



Statement by Bassary Toure
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Egypt Country Assistance Strategy

We welcome the discussion of this Country Assistance Strategy for Egypt, jointly prepared by IBRD and IFC, and remain appreciative of the candid assessment of the progress achieved, challenges and priorities ahead, and the corresponding support from the Bank Group. It is also worthy to note that the suggested effective engagement of the Bank Group is built upon the useful background information provided by the OED's Country Assistance Evaluation. We therefore, agree with the thrust of having the Bank focusing on areas where it has a comparative advantage and perceive a strong role for the private sector arm of the Group, IFC and MIGA.

We will articulate our comments around the following items.

Macroeconomic Situation

The Government of Egypt (GOE) needs to be commended for the significant improvement of its macroeconomic performance these last years. Budget deficit has been brought down from 20% in 1999 to 4% in 2000 and inflation rate was characterized by a marked decline (20% to 4%). Foreign exchange reserves still remain at a substantial level. The adoption of the new exchange rate system provides more flexibility for adjustment in the future.

The current account deficit is gradually improving. Moreover, Egypt's conservative approach to its external debt management is commendable since it has contributed to a substantial reduction of the debt service as a percentage of GDP. Short-term debt is also well managed and stands at 6.5% of the total debt and 12% of the total reserves. We also commend the steps taken to clear the arrears to the private sector and to tighten the control on public investment spending. This approach to our view is more impressive than the way it is addressed in the CAS document.

Social Indicators and Poverty

While there is no systematic assessment of poverty incidence, there are obvious facts through the CAS that confirm the Government's commitment to focus on improving social indicators. This focus and the improvement of resource allocation to social sectors over the years lead to an increase of the share of education in total expenditures (12% in 1991 to 20% in 2000), a rise of the average life expectancy (63 to 67 years), a decline of the fertility rate (4.0 to

3.3), and a decrease of infant mortality rate.

Since it seems that general social indicators and basic infrastructure services are low in rural areas, putting additional emphasis on rural development will enhance the ongoing efforts to improve the living standard both in rural and urban Egypt. We welcome the adoption of the rural development strategy which will address the improvement of living standards in rural areas, center of poverty in Egypt.

The Bank's Assistance Strategy

The CAS is candid in flagging the key challenges and acknowledges that these past years the Government has shown commitment to deepening structural reforms and to ensuring that the poor have better access to services. The strategic priorities of the Government agenda clearly encompasses a number of reform programs laying the foundation to overcome these challenges and achieve the targeted private sector-led growth of 7 to 7.5 %, which would improve the country's overall poverty profile. Just to name a few, reforms in the areas of capital markets and insurance industry, tariff reductions, privatization program are a significant milestone in addressing robust development challenges facing the country.

However, we want to put forward a word of caution against a fast pace and over-ambitious structural reform program. While it is commendable to address forcefully these challenges with the suggested key strategic actions described in paragraph 61, the GOE is right to opt for balancing adequately a high extent of reform program and a given optimal level of social fabric supporting the required progress. To ensure sustainability, reform programs should be built on the political economy within which they evolve. The appropriate scenario assistance should be one that take into account the realistic pace of implementing the reforms, and offer a mix of lending and non-lending services that would preserve the social fabric. Development partners should therefore encompass measures for rural social services and rural productive activities.

While we are struck by the huge gap among the scenarios, we can go along with the thrust of the proposed mix of lending and non-lending support which seems to comply with the Government's request. While it is a fact that the Bank should be playing a supporting role, namely demand-driven, in providing both lending and non-lending services to Egypt, we also think that the Bank will have a crucial and proactive role to play, to combat inequality and raise the living standards in rural areas. Given the pervasiveness of poverty in rural areas, external support is crucial to address the widening poverty gap between rural and urban areas.

In our view, on the issues of poverty reduction and social development, the Bank should have both a higher lending profile and higher policy dialogue profile. A strong priority should therefore be given to the comprehensive poverty assessment study as well as to the Public Expenditure Review. We are pleased to note however the substantial achievement in addressing the gender issue and in adopting the rural development strategy and the corresponding support from the Bank.

Governance

The Bank's plan to complete an update of the CPAR and a full CFAA is welcomed. Equally the support from WBI as well as the implementation of the Joint Government/World Bank task force's report recommendations will ensure the strengthening of the public sector management and address major bottlenecks to economic governance issues.

Environmentally Sustainable Rural Development

A significant poverty reduction in a country where poverty is rurally based entails an appropriate focus on agriculture and rural development. It is clearly shown throughout the CAS that the majority of the poor live in rural areas and that water management is a real issue. Therefore, we welcome the focus on addressing this critical issue which could step up living standards.

Integration of Egypt into Global Markets

The integration of Egypt into global markets is gaining the momentum with the signing of the Association Agreement with the E.U. This can be seen as a commitment to trade liberalization and an incentive to take the necessary steps to improve the country's trade opportunities beyond the region. In the same vein, we welcome the major role the Government is playing in the design of the Nil Initiative.

Removing Obstacle to Private Sector Development

Egypt's impressive macroeconomic performance as well as the authorities' commitment to private sector development constitute an unique window of opportunity for the Bank Group to support the agenda and implement comprehensive reforms helping the GOE to boost employment generation as well as attract private flows to nurture a sustainable economic growth.

The active role that the Bank Group is planning to play to address the removal of obstacles to PSD is commendable. It is legitimate that IFC be a major player in that sense. The Corporation's support will be required in the five major areas highlighted in Annex I, but we think that IFC should be playing a leading and proactive role in supporting the move towards: financial sector restructuring and development; SMEs development; privatization; and infrastructure development.

Information and Communication Technology

We are of the view that IFC should be playing a catalytic role in ICT sector. In that line, we would like to know if it is the ICT Global Product Group which will be in charge of the IT Infrastructure project planned for FY02 in the base case scenario? Would the size of the loan (US\$ 10 million) be sufficient to achieve the challenge described in para. 51-55?

The SMEs Development.

We would urge IFC to increase its involvement and therefore its development impact, by identifying investment opportunities in agribusiness and food processing industries which rely on labor intensive production techniques as well as providing full support to SMEs sector. Supporting SMEs development will help address the limited employment opportunities challenges as well as ensure that growth can be widely shared and sustained job opportunities created.

We regret that MIGA does not appear substantively in the picture. We would have expected that in the interest of the GOE, MIGA product would have been the one favored, given the GOE philosophy to manage carefully their borrowing capacity. However, we have one question regarding Annex I p. 2 where it is stated that MIGA has not provided any guarantee to Egypt because of the Government's reluctance to provide counter guarantee. We don't think that MIGA guarantee requires a counter guarantee from the Government. We would like to have further clarification from staff on this issue.

Aid Coordination

We welcome the Box describing the Major Donors Support Program to Egypt. We also welcome the perceived strong collaboration among donors. We guess that even if the Bank does not appear as a leading player, the decentralization process of the office in Cairo seems to have already paid off in terms of improvement of the policy dialogue as well as coordination with the other major players. This is quite encouraging.

Last but not least, I would like to conclude my statement by thanking Mohammed Ayub and his team as well as IFC's team for their well balanced and comprehensive document as well as for our bilateral discussion. I am also grateful to Mr. Amr for his informative statement up-dating the development agenda as well as the recent achievements. I wish the Egyptian authorities every success in their future endeavors.