

# Unlocking Egypt's Economic Potential

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## Panel 2

Wendy Chamberlin: Today's panel, the second panel of the day, is looking at the, uh, economics, uh, and enterprise, uh, in Egypt and we're going to hear from a diverse group of economists, economic journalists, uh, businessmen and entrepreneurs, uh, to talk about how to get Egypt's economy back on track and the diversity of the panel very much represents the multiplicity of ideas and thinking that really need to be shared, um, to figure out how to restore a confidence in Egypt, growth, uh, and employment opportunities. Guiding today's panel is a man who has been immersed in questions like these for many, many years, Shanta Devarajan, who is the Chief Economist of, uh, the World Bank's Middle East and North Africa Region. He's held many important roles at the World Bank since 1991. I'm not going to get into the specifics, because they're in your program book, uh, but he's also the author, author of over 100 publications on everything from trade policy to the environment. So, uh, we have enormous respect for the work that he does and we're very honored that he's agreed to host, uh, today's panel. So now I'd like to hand the panel over to Mr. Devarajan. Thank you so much and thank you to the panelists.

[Applause]

Shanta Devarajan: Well, thank you very much, Kate and, uh, it's a pleasure, uh, and an honor to be here. Uh, I was going to give some words of motivation for this panel, uh, on Unlocking Egypt's Economic Potential, but I think the discussion, the first session was plenty of motivation. Everybody, everybody pointed to the fact that in trying to achieve some of the goals, political change, uh, including inclusion, um, uh, that, uh, there had to be some changes on the economic front, uh, and that, as somebody, uh, I think Dalia, mentioned, people marching in the streets in 2011 were not only asking for freedom and democracy but they were asking for bread and oil and, uh, public services. So we, uh, we can start, uh, we have a very exciting panel today and I will introduce them as I ask them to speak. So let me start with my good friend, Ahmed Galal. Um, Ahmed, uh, was the Finance Minister of Egypt, uh, uh, for six months?

Ahmed Galal: Eight.

Shanta Devarajan: Eight months.

Ahmed Galal: Eight long months.

Shanta Devarajan: It felt like, felt like eight years. Right? [laughter] And is, uh, currently the Managing Director of the Economic Research Forum, uh, which is a, a major research network, uh, in the, in the Middle East and North Africa region. So, Ahmed, I want to ask you, uh, first, to, uh, give us a, a picture of how the economy is doing. But I want to specify that there're two aspects of the economy that we need to, to look at. One is the short term stabilization problems, because we know that the

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fiscal deficit is still quite high. It reached about 13, 14% of GDP. The debt is very high. Um, and there seems to be a, a problem with private entrepreneurs getting, uh, getting credit from, from banks. So, there's a short term stabilization problem that we need to, uh, address. But at the same time, what is happening on the medium term structural problems? The same problems that triggered part of the uprisings in 2011, the high unemployment, the, the poor quality of public services, um, and the rather, uh, constrained business environment, especially for young entrepreneurs, from whom we'll hear later. So over to you.

Ahmed Galal: I thought you were my friend.

[laughter]

Ahmed Galal: You asked me soft questions. That's not a soft question. That's a question of all questions. Anyway, let me try to put things in a context and then come to answer your question. I mean if you were to ask me what was going on in Egypt, uh, I...and is going on and is likely to go on, I would probably point out the three stages. Up 'til 2011, uh, Egypt reached a dead end, uh, sort of, was stuck and I will explain in which way I mean that. Between 2011 and until June 2013, Egypt was in turmoil. Since, uh, July 2013 until now and into the future, Egypt is still in the making. So let me explain a little bit with a greater focus on economics rather than the politics. Up until the end of, uh, up to January 2011, Egypt was doing reasonably well on the growth agenda. If you look at all the indicators, economic growth, private investment, uh, private sector development, improving business environment and the rest of it, actually was not doing too badly. An average of 5% growth rate every year for a few years is not so bad. Of course, it's not six or seven. It's not 10, like in China. But, but it wasn't that bad. The problem, the fundamental problem was who was getting the benefits. So there was progress on the growth agenda. There was, um, failure, if you like on the resolution agenda. Poverty was diminishing a little bit as growth was relatively high, but both income inequality and asset inequality were worsening and significant. I think those who rely on (inaudible) efficiency they are lying there missing the point because we know from the casework that it's really asset and equality that matters. Second of all, household expenditure surveys don't capture the top income anyway. So I think people would be fooling themselves to think that (inaudible) efficiency in Egypt are only 32, which is relatively, uh, reasonable. Therefore, inequality is not that bad and they are missing the point. So that is really how I would characterize that era. Then you come to the period, uh, between January 2011 and June 2013 and everything went wrong, for the right reasons, if I may say so. Uh, if you look at all the indicators, well there's on the macro side, macro balances as you pointed out, budget deficit, massive (inaudible) deficit, um, public debt was growing, uh, international reserves were diminishing, there was pressure on the pound. Things were not happening. If you move to the unemployment and growth agenda, GDP is growing, has been growing during that

period on average something like 2% rather than 5%. Essentially that was associated with a very high unemployment rate as well and we are talking about open unemployment reaching rather than 9% in 2010 to something like 14%, uh, um, in, in June 2013. But that's open unemployment. The fact of the matter is, unemployment is probably much higher because the poor cannot be afford to be unemployed. So what do they do? They go to the informal sector and if you are working for a few hours a week, you are counted as employed. So I am not sure that that number is actually accurate either. Over and above, poverty was rising and inequality was, was increasing. Uh, in fact one of the most interesting things about (inaudible) book, uh, is that at the time when growth rates are declining, this is when, was concentration increases. But I don't want to get into that. Then came the third period. So that I was part, proudly part of an interim government that came to office at a time when nobody wanted to do that. I said not all previous governments by the way. Maybe it was a little easier, but anyway, it was very tough to join the government in July 2013 and this is the lay of the land. That's what we have seen. And we wanted to come up with a reform agenda that will tackle all three problems in one, meaning we wanted to bring about macro balance or begin. Not, not actually achieve it, because we knew our interim government, when you were there only for a few months, uh, but we wanted to change course of economic policy and we wanted a policy package that would address all three problems. We wanted to bring about greater macro balances. We wanted to activate the economy and, uh, and by association, increase employment and we wanted to bring about more social justice. This is really the agenda we went by. I believe that the future governments in Egypt, this current government continues what we started and the future governments cannot deviate from trying to address all three balances in one and the reason why I'm saying that is because you get people who are telling you for instance, "No. No. Worry about the short term," and they worry about civilization as if you can actually do civilization now and then do structure reform later. Totally untrue. You really have to come up with a policy package that would combine all three, uh, elements in one. You cannot focus on one without the other. Now, I give my introductory (inaudible). Can I take another 15 minutes?

[laughter]

Ahmed Galal: I'm kidding. Now let me...

Shanta Devarajan: You have to answer my questions.

Ahmed Galal: I didn't answer your question yet.

Shanta Devarajan: Right.

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Ahmed Galal: But that's probably by design. [laughs] Now, in the short run, given that these are the objectives that we wanted to achieve and rather than continuing with a reform agenda that was dominating the scene in between January 2011 until June 2013, which was basically a civilization, uh, reform agenda. Fundamentally. There are little bits here and there, but fundamentally a civilization reform agenda. We didn't think that was the right way of doing it because of some (inaudible) program. It's a program that would squeeze the economy further. It's a program that would, maybe improve the budget deficit, but people are on the street and they want certain things and you cannot ignore all the other dimensions that they went out on, in January 2011 for. So we decided to shift policy and go for what we call, uh, stimulus packages. And by the way, think about it. In the US, when the economy was hit, what did they do? Did they go the IMF to get them an (inaudible) program? No. They actually went through a stimulus package, even under a conservative government. Imagine a poor country like Egypt. We would go for an (inaudible) program? Absolutely not. Just the wrong formula. If the economy is operating far below capacity, you can squeeze a lot more out of the economy by activating the economy, activating the economy and hopefully create jobs and in the process while you are doing that, you do it responsibly so you want to do it in such a way as it doesn't add up to the problems and postpone the problems for subsequent governments and at the same time, you also want to do something, uh, you know, respond to some of the demands on the street and that is essentially the reform agenda that we went by. So our reform, our reform, our civilization package, if you like, that we started and it continues with the current government, has all three elements in one. We came out with two stimulus packages. They all add up to 3% of GDP. Most of the, uh, packages, most of the amount that we, uh, the money were to be spent on public investment and infrastructure, because that has dual effects. One, it activates the economy in the relatively short term. But at the same time, it has infrastructures that will help the economy continue growth afterwards. It will count all private sector in, down below. That's one. Uh, we tried to raise some revenue, uh, real estate tax, value added tax, uh, a few other taxes. We tried to rationalize the expenditure side. The energy subsidy we couldn't live with. We prepared a full program. We knew it was going, it cannot be done overnight. It needed to be done, uh, but we prepared a program that would be over a three to five years period. The current government took the decision to, uh, to do that and I have to admit that we're happy to postpone it after the voting on the constitution. Let me tell you my bias. I am an economist by training. Every time anyone asks me about solving the economic problems in Egypt, I tell them go out and talk to the politicians, because I happen to believe just like, uh, as Acemoglu and Robinson believe, that the political institutions is what make a country develop, not something else. It's not the World Bank recipes that will make the country develop. It's the political institutions. So, building political institutions take precedence over economic reforms anytime in my book and indeed, uh, the road map that Mohamed Salmawy talked about, the idea of having a committee, to write a good constitution, getting Egyptians

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to vote on it, was the first fundamental building block for, uh, economic reforms. Then we got a, a presidential election and we're going to have parliamentary elections. Now, the next parliament may not, no, it may not be the best parliament in the world. That's perfectly all right with us. Why? Because democracy takes time. Transitions take time. They take years. They don't take months and once you build your political institutions and you develop the practice and mature, you are in a position where policies will be figured out by the politicians that are elected, responding to the demands of the people and they are going to come up, hopefully, with better policies rather than the crony policies that you, you talked to me in the break. Um, now, I haven't said anything on the structural reform agenda. This is an ongoing business. We knew we were there only for a short period of time, so we decided that we were only beginning to prepare the ground work for that. That will include things like business environment. It's going to take a long time. It takes reforming the deficient system. It takes, uh, reforming the health system. In fact, the pension system is one of the, uh, areas that need dramatic reform in Egypt. Uh, Social Safety Net needs to be revisited all together. Uh, so, so there is a, there is a lot of stuff to be done and that will take its own course, but I'm not going to elaborate further.

Shanta Devarajan: Okay. Thank you. Thank you. I'll come back to you on a few of those points. But let me turn now to Wael Gamal. Wael is a columnist for al-Shorouk newspaper and, uh, is often been described as, as the voice of the Egyptian people. Uh, so... [laughs]

Ahmed Galal: You mean I'm not Egyptian? I thought there were half Egyptians here in the previous panel.

Shanta Devarajan: Uh, so let me turn to Wael and ask from your perspective, um, how have the reforms and the actions of this government over the last say three years, um, addressed the real underlying problems, the economic problems facing the economy, in the immediate term?

Wael Gala: First of all, I, I will have to agree with Dr. Galal that, uh, politics is very important to understand the economics of Egypt and you cannot really deal with economic problems without dealing with the political problems of Egypt. And here it's not, of course, institutions, political institutions are very important, but it's not enough because how to create the, the appropriate political institutions is the issue in the first place and here, the political balance, and what are the social forces in place, uh, what is the social compromise in society is the, is the issue. And in the previous session, Mr. Salmawy said that, um, he confused, uh, the three, uh, presidents of Egypt and he forgot about one of them, (inaudible), Sisi and Morsi and Mubarak.

Male: Because they are friends.

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Wael Gala: He, I think he is totally right concerning politic-, uh, economic policies, because nothing was changed, nearly changed in the three years compared to what happened before. Uh, even, even on the, the level of who is running economic policies of Egypt, maybe there was several, uh, finance ministers. But there was consistency because the teams working with the ministers were the same teams that maybe you have seen all the time during your visits. They are the same people with the same conventions, the same ideas, the same way of thinking and they were defending viciously what they were doing before. They are good people, of course, and people, efficient people, but this is, and this is the way they think and this is the way things were done. Uh, so I don't think there was that much change in economic perspective and economic policies and the reason for that is what, what happened. What I think is that the, the political coalition that is ruling Egypt didn't change that much since then. Yes, we have seen Mubarak out of power, maybe some of his, uh, close, uh, allies. But, the, the real power controlling and ruling Egypt, the, were the three wings, the bureaucracy, the military and the business community were there all the time. At the point of time, they, they all saw that Morsi was the best choice. Morsi was not, didn't come from the space and, uh, he was a, his president was approved by the military and his president was approved by the business community. In fact, the same investment bank that was (inaudible), in close relation with Gaman Mubarak was, was preparing the, um, meetings with international and US investors with (inaudible). The same investment bank. So, I don't think there was much difference and I'm very wary, uh, uh, uh, with the description of, um, um, economic policies as reforms, because usually reforms and our experience mean, uh, prosperity and this is really, if you really want to describe what's happened now in Egypt, it is austerity. And, of course, stimulus packages are maybe were meant to move in another direction or to, to get some balance of what's happening. But, if you remember, we had stimulus packages before, um, uh, just after 2008 in Egypt and this didn't mean at all that, uh, the economic system that created poverty and inequality was no different from, uh, before. So, now your, um, uh, unemployment is increasing. Um, uh, poverty is expected to rise, inflation shock because of uh, rising energy prices and even the IMAP, uh, that issued, um, uh, a paper on reforming or restructuring energy subsidies maybe the second day that, that the measures were announced by the government, was saying that the Egyptian government had, uh, uh, promised that they will start a parallel Social Safety Net, uh, uh, measures and they will do the other restructuring measures in a gradual way. This was not the thing that was announced. It was, uh, uh, much aggressive and we, we didn't hear that any other measures were taken to take care of the poor from the government, and, but after saying that we are about to get into a disaster, uh, uh, economy, which I, I don't agree with, this, um, kind of, of perception that we face all the time from the, the, the (inaudible) government and then from Morsi that Egypt is about to get bankrupt and then after, afterwards and of course, the, the main thing used to, um, uh, justify that this condition and then you have to accept whatever policy they, they

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threw at your face is budget deficit, uh, public debt and these are problems that were here for a long time. Of course, it's serious problems, but, but there are also other ways other than the window of the balance of payments and international reserves and, uh, the budget deficit to see the Egyptian economy if you want really to deal with it. For example, I will end with that. Agriculture. For the three previous years, agriculture were growing at faster rate than before the revolution. The, um, last numbers announced by the Ministry of Planning is 3.6% in the, um, third quarter of the financial year and agriculture and this is, this is good and important, even concerning social justice. Because five million peasants work in agriculture. It's 14% of GDP and these five million peasants are the poorest of Egypt and when their income comes up, then poverty improves and what the government did to deal with that, in fact investment, um, uh, new investment, the share of agriculture and the investment, in new investments in the, uh, nine months of this financial year is 4%. And, uh, the credit from the banks decreased, not increased to, uh, peasants and now we discovered that, that, that the, uh, uh, peasants still face the, uh, threat of, uh, going to prison over, uh, \$1500 dollars debt. So, the, the, if you want to deal with the economics of Egypt, you have to deal with that coalition that is ruling the country since years.

Shanta Devarajan: Okay. Thank you. That's... That was a very good counterpoint here. So let me now turn to, uh, Hanan Abdel Meguid. Uh, Hanan is an entrepreneur and an angel investor, uh, and founded the Kamelizer, uh, group, uh and from your perspective as a young entrepreneur, do you see any changes and are they changes for the better or worse, uh, in terms of giving the power to entrepreneurship in the country?

Hanan Abdel Meguid: Before I start, I have to say um, um, a disclaimer. I'm an optimist by nature. So you have to bear with me. I think one, in my, uh, book, we've never been in a better position. We are in a great position, because the odds are at play. Uh, we are not as stagnant as we were. Some people prefer stagnant and, uh, (inaudible), I think we, we, there is some new dynamism that is in place. There are... Rules are being rewritten so the people that are, are going to participate, become more involved and work rather than wish or object or just document are going to be, uh, part of sort of drafting, uh, the new Egypt or drafting the new powers that will be at play during the future. Um... in the last, uh, panel maybe I think where everybody gets trapped in the historically, historically kind of statement that we keep on repeating. I think we need to focus on the road, not the walls that we've witnessed before and, uh, just work for it. Maybe the source of optimism is well-founded in my case, because, um, I started off out of University and have succeeded in a company. I've taken all the roads and I'm a very big believer that entrepreneurship is a very big, uh, power to our economic recovery. I think we gained a lot from the revolution, because you've seen a lot of people. The bad part of it, people lost their jobs and out of corporates and, uh, stability was shaken, but, uh, a lot of them came in through

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the entrepreneurship ecosystem and started seeing, okay, how can we more resilient? How can we develop new ideas? How can we build new businesses? So we've seen, um, a very good shift during, uh, the past tough shift. A lot of, uh, uh, uh, rough, uh, edges around it, but definitely in my book, it's a good shift that will help us prosper in the future.

Shanta Devarajan: Okay. Thanks very much for that optimistic note. Uh, let me turn to Ahmed El Alfi. Um, Ahmed is Founder and Chairman of, uh, Sawari Ventures and a, a businessman uh, in, uh, in, in Egypt. So let me ask you from your perspective, as somebody from the private sector what changes are you observing in terms of public actions or decisions by government that are affecting the business environment?

Ahmed El Alfi: Uh, how about the ones that are affecting my business environment, because I only deal in a certain subsector, which is start-ups techs companies and, um, we run an accelerator and we've funded almost 60 companies in the last three years. Uh, we don't see anything. Nothing that impacts us and we try to operate kind of outside the government. However, what I think of what's happening is I actually think that there's some good policies being implemented. I think this Suez Canal project is great. I think that what's missing, and I'm sorry if I, I want to comment on the prior panel. Okay? The message of hope. That's missing. It's missing in all of Egypt. People offer the young people something to die for. Nobody offers them something to live for. Okay? We need a message of hope that they're gonna fulfill in their lifetime today, which is why we're seeing in the entrepreneurial community, people are, they're just running to us. We get two, three hundred applications every cycle for six or seven slots to get funded for companies. People with great ideas. There's some really, really bright young people in Egypt and, uh, they just want a window to really try. Most of them have been self-educated, because the educational system has pretty much failed and if you're gonna start structural long term reforms, I'd like to see the government address some of those things. So from a bottom up view, the economic policies aren't the issue. It's everything else. Uh, those are the things where I, we'd really like to see, uh, effort being put in. The only major structural thing let's say the private sector could use is a reduction of the bureaucracy. So the bureaucracy in Egypt is doing business and dying of a thousand cuts. It's people, you know, stopping you at every which way. I joked with a government official one time. He said, "We're cutting the red tape," and I said, "You're cutting it lengthwise."

[laughter]

Ahmed El Alfi: You're just... Okay. It's ridiculous.

Shanta Devarajan: Doubling it.

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Ahmed El Alfi: Right. To... There was a study done that I saw to, to open a woodworking shop, there are 27 steps with the government you have to take. To liquidate and the point you made, 1,500 pound debt, \$200 will get you put in jail, because you can't repay that. When we have people take a risk in start companies, they have no way to wind those up. So there's a massive disincentive to take risks and without small businesses, there will be no, uh... I'm actually kind of away from the Minister and everybody else and I actually think that the unregulated sector in Egypt is what kept us afloat the last three years. I think had they been regulated and had to go through all the government, uh, bureaucracy, we probably would have gone bankrupt. Because the falafel guy could turn into a flower...

Male: (inaudible)

Ahmed El Alfi: ... could turn into a falafel store, could turn into a flower shop the next day without having to have 17 forms from the government. So unless we get rid of all this government bureaucracy, that's what I'd really like to see on the ground that'll really benefit our companies, is to get rid of these hundred little guys that you have to deal with in every step and, um, the guys that show up and knock on your door and say, "You know, by the way, you have to pay this and this," all these bureaucrats in the middle that justify themselves, uh, and kind of collect their toll to justify their existence when in a bloated infrastructure.

Shanta Devarajan: Okay. Very good. Let me turn to Ahmed now. You've heard Ahmed Galal. You've heard, uh, slightly different views. Uh, uh, uh, and the rest of the conversation and in particular, uh, let me ask you to address, uh, both the other Ahmed's point that basically all these economic policies don't matter. What really matters is leave them alone to, to do their job, uh, as well as Wael's point about agriculture. Why are we not investing more in agriculture when that could be the engine of, of poverty reduction?

Ahmed Galal: If, if we give up on policies as irrelevant, the World Bank has to close shop yesterday.

[laughter]

Shanta Devarajan: It may not be a bad idea. I'm sorry. I just said (inaudible)...

Ahmed Galal: I think you should come to my side rather than to be on Ahmed's side.

Ahmed El Alfi: They're very relevant.

Ahmed Galal: No, no, now let me...

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Ahmed El Alfi: Very well (inaudible). There's a lot in my sector.

Ahmed Galal: He's absolutely right. You know? What Shakespeare said, "Beauty's in the eye of the beholder." It depends on how, what you're looking at from which angle and he's absolutely right. He is very worried about start up business and, and uh, and this kind of companies. And he worries about the bureaucrats making everybody's life difficult and I fully understand that. But imagine the country without inflation is so high, unemployment is so high, the budget is, is so high and you have to borrow on in case public debt on your children are going to complain about you, because you left them a big debt. So if you cancel all that and only worry about getting rid of bureaucrats, I'm sorry. Your life will be good, but everybody's life is gonna be difficult.

Ahmed El Alfi: I purposefully thought I said, "Just from our sector." I fully respect the importance of that.

Ahmed Galal: Okay. He's changed his mind.

Ahmed El Alfi: No, no. I didn't...

[laughter]

Ahmed El Alfi: I didn't change my mind.

Ahmed Galal: Let me...

Ahmed El Alfi: It's very important.

Ahmed Galal: No. No. No. It's very important. Let me, let me actually use that as an opportunity to say two or three other things. The first one is, and it's really an important issue for Egypt right now, there are two ways of develop-, or achieving development. One of them is achieving development by projects, mega projects. You love mega projects. They are visible. You can always associate your name with them and uh, it's the second Suez Canal or it's a, a connecting the Nile and the Red Sea and you know, these are very attractive for politicians. But they are, they may be useful and necessary, some of them, when the case is made for them. But they are not a substitute for doing policy and institutional reform. Period. Anyone telling you that any country can make progress only by relying on projects or by relying on policies, they are really not, uh... So that's one point I wanted to make. Second point I wanted to make also related to, uh, what Ahmed said. It has to do with the informal sector. It's something...It's, uh, it's an issue that I care enormously and deeply about. Very large number of Egyptians operate and live in the informal sector. More

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than 40% of Egyptians work in the informal sector under conditions that are miserable. Pure and simple. There are no contracts, no social insurance, no health insurance. If you are sick, you lose your job. Uh, you work for a number of hours, whatever the number of hours, uh, that may be. This is really where a lot of poverty is and actually a lot of those who cannot afford to be unemployed are. To say that they are a shock absorber, leave them alone, is one of the worst statements one can make. Why? Because you are accepting very living and working in very bad conditions for one. More importantly and equally importantly, you are depriving the economy from enormous potential benefits and I don't mean the Saturday taxes. Even as a Minister of Finance, I never cared about taxes and revenue as a measure, motivation for doing anything. I mean, it was important but on the side. Countries that develop, they integrate they informal sector. They make life easier rather than leave me alone. Do something about bureaucrats. Do something about the rules of entry of (inaudible), operating, operating when they are in the formal sector and something about exiting so that you can shift from the power shop to, uh, doing (inaudible). So, so that, so what is wrong is, is the rules and by the way, because of the importance of the topic, because of the impact it has on a lot of people, I created a unit in the Ministry of Finance. We call it the economic justice unit and that unit had two mandates. The first was to help with the formalization by getting rid of the excesses, excessive interventions and even giving the informal sector a break of all kinds. Not just with taxes. For quite some time, years, 10, 15 or what have you. But the other, the other objective was targeting. We have in Egypt a targeting system that is based on target and commodities. Not targeting families. So rather than if you want to benefit somebody, if you want to be generous, just cut surprise of a commodity and make it available and the Treasury would pay the price. Who would consume that? It's everybody, rich and poor. The, the, the, four (inaudible) total in Egypt would be using subsidized flour that the Egyptian government is actually paying the difference in price. I've been called in a few times as the Minister of, uh, the Ambassador of (inaudible) and saying basically when he arrived that, uh, he is very pleased because he just, uh, filled his car with a, with subsidized oil that the Egyptian, the Egyptians have paid for. I mean, it is really targeting is a good thing, but you cannot use commodities as your instrument to achieve the targeting. So what you need to do is identify the families that need support and empowering support and this is where you want to, uh, put your energy. Uh, you also want them not to develop dependency on the state. You want them to be empowered so that they get education, they get better health, they are...their kids are in better shape and they get a job and they, they benefit themselves now and later. So that is another thing that I wanted to, another comment I wanted to add. On agriculture, the sector of discussion, can get into a sector of discussion. I mean, you can't get into a discussion of agriculture alone, on an industry alone, on services alone and each of them has lots of intricacies. I'm not sure I, I want to get into that, uh, because, because it will be a very long discussion that we'll not, uh, (inaudible). But I do agree that, that the poor tend to be concentrated in Upper Egypt, in rural areas and slums

and these are three pockets that you need to deal with if you are concerned with social justice the way I am. Uh, how you do it, that is where we can have a good discussion and views and counterinterviews would be relevant. But to say, "Forget about everything and worry about agriculture," that's not the way to go.

Shanta Devarajan: Yes. Let me turn to Wael...

Ahmed Galal: And I'm glad I have her sitting me. She's optimistic.

Shanta Devarajan: No. I want to come back to Wael, uh, and, and I know, I know he didn't say forget about everything and work on agriculture. Uh, but I want to come back to this point about the political capture that you, you described in, and Ahmed alluded to, or Ahmed alluded to the fact that I alluded to it earlier as well. Uh, which is, and there's no question that happened in the previous regime and now we have some documented evidence about the politically connected firms enjoying higher profits and, and uh, uh, certain regulatory benefits. So the question is, as you go forward with reforms and saying you are trying to do reforms in order to promote employment and to promote, uh, uh, growth and give, uh the entrepreneurs a chance, how do you avoid capture the second time around?

Wael Gamal: I would, I would try to answer your questions to Dr. Galal. Why is, didn't the government, uh, uh, put much interest into a, a sector like agriculture, which is doing much better and making use of this, even to use it politically. Because this is political. Because agriculture is controlled mainly by small peasants still. Because what is, uh, um, the, the, the liberalization policies in Egypt was, came later in that sector and still controlled by peasants, small peasants and these people are not represented in the political system. They have no, uh, um, um, power to push the government, really push. They are not organized. If you compared them to something like and big industrials in Egypt who now they have their own NGO's, their own federations and they are consulted before by the government before they do anything. This is the difference. Here they can defend their interests. It's obviously something they should do and would do. But the others are not capable of doing the same thing. Even if policies towards them would make things better for all, um, um, the economy. And of course, I didn't say leave everything and take care of agriculture, but agriculture is more important if it is and everybody speaks of tourism. Tourism is only 4% of GDP. Of course because tourism is a source of, uh, uh, foreign currency and this is the most important. This is what international, uh, uh, lenders worry about and they want their money back. So, they want to keep the exchange rate, uh, in, in place and everything. So and the government always worry about this kind, the financial aspects of the economy more than anything else. Uh, you were, you were saying that what's, what's...

Shanta Devarajan: How do you avoid the capture?

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Wael Gamal: Yea. I don't think that there's much that happened to deal with, uh, state capture. By the way, we didn't see the World Bank Report yet on, on Egypt. Uh, we have seen it on Asia and we...

Shanta Devarajan: The author is right there.

Wael Gamal: Okay.

[laughter]

Wael Gamal: Simple to know why, but, but I can't, I can't figure out why, because nothing really happened. (inaudible) is out of jail now. Nobody was prosecuted in, in big corruption cases in a, a, a, severe case of crony capitalism that was happening in Egypt. And we see the same, uh, faces that were sitting in the NDP meetings with Gamal Mubarak and others sitting now in the, uh, big conference to reform the Egyptian economy. The same, the same exact faces. So, uh, and of course, in the previous session, there was someone saying that (inaudible), maybe Mr. Salmawy was saying that, uh, you have to have a parliament first and then you issue laws. But, uh, Mr. Adly Mansour issued, issued 90, uh, 69 laws and decrees and some of them were very important from the economic point of view. For example, the tendering and bidding law. That one let loose all the, uh, possible cases, corruption cases, before the revolution and especially in land. Uh, because it opened the way to reconciliation with, uh, the, uh, businessman that captured the land. So, until now, we didn't see, uh, of course we had this conflict of interest law by the, uh, the government of Mr. [Egyptian Name], Dr. [Egyptian Name], but this law even we're not sure until now that this applied on the ministers of this government. It's not transparent at all. We didn't see the portfolio of any of the two businessmen that are in the government yet. Uh, we're not sure officially that what they did exactly to, uh, uh, deal with this, uh, uh, portfolio. One of them is the Electricity Minister, by the way. The other thing is, uh, uh, Mr. Sisi announced that he will, uh, stage a war on corruption, uh, but we, we, the tools for that politically and technically is not there. So, I... Nothing happened. Nothing really happens. States still capture. Uh, I, I, can, can understand how a minister and a government now wants to have real reforms concerning the corruption would think, because in every step in economic policy and, and, uh, legislation was corruption, he will be faced by political, uh, uh, uh, opposition to what he is doing and, and to the extent that any, any law, any move towards something different from what's happening before is blocked. Uh, even the, the, um, real estate tax, it is negotiated and renegotiated and negotiated, uh, decreasing the subsidies, energy subsidies for the, uh, energy intensive industry. It is negotiated and renegotiated to we are never sure, uh, what happened and what didn't happen. The last point is concerning the mega project thing. It is, it is a political thing, in my opinion when you, uh, are screaming all over the, the three

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years that you don't have finance to, uh, give, uh, bread to hungry people and then you announce multi-billion dollars investments and the most important, maybe they're right, maybe they're good, but we don't know. They're not transparent. They announce things and then they work it out along the way and nobody knows exactly what is the process they're doing. I'm a journalist. I have been working the last months only to know what is the, the government's plan towards the three mega projects they announced, uh, on the north coast and in, um, uh, Suez Canal. Uh, so we don't know anything. Uh, uh, the lack of transparency is, uh, uh, a source of opens the door for corruption and for inefficiency.

Shanta Devarajan: Good. Thank you. Uh, let me turn to Hanan, uh, since you're the most optimistic [laughs] and I want to keep you optimistic. But, uh, but, uh, I want to ask you, I mean, you, you painted a picture where the young entrepreneurs, the small entrepreneurs are able to function and, and actually are, you're seeing more and more people coming into that, uh, that fray. But, really, you know, to scale up, to be able to address the, the huge unemployment problems and to cover the economy, at some point you're gonna bump up against these constraints that the others have been talking about. The bureaucratic constrains and the policy constraints and the cronyism that Wael was alluding to earlier. So, do you, do you still, are you still optimistic? Do you still think you can get, get over that?

Hanan Abdel Meguid: Let me, let me... Let me also, uh, when I say that, uh, a lot of people... Successful entrepreneurs in Egypt, uh, um, is you have, um, sporadic kind of successful experiences. You don't have mainstream, uh, ecosystem of entrepreneurs that is always functioning and always, uh, getting out healthy, uh, companies, etc. and that's because they function sometimes against the system or despite of the system, not let say. So definitely life is, is not that easy. There's a very tough playbook for success in Egypt and for success in the region. Cash is very scarce. There is volatility. You have to learn how to manage your way and this is, one of the core things that is making me optimistic, uh, at this point in time, the, the mega change that personally I've seen is that with all my respect to politics and all this, removing the subsidies gave me, uh, a very positive indications that for the first time in history or for the first time in the past few years, our economy priority and this is, is taking the agenda on a higher, it's higher than the political kind of targets. So it's a, for me, this is, this is a positive indication because I'd love to see a stronger Egypt. I know everybody's worrying about democracy, but strong nations and strong economies have choices and can prosper and this is what I would love to see, is like the economy having the, uh, being the top priority of the agenda and from what I've seen it's recently, the transition has, I, I kind of agree with, uh, previous panel that the transition started. We were in a very terrible situation and it just started. The difference that I've seen, uh, recently, is that, uh, people are much more open to acknowledge the realities of the situation and that's always the starting point to, uh,

move forward, uh, and they are willing to listen. This, these are the two things. Is it perfect? No. But, uh, is it, uh, promising and, uh, we can take it forward? Yes.

Shanta Devarajan: Okay. Let me turn to Ahmed El Alfi. Actually that's very interesting point, that the, the removal of the subsidies was a signal that the government was willing to prioritize economics over politics, maybe is a way... Now, first do you agree with that, but secondly what other signals could there be that would actually make the business environment more conducive to, to private entrepreneurs?

Ahmed El Alfi: I think definitely I agree that it was a very good signal, um, and just to clarify, I actually think I'm much more optimistic than Hanan...

[laughter]

Ahmed El Alfi: ... because, because, I, I...

Hanan: We're competing now.

Ahmed El Alfi: Well possibly, but I mean the people that know me know I'm very optimistic. We just, we just invested a large amount of money, mega project, in November in the middle of all the turmoil in Tahir Square.

Hana: (inaudible)

Ahmed El Alfi: Okay. So I'm, I'm very bullish on Egypt. Very optimistic. When I talk about the things that I think are, need to be fixed, they need to be fixed to make, you know, to accelerate the potential. Um, so, I think that signals like this are very positive. What I would really look for is what I talked about earlier. The streamlining of the regulation will unleash the entrepreneurs. The youth are looking for outlets and everybody keeps talking about the youth and what do you do for the youth. They're gonna work in the unregulated sector, in the government or in big business and now we started forming a community to give them choices to be entrepreneurs or work for small businesses and that is a viable option for people now and people are actually pursuing it. And not just in tech, which is a sector I focus in, but start-ups in agri-businesses, in restaurateurs. Whatever it is, people are starting businesses and it's not just Cairo. Right? It's in Alexandria, it's in the Delta, it's in Aswan. All right? I get business plans from people in Aswan in the tech sector. Right? And from Luxor. And they're doing all kinds of other businesses. Uh, they're finding ways around the sectors that haven't recovered like tourism. The people who are in the tourism sector are looking for new things to do. Some of the tour guides are starting to do activities on line, chats, etc. to, you know, try and earn money one way or another. So, again, my point of view is our perspective or my perspective is 70% on

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a daily basis are under 30. Right? They're all entrepreneurs. The whole campus and the people that I work with and, are, you know, 50 plus companies that I interact with on a regular basis, they're all under 30. Most of them are pretty well-educated. So, that kind of reduces the sector. But, what they really want from the government really is to be left alone. Okay? They, they really do. They don't want a lot. They, because, they all feel empowered and that's the feeling of empowerment says, "I'm not gonna go begging anymore," and that's really the, the thing. You know, "I don't need the government to do X, Y and Z for me. I can do for me and I've proven to myself that I can do." Granted macroeconomic policies are very important because we can't have inflation. Somebody has to manage that and that's a different point of view. That's the top down view and I'm just giving you the bottom up view. Okay, the bottom up view stops because there's so much stuff in the middle, we don't see the top.

[laughter]

Shanta Devarajan: That's very good. Okay, well thanks very much. I, I think that's a good point to, uh, open the debate to the audience here. Oh, my goodness. Uh, so let me, I'll start on the left and go all the way to the right. So, can you, uh, the two gentlemen here? I'll take about three questions and then we'll... Yea?

Male: Go ahead.

Male: Okay. So we can start from Ahmed Galal and...

Shanta Devarajan: Ask a question. I'll decide who, who...

Male: Yes. Yes. Yes. I mean, it's one question. The ministers in the cabinet, we have very smart ministers. Why and excuse my, my French, why the hell don't they do what Ahmed El Alfi is saying and just (inaudible) they are standing in the way of the business? Why not? Why not just, you know, destroy it? I mean, then the useful entrepreneurs flourish. What is the dynamic inside the cabinet with all these smart people is preventing them from doing.

Shanta Devarajan: The, the gentleman on your right. Just, just there.

Male: Hamad Shinda, Voice of America. President Sisi so far is adopting something that amount to a tough love economic agenda, cutting subsidies, saving energy and reduce budget deficit. Is that enough to attack the economic problem in Egypt?

Shanta Devarajan: Okay. Um, and then, yea. The one in the second row.

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Male: Thank you. Rob Colorina, AIAC Investment. Um, my question would be to the business persons there. With respect to thinking on business plans and strategy, how are some of these invested entrepreneurs thinking beyond Egypt or how are some of the other Gulf region are investing into Egypt? I'd be interested in that.

Shanta Devarajan: Good. Um, on the first question, why don't the ministers reform, I, I want to not just ask Ahmed, although I'd like to ask Ahmed. I'd like to ask the other Ahmed and maybe Wael has some point, has some views on this, too.

Ahmed Galal: Uh, I can answer on behalf of Wael this time.

[laughter]

Ahmed Galal: Because there's only one single answer to all questions, which is those in power are not the ones, are the wrong ones. Uh, I, I think it's easier to, um, you know, accuse somebody rather than to actually come up with some alternative to deal with it. Why is it that you can't just get rid of all bureaucratic thing? We have had them since the Ottoman Empire. Uh, that, that (inaudible) is unlike... there are 300,000 laws and regulations, this and that. Uh, you don't have a parliament. When you're house is on fire what do you do? Do you go and worry about your couches and TV or you worry about the place is burning down? Uh, those in power have to worry about certain things before others. So if, uh, there is no security, uh, if, uh, uh, you need to build your political institutions and gain legitimacy, uh, if you want to respond to demands on the streets, you have a long list of things. The idea of getting into the 300,000 regulations now in the middle of all of that is not the right time to do it, because there are other things that are more urgent. It doesn't mean that, uh, that's not an issue we need to deal with, but that's gonna be an ongoing business and I think this is something that, that it is a business of this government, the next government and the government that follows and it's not gonna be that easy to scrap all rules and regulations all together. What you really want to do is strike a balance, because in the US there are tons of regulations for everything, standards and if I had to approve the, what is it? FDA I think? The medicine, uh...

Shanta Devarajan: Yea. FDA.

Ahmed Galal: I mean, you, you have, you have regulations. It's just, it's not that you don't need regulations. You just you need good regulations. Regulations that would strike a balance between the interest of the consumer, those who are gonna take the medicine, and the interest of the business, uh, men and women, so that they can do their business without too much hassle and, uh, that's basically it. That is not something you can just do like this. It took Ronald Reagan Administration, uh, a relatively short period of time, uh, to get rid of quite a few regulations. The trouble is, at the end of the day, it was very costly as a matter of fact and if you want to know

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more about it, look at the financial sector in the US and without enough regulation what has happened eventually. So what we should be calling for is not getting rid of regulations, we want to get good regulations. Regulations that make life easy for the producers and entrepreneurs, but regulations that will protect the rights of workers, the rights of consumers, the rights...the balance is what you want. You speak from one mouth. Everybody else would be saying you are crony capitalism, so don't do that. [laughs] That, that's not what I wanted to say on this one. Maybe I should say...

Shanta Devarajan: No, no, no. Just stick to this question and then I'll come back you.

Ahmed Galal: Okay.

Shanta Devarajan: Ahmed?

Ahmed El Alfi: Just to clarify, I'm absolutely opposite of crony capitalism, because I don't work with the government at all.

[laughter]

Ahmed El Alfi: All right. So, that's just to clarify. But I do...

Ahmed Galal: But I forgot to tell them that you are running away from.

Ahmed El Alfi: Well then no problem.

Ahmed Galal:

Ahmed El Alfi: I, I don't have a problem with that. But I do, I do agree that it's very, very difficult for governmental officials to change anything because no matter how well intentioned they are, they don't have the flexibility I have to restructure a company tomorrow and fire as many people as I want. They have to go through procedures. They have to follow the law. They can't break the law. They can't be the dictator I can be in a private company if I choose to be and that restricts their well-meaning intentions in reform. It doesn't mean I shouldn't call for more reform and still be upset about it. It just means that I completely understand and respect their position that they must operate and take this person's rights and that person's rights into consideration I don't have to as a private business. So putting that aside. However, if and when those regulations are eliminated, rewritten for a better, uh, system, I actually think that will solve many problems for companies that are within the regulation and make a more inviting environment for people that are outside the structured framework to come into the structured framework, because it will be easy to register as a company and there will be benefits and you'll get pensions for your

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employees and everything else. So, it's, it's a plus, plus, plus. It's just that legacy of dysfunctionality that we've accumulated and the regulations in Egypt to kind of like the, you know, the building. If you dig down, you'll find Paranoiac and Ottoman and all kinds of buildings and that's how the regulatory framework is.

Shanta Devarajan: Wael, do you want to comment on this question?

Wael Gamal: Um, just one comment. Of course I will. I was accused that, um, I, I defend the do nothing approach because the, the crony, uh, uh, questions and capitalists are in control. It's not at all what I meant. It's, it's about false hopes and about the limitations of what you can do and how you can push for, uh, uh, reforms that are, um, um, that could really be accomplished and who to mobilize to do that. This is the issue. The importance of politics here is about that. Not about doing nothing and curse the government. Uh, if you want to improve transparency, uh, uh, procedures, you have to mobilize, but you have to understand that you cannot expect this government to do it for you. You have to push this government and mobilize and know exactly who will support you in doing that, uh, to do.

Shanta Devarajan: Good. I think this is a segue into the second question. So let me turn to Hanan, also. If you want to add to that. I guess the second question's a bit of a rhetorical one. Has President Sisi done enough? Uh, so I'd like to hear. I think the answer is no, but I'd like to hear.

[laughter]

Shanta Devarajan: Which no?

Hana: Actually, we're, we're, we're just starting. So there's no magical answer. Uh, people who are saying there's nothing that you...there's no magical answer and, uh, there are tons of changes and, and improvements that needs to be implemented and the uh, uh, for me, the core thing, if you order the priorities based on economic prosperity rather than political, uh, targets, we will definitely be on the right track. And I'd love to see that, uh, uh, continue because then we will be on the right path for recovery, because we are as a country, uh, I (inaudible) because probably you would work with the youth and the entrepreneurs a lot. We have a lot of these energy. We have amazing resources when it comes to human, uh, capital other than the different resources that we have as a country. So we are believers in the power that we have within us to make sure we just need the right context and the right focus. So, not enough, but hopefully, uh, we'll be on the way.

Shanta Devarajan: Did you want to answer that second question?

Ahmed Galal: Which was what?

Shanta Devarajan: Has President Sisi done enough?

Ahmed Galal: Um, what have you done since you woke up this morning?

[laughter]

Ahmed Galal: And why is it that you didn't go to China and come back? And why is it that you... I mean, there is something called a time factor. Uh, let me tell you from my experience what time means. We knew that we were going to be in government for eight months. We knew that the problems are so many. We knew that we could not do a whole lot about them. The most we could do is deal with a few things that we believe matter a great deal. For instance, sticking to the political road map. Uh, for instance, stabilizing the macro economy and finding a way of, of managing that post. Things of that kind. We knew we were not going to be able to improve the business environment as (inaudible) Ahmed would like us to do, uh, sufficiently. We knew that we could not fix the education system in eight months. We knew we could...we knew that we knew that we couldn't do. The time factor is really important. More equally importantly by the way is a time horizon for politicians, that is, so the most we could do is prepare some of the groundwork for, for future governments. The one thing that's really important for governments is the time horizon that they consider. If they think they are there for eight months, they behave as if they are there for eight months. If President Sisi is there for four years, so his time horizon, there is probably a mismatch between his time horizon and the government's time horizon. The government has months, even if it's, uh, the same government that will continue after parliamentary elections, is gonna be a new government with the same names, if that is what it ends up being. I hope it's not, uh, in the senses that I want people to be elected and, uh, uh, be there. Uh, so has he done enough in the short period he has been there? I, I, you know, it's very difficult to argue. I mean, I would say that the initiation, uh, that the energy subsidy was on the economic front anyway. The energy subsidy was critical. I thought that, uh, what has been done, I... The Suez Canal has been an idea around for the last 20 years. Now it's actually taken place and a lot of Egyptians today I have just written on my messages that 40 billion pounds are mobilized by the Egyptians who decided that they want to put their money into that project. Obviously, the return on the project is attractive enough that people will switch dollars to, uh, pounds and anyway. But, has he done enough? Well that's a very short period of time and, and I think we need to, we need to breathe a little bit. It is not like if nothing, not enough has happened by now, then nothing has happened. It is a process and it's gonna take time. As far as I'm concerned, transition in Egypt is not an exception to transitions elsewhere. It's gonna be in years. It's not gonna be in months and to ask about President Sisi whether he has done enough or not, give him the first time or the first couple of years as he said and then we can have another discussion.

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Shanta Devarajan: Uh, then there was this question about going beyond Egypt, both in terms of Egyptian entrepreneurs investing outside and, and foreigners investing in the country. I think that was maybe Ahmed. Do you...

Ahmed El Alfi: I think, uh, investors look for very similar things, stability, consistent application of the rule of law and opportunity. I mean, they can work around everything else and, uh, I think we're on the road to all of those. Right? I'm, again, I'm, I continue to very optimistic. I think we're on, we're on the path to more stability. On all of these things, you can say we're better than we were a year and two years ago and I hope next year we'll say the same thing and the year after that, we'll say the same thing. So, uh, definitely we have more stability than we had before. I think the application to the rule of law and the respect for the law is improving. As we go down the path at a parliament and reform and implement all the laws and as Mr. Salmawy said implement the constitution and a set of regulations, I think that'll be even more friendly and, uh, investors just want to know, you know, what are the rules of the game and we'll come in and decide if we want to invest or not and our job in Egypt is to make the best set of rules to attract the maximum investment.

Shanta Devarajan: Uh, okay. Let's go for another round. I want to go to the center here. Uh, let's see. Um, in the, in the back there. I want to get some people from the back. I can only see the people from the front. Just give it to somebody with their hand up.

Male: Hello. Thank you very much. Lawrence Freeman from Executive Intelligence Review. I cover Africa, (inaudible) and Africans who work in Egypt. I'm very optimistic, because I think there's a transformation going on, on the President El-Sisi. I mean if you look the new Suez Canal, as pointed out, it's being funded internally by the Egyptian people and did not go to borrow money from the banks. This is a national pride project. It's self-funded, like many of the great infrastructure projects we carried out in the United States. Kashka Agricultural project, to recover a million Sudans for agricultural food production. The Alba Nuclear Energy Plant that's being discussed. This is the key to economy. Infrastructure, energy, food, water, rail transportation and it seems to me this is pushing Egypt in a whole new direction, eliminating potentially in the future wheat imports, which is a big crop. So I, I really see a new potential as part we're seeing in other countries around the world, especially since the British Conference, where countries are focusing on internal development of infrastructure and I think is a pathway to employ the youth and employ the informal sector. In my travels to Sudan, Nigeria and Malawi, the informal sector is a disease. It takes away from the economy. So I'd like to have a discussion and people respond, is President Sisi now actually carrying out the real transformation that the people of Egypt had the revolution in January 2011 for? I think it is going in that direction.

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Shanta Devarajan: Okay. Uh, and the lady in the back there on the extreme right. Hello? On the right there. Yea. On my right. Yes. You.

Female: Hi. My name is Dina Salah from Arab American Institute and my question is regarding the Suez Project and nuclear power plant. Are these things achievable, given that the government is not basically able to supply electricity to most of the population, given that President Sisi said exclusively prior to his, uh, election as president that he doesn't have enough to give people anything. And so with these lowered expectations prior to his election as president, are these grand projects actually achievable or is it just yet another [Egyptian].

Shanta Devarajan: Hello. Yea. Go ahead.

Male: Yes. Mohamed Ahmed from IHC, uh, foundation for West Africa. We are international relief agency. Uh, my question to the panelists, um, especially with the title of the panel, Unlocking the Potential, the Economic Potential of Egypt, um, we know very well the situation of Egypt with Turkey and I'm not sure you were in the cabinet for eight months and after that, uh, and I want to hear, you cannot disregard a very heavy player like Turkey in the game in the Middle East, consider that the massive, uh, potential of the economy that Turkey is playing globally, especially in Europe. How do you see Egypt maneuvering with the political situation of Turkey in contest with economy and finance?

Shanta Devarajan: Okay. Um, I'm going to combine the first and second questions in this round, because they were really two sides of the same coin. One is, has President Sisi achieved the transformation that the people were asking for in January 2011 and then Dina's questions is, is it achievable? Uh, so, let me see. Let me turn to, uh Ahmed.

Ahmed El Alfi: Uh, I think the Suez Canal project is very achievable and, uh, has President Sisi done enough? I don't know, but has he done a lot? Yea. Okay? Can he do more? Sure and he'd be the first to admit it, just can he do more in this time window or next year? I don't know but there's a lot to be done. I definitely think the Suez Canal project, first of all, I think it's brilliant how they're conducting it and they're hiring hundreds of small contractors to do the early stage digging, which is, you know, the low tech work and they're employing different people while the high skilled construction companies are doing other infrastructure projects. I actually think the distribution of the work is being done very well. So, uh, from that point, I think that one's gonna be a success. Uh, I don't know about the nuclear plant. I haven't read anything about what the specifics of the plant are and that's probably so far out by the time that gets done, it's not gonna impact anything of the electric issue that you raised. I will tell you, however, that small entrepreneurs are addressing the

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electric issue. A guy just showed me a business plan with a, with a solar water heater for small houses, which is one of the main electricity drags, okay, for under \$150.

Shanta Devarajan: Wael?

Wael Gamal: Um, I, I think the first think to judge, well mega project as Dr. Galal said, could be good and could bad. It could be a white elephant like what happened in Toshka and we had severe problems after we witnessed Toshka and, uh, Hadid Aswan project and, and, in fact, Suez Canal was one of the three projects that were announced at the end of, um, um, um, the 90's. Uh, we don't know exactly what's the plan. Now we have two phases. The first phase is the digging and, and the tunnels under the canal. This is okay. I'm not sure of, of how, uh, international trade is going to transform and help making use of the new, um, uh, uh, transformations, but it could be okay. And here, the finance issue, it's not as, as if people got money out, out of their pockets to put it in the project, because nobody exactly knows what is the project that is about. It's about the, uh, interest rate of 12%, which is better than any interest rate in the banking sector, so any rational person would take his money from the 9%, uh, uh, investment guaranteed by the bank to move it to the 12% rate guaranteed by the government. So it's less risky. So it's not really avoiding a popular vote, supporting the, the project itself. And this, there is the other phase, which I'm not sure if Dr. Galal knows what's going to happen, but because I'm not sure this is where we are promised that there will be a million, uh, um, new jobs. We are promised to attract \$100 billion of MDI. I'm not sure how it's going to happen. What exactly are the sectors that they're targeting to improve? Nobody knows and I've, I've tried and failed to get information on that and in my, from my window as a journalist, it is very difficult to have efficiency, especially in mega, in a mega project without having transparency and accountability and public discussion of what you are doing. If you don't have these, the probability of failing, of failure is very high.

Shanta Devarajan: Okay. Go ahead. Hanan.

Ahmed Galal: Stay optimistic.

Shanta Devarajan: Yea. Give us the optimistic view.

Hanan Abdel Meguid: Yea. I think we all agree that, that what different shapes success from failure. Ideas are great. They're always great ideas, but execution and the commitment to execute and the will to execute is what different shapes, uh, winners and losers and, uh, for the Suez Canal, actually while listening, I was just thinking, it's like, no, I, the impression that I get that there is a will to execute. That's the difference. Maybe it's an old idea, but there is a will to execute and there is the will to kind of, you know, explore different, uh, opportunities of funding. So at the

starting point, there was a very, uh, they started saying, “Okay. Donate for this, uh, build Egypt fund. Donation. Donation.” And then they discovered that they need to now, they need to formulate things in a very interesting way where people would take out of their pockets or their, their different financing options and put, and this is what they did. And I think this is brilliant because it says that there is a will to be, uh, resourceful and try to execute. There is a commitment to execution. So, that’s whether they will succeed or fail, I think the commitment makes a very big difference into maximizing your chances of success.

Shanta Devarajan: Ahmed?

Ahmed Galal: I am grateful to Hanan. She said what I was going to say.

Shanta Devarajan: Well, then can you, can you....

Ahmed Galal: No, let me say two quick things about Suez Canal and about the energy, because that also was another issue that was raised. On the Suez Canal, I think, um, this is a project that’s likely to succeed. No one can guarantee anything. But it’s likely to succeed. Why? Because it’s building on a successful existing project. So, the only thing you are doing is really, uh, allowing, uh, you know, the, the ships to go both ways at the same time. Rather there are synergies. There are economic scope and scale. There is a, there is quite a bit that makes it likely to work out. Now even if the global trade slows down at a given point in time, that’s actually okay, because this is an investment into a much longer period of time. So it, one has to do the discounted cash flow of the returns from a given, given project over a much longer period of time. So I think that’s a really good bet, uh, to have made. Uh, the other point that I want to make is that even though the project has been talked about correctly from the mid-90’s, it is not the same project. So actually talking about the same project, but the devil is in, in the details. Uh, at different points in time, I remember hearing a presentation by Hassan Badrawi more than 15 years ago and the one single question that I asked him, “Okay, so you’re gonna do this fantastic project, but who is going to get the benefits?” So it, if one were to believe that the regime was essentially about making benefits and localizing the, the resolution of these benefits to supporters, then it might have been a great project, but not necessarily for the benefit of everybody. You know what I mean. Uh, under the Morsi Administration, there was a new pro-, it’s the same project, but it took on a very different, uh, shape. Uh, it was based on a law where it would all, I mean, that the President personally would be deciding on what happens and what doesn’t happen. It was a creation of administration within the country to run the project according to specific rules. It was actually creating a war within the war and that is never a good thing to do. So that is the other feature. Third of all, it was relying excessively on foreign money and there was quite a bit of reluctance and sense of, you know, that might not be politically the right thing to do and the Army had reservations because

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of security reasons. Now the current project really is very different. It's done in phases. You're right. The second part is not knowing that, but that's probably why they, uh, announced competition for studying the project and for cash collecting the cost and benefits and maybe they are not giving you the information because they don't have it, but they...

Wael Gamal: But they already announced the results and they expected the target to...

Ahmed Galal: They announced... They announced the results that what they expect from the direct benefits and costs, but the Suez Canal project is not about just the canal. It is about the, the different services and industries that will be created around them and that is not known yet. At least I don't know that it is known. Let me say a few words about energy. The problem of energy today is not the problem of energy, uh, is not made today. It is, uh... We know that if you build a power plant, it takes four years to actually build a power plant, even if you had the money. So you cannot discover overnight that you have a power shortage. You cannot do that. You need to invest and Egypt historically, uh, the government used to put in public investment for quite some time and then in the early 2000's, they went for BOT's, private sector engagement to create power plants and then they stopped afterwards, well before the revolution, they stopped putting in public investment and they stopped putting, allowing in the private sector. So what is happening today is a natural outcome to a policy that was adopted mistakenly for a long period of time. What can the Sisi government do about it? Not a whole lot. The most that he can do is make sure that they are using existing capacity more efficiently. So you need oil and the natural gas so that you can make sure that your plants are working, uh, operating fully. You need to ensure that maintenance is ensuring that the plants are working. You need to rationalize consumption, uh, by persuasions sometimes on, by price discrimination of another. This is the only thing. Maybe in the short run they can come up with alternative energy supplies like, you know, solar or something like that, cheap, quick, whatever. That is all, the only. Would they bring about balance between supply and demand in the short run? I'm sorry. No one can do it.

Shanta Devarajan: Good. Okay. So I think we're coming near the end. So let me now turn to the panel and I'll go in reverse order, uh, and ask them for their 30-second summary statement they'd like to share with the audience, uh, before we close. Ahmed?

Ahmed El Alfi: Bottom up and top down are both important. Okay? Uh, and in all cases, I really think we have a lot of the very positive things in place to allow us to grow and prosper over the next five, ten years. Uh, as a vote of confidence, we're investing and continuing to invest and we focus on the small projects and on the start-ups, because we think that's the best way to utilize talent and creates higher

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value jobs. That doesn't mean the other, all other projects are wrong. This is just what we focus on. Right? And, I think that the human capital Egypt is the best asset and once we start utilizing it a little bit better, the country and the economy will boom.

Shanta Devarajan: Wael?

Wael Gamal: Um, I think what, what makes the difference for the Egyptian economy and for Egypt's future, in general it's not, we're not speaking of the normal kind of transformation that's happening in every society. We had, um, a revolution in the country and this is not, if you, if we forget about that, we will miss a lot, uh, and I am, I am convinced that it's a process and it's not finished yet and that, um, the people of Egypt who originally one of the major reasons why they revolted in the first place was the economy and justice, social justice. They will not accept. You can deceive people in politics, but you cannot really deceive them and what they eat and how they live. So, that's why I think, uh, uh, using the same cure for that created the disease in the first place will not help and we're about to see another round. Uh, maybe that will bring a bit of future (inaudible).

Shanta Devarajan: Okay. Hanan?

Hanan Abdel Meguid: Um, I think one of, we've had, um, tough times, uh, for the past three years, uh, but we gained a lot. That's my perspective. I think we gained the, the confidence in the power of us and the power that the change should come from within the country and within the, uh, the powers of Egyptians and this is something that, uh, you find like people like Ahmed and a lot of people who are investing in the country and putting their, uh, full support into, um, seeing a, a better future. Uh, so we have this kind of confidence in, uh, the future and uh, I think, uh, there's a, there's a great statement that I heard once Clinton say, which is, "There's nothing wrong in American that cannot be sought by the good things in America." And I would like to copy that create our own version. There's nothing wrong in Egypt that cannot be fixed by the will of Egyptians. So, that's my belief. Yea.

[applause]

Ahmed Galan: I cannot beat that.

[laughter]

Ahmed Galan: Did you prepare it or it just came to your mind?

Hanan Abdel Meguid: No, I just love the statement.

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Ahmed Galan: [laughs] Uh, let me, let me tell you. If you want to judge something, thing about the counterfactual. We always look at what we see and we think what we see is literally what we get. The trouble is, think about the alternative. If nothing happened January 2011, we would be stuck where we were stuck for a much longer period of time. Political exclusion, uh, growth without distribution, no real sense of potential for, uh, being, uh, a Latin American country in the Middle East. I actually think of Egypt as a Latin American country in the Middle East. I think of Egypt like Chile, Mexico, Brazil and what they have gone through. They had a military regime 30 years ago. Latin America was dominated by military regimes and look at Latin America nowadays. They have democracies that are somewhat mature. Uh, people are seeing their incomes rise. Uh, (inaudible) and, and Brazil and Frey and other social democrats in Chile and anyway, they are actually making progress. The future of Egypt as far as I am concerned is something like that. How long will it take? I don't know. But I think it's going to be years, but I am totally on your side.

Shanta Devarajan: Okay.

Ahmed Galan: Thank you.

Shanta Devarajan: Well, this has been a great session. I, I...

[applause]

Shanta Devarajan: I was gonna ask for a round of applause for the panelists, but they already got it. So, let me just close by inviting everybody to the, the lunch outside and thanks very much.

**End of Panel 2**