanstyrt. Måten Egypt ble styrt på sto også i stor kontrast til pengefondets standarder og konsepter for «good governance». Korrupsjon, nepotisme, sosiale ulikheter og demokratiske restriksjoner ble så omfattende i Egypt at president Hosni Mubarak til slutt trakk seg som landets leder i januar 2011. Men President Mubarak og hans politiske partnere hadde fulgt de fleste av pengefondets råd om hvordan Egypt kunne reorganisere seg økonomisk og bli mer basert på markedsorienterte, liberalistiske og neo-liberale økonomiske prinsipper. Pengefondet var svært positive til denne utviklingen, og pengefondets hovedstyre (Executive Board), rapporter og forskning produsert av pengefondet snakket varmt om Egypts økonomiske omstrukturering og tilpassingsevne, som de mente på lang sikt ville skape høy levestandard og en solid økonomi.

Hvordan kunne Det Internasjonale Pengefondet være så positive til denne utviklingen når Egypt var så korrupt og vanstyrt, og hvilken rolle spilte egentlig «good governance» i forholdet mellom Egypt og pengefondet? Denne masteroppgaven vil diskutere disse spørsmålene ved å analysere og dokumentere i hvilken grad pengefondet promoterte sin «good governance»-politikk til Egypt mellom 1996 og 2011. Om pengefondet mislyktes i å promotere sin «good governance»-politikk, var det et resultat av manglende informasjon, eller var det de egyptiske myndighetene som ikke var i stand til å gjennomføre reformene pengefondet ønsket? Denne masteroppgaven kommer til å undersøke disse temaene og forsøke å forstå og svare på hvordan, og i hvilken grad, Det Internasjonale Pengefondet promoterte sin «good governance»-politikk mot Egypt mellom 1996 og 2011.