Statement by Balmiki Prasad Singh  
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**Egypt: Country Assistance Strategy**

We welcome the discussion on the Country Assistance Strategy of Egypt. It is obvious that though the country faces considerable development challenges, its macro economic position over the last few years has been quite positive. In fact, the country has made substantial strides in both the economic and social changes, and seems now poised to move on to a higher growth path. The Bank's activities in Egypt, though limited in scope, has the potential in contributing to this process.

2. We endorse the proposed focus of Bank's activities in areas where the government demand for and commitment to projects is unequivocally strong and where the Bank has a long and positive experience. In fact, the first principle mentioned here should guide the Bank's activities in all client countries since ultimately it is the country itself which has to be in charge of its development agenda. The Bank and others should work with the countries concerned in a coordinated manner to help further such an agenda. The second principle, namely, that the Bank should concentrate in those areas of its comparative advantage, is unexceptionable. We also agree that the Bank's focus should be on those interventions that support higher and sustained growth, and lead to reduction of poverty, both directly and indirectly. The business strategy which has been drawn up reflects these objectives and we wholeheartedly endorse it.

3. **Water:** Egypt is likely to face considerable water scarcity over the medium term. The fact that over 80 percent of the water used is in agriculture, means that it is this sector that needs priority attention. Additionally the bulk of the poor, especially those with a female head of household, have their fortunes clearly linked with agriculture and related activities. In these circumstances we are happy to note the involvement of the Bank in the areas of irrigation, water drainage and general agricultural productivity. We would be also closely watching how the Nile Basin Initiative takes-off since we believe that the riparian states should work together to harness the full potential that the river offers in a spirit of cooperation.

4. **Gender Equality** The government has shown commitment in extending and implementing the principles of gender equality. Side by side with improvements in the legal codes, actual implementation on the ground is important. The Bank and other donors can only complement this by their involvement in activities that promote human development. Improved access of girls to schools, quality of education and retention are key determinants. The Bank's intervention in the domain of human development is to be welcomed.
5. **Information Technology:** We laud the efforts of the government of Egypt to strengthen the IT sector. With its high level of literacy, considerable exposure of its professionals to the outside world and its strategic location, the country has substantial potential to becoming a major player in the sector. We appreciate the Bank's efforts to work with the government and particularly highlight the intention to increase the Arabic content on the net. Any technology or platform is only as good as its accessibility and relevance.

6. **Concerns:** There are two issues where we feel that the Bank could do with some rethinking. The first is the relevance of AAA and the quality of policy dialogue with the government. The second is about what the document calls Egypt's excessively conservative borrowing strategy.

7. **Policy Dialogue:** It is one thing for AAA documents to be of the highest quality and it is quite another for it to be locally relevant and acceptable. The proof of the latter lies in changes in policy regime resulting from AAA work and from dialogue with the authorities. A look at Box B, "What Works Well" and "What Did Not Work So Well" and subsequent references to the quality of policy dialogue, leads one to the conclusion that staff are not clear on the relevance of AAA work, and more importantly, about its efficacy. It has been stated that Bank's role in policy dialogue has been circumscribed and that there has been little follow up in the case of 5 Task Force reports. This would point to a gap between the Bank's and the Government's perceptions about priorities and recommendations. It is difficult to reconcile this statement with another, earlier statement that "the Task Forces have been even more effective than other knowledge-based activities" and that their work has been greatly appreciated by the Egyptian authorities. We should have no difficulty in conceding that though the quality of the work has been of the highest order, as we expect it to be, there have been difficulties in actually bringing about changes in policy and in matters of governance. The CAS does concede that there is resistance amongst Egyptian institutions and procedures to change and that the Bank is not a significant financial player in the country. This would naturally constrain the effectiveness of the policy dialogue.

8. **Borrowing Strategy:** Similarly, we do not fully subscribe with the view expressed that the current government requirement that each project should have a minimum grant element of 40 percent should be reviewed and replaced by viewing debt concessionality on a macro or sectoral level rather than on a project by project basis. Whilst this may be a reason for the slow off-take of Bank lending, we must appreciate the fact that the national authorities are best placed to decide as to the terms and conditions under which they wish to receive foreign assistance. In this context we are also concerned that the staff, far from appreciating Egypt's cautious approach to its borrowings, should be expressing concerns about it. Although there is an element of opportunity cost in not availing of additional foreign borrowings or in restricting loans for projects to those which ensure a minimum 40 percent of grants, there is other side of avoiding crises. In the last 10 years very few emerging market economies have avoided volatility in their external and in their macro-economic situations. These crises have tended to negate the effect of decades of growth. Egypt has been through a situation where it had to seek substantial debt reduction through the Paris Club and has since incrementally built up its foreign exchange.
reserves to a position where it seems unlikely that it would face a crisis on this account. Only hindsight will tell where profligacy in borrowing is preferable to being excessively conservative.

9. **Perspective**: Lastly, we would like to point out that when we review the performance of a country like Egypt, we should not be looking at changes on a year to year basis. There are deep-rooted institutions and policies that have widespread acceptance and are the product of decades of consensus. A time span of 5-10 years provides a better frame of reference with which to review the economic and social performance of a large and complex country which has a history of domestic ownership of its development agenda. Impatience expressed by donors can weaken the reforms agenda since it makes others suspicious about the intentions of those pushing reforms/ specific policy interventions. There is also the issue of domestic acceptance of reforms, their sequencing, etc. Looking at it from this perspective, management should not feel discouraged at the apparent lack of efficacy of the policy dialogue and therefore, an urgency to push the same. We note that maintaining the same level of policy dialogue, is a proposed trigger for the low case. In any case, change in most of the developing world, is by nature incremental and while we may not see extravagant growth rates we would also not see stark collapses.

10. **Conclusion**: We support the Country Assistance Strategy of the Arab Republic of Egypt, urge that a bit more patience may be in order while reviewing its progress, and wish the people of that country all the best.