Statement by Jan Piercy  
Date of Meeting: July 3, 2001

**Egypt Country Assistance Strategy**

**Overview:**

We thank staff for a very informative and timely briefing in advance of today’s Board discussion. This CAS presents a candid assessment of the challenges facing the economy of Egypt. We recognize that the Bank is not the major lender/donor to Egypt and concur with the modest level of lending as proposed in this CAS.

We particularly welcome the CAS discussion of Egypt’s *sources of growth* and the need to boost productivity to generate the jobs needed to support Egypt’s quickly growing labor force. The fact that Egypt has lost market share in its traditional export products should give great cause for alarm. FIAS and many other donors have conducted extensive analyses and provided virtually unanimous recommendations for improving the business climate and eliminating Egypt’s anti-export bias. However, implementation of these corrective actions has seriously lagged. In an increasingly open and competitive global economy, countries will fall behind simply by standing still. We urge the authorities to pursue decisively the second-generation reforms needed to attract investment that can generate the opportunities the Egyptian people deserve.

**Macroeconomic Situation:**

We are concerned that the authorities have moved extremely slowly on *structural reforms*, particularly enterprise reform and privatization. The Bank and other donors, not to mention the foreign investment community, are looking to the Egyptian authorities to reinvigorate the reform process by demonstrating concrete progress, rather than promulgation of new reform plans.

We note that preliminary growth figures show a slowing to 5.0% for the 1999/2000 fiscal year, a reflection to some degree of concerns regarding sustainability of Egypt’s economic performance.

The current *exchange rate regime*, as currently implemented, is opaque and inflexible and, as such, inhibits both domestic and external investment. In addition, as noted in the CAS, ongoing pressure on reserves suggests that investors continue to have concerns over the sustainability of the current regime. We strongly urge the authorities to put in place a more flexible, transparent, and functioning exchange rate regime that will contribute to a stable macroeconomic
environment to allow implementation of needed social and structural reforms.

Financial Sector:

We note with concern that Egypt was recently identified by the Financial Action Task Force as non-cooperative in the fight against money-laundering. It will be important to strengthen both the standards and the mechanisms to fight money laundering across all financial institutions. The Bank should provide whatever support is appropriate to this end. In this regard, we urge the Egyptian authorities to utilize the Bank’s Financial Sector Assessment Program to develop and implement action plans to address whatever weaknesses are identified.

CAS Structure:

We agree with the shift toward more non-lending services and strong diagnostics that will support a more relevant policy dialogue and ensure the effective use of Bank resources. We welcome plans to update the CPAR and CFBA under this CAS, as well as Egypt’s selection as a pilot country for intensive monitoring and evaluation support to improve budgeting and public investment capacity.

The triggers for this lending program seem appropriate, particularly regarding the emphasis placed on access to poverty data and completion of the FSAP as triggers for remaining in the base-case lending scenario. In terms of potential access to the high-case lending scenario in the event of a negative external shock, we want to highlight the CAS’ caveat that this would be triggered ONLY if the authorities had been implementing a strong reform program. To do otherwise would invite significant moral hazard.

We greatly appreciate the CAS’ presentation of a parallel set of triggers to guide allocation of MENA’s administrative budget resources going forward. The Bank should not continue to allocate budget resources where they are not eliciting full cooperation and meaningful policy dialogue.

We welcome IFC’s engagement in Egypt and its support for the growing role of Egypt’s private sector. Given the job-creating potential of SMEs, we would strongly encourage the IFC to seek ways to support such enterprises.

Given the magnitude of aid flows to Egypt, effective donor coordination is essential. We appreciate the listing of major donors and their sector focus in Box D. The analysis of donor coordination and effectiveness in advance of this CAS identified gaps in coverage in certain sectors. We welcome plans to discuss this CAS at the upcoming Consultative Group meeting in October, as well as how to reconcile the gaps in coverage and improve donor coordination.

Social Sector Issues:

We concur that Egypt’s efforts to promote competitiveness, create jobs and spur growth depend on a quality educational system that will produce graduates well-trained with relevant skills.
Rising levels of government expenditures on education without corresponding outcome improvements demonstrates the need to increase the effectiveness of such spending. As such, we welcome plans for a PER in FY’03 and encourage the authorities to act on the recommendations of the recently completed SSR.

The CAS documents significant improvements in the health status of Egypt’s population over the past two decades and the ambitious goals of the Health Sector Reform Program. The inequities in the availability and quality of health care services is another example of the need for improved budget capacity and focus on effectiveness of government spending.

We welcome the authorities’ plans to mainstream gender and their request for Bank support in this area. Despite recent gains in women’s access to health care and education, more work is needed to close the gender gap in Egypt. As such, we welcome plans for a Gender Assessment in FY’02.

We also very much welcome the recent decree outlawing female genital mutilation, which has serious adverse health impacts. We encourage the Bank, in its policy dialogue with the authorities, to press for the full and consistent enforcement of this decree to ensure that this practice is, in fact, eliminated.

We share staff’s concern about child welfare and the decline in school attendance for children in the lowest income brackets. The planned operations in basic education and the Social Fund for Development should also address the problem of child labor, notably the conditions under which children are employed in Egypt’s cotton sector.

Transparency:

To date, the Egyptian authorities’ previous reluctance to release critical poverty and financial sector data has frustrated the Bank’s support for financial sector reforms and poverty alleviation. In that light, we welcome the Government of Egypt’s recent decision to share crucial data and cooperate with the Bank on a Poverty Assessment and on a joint Bank/IFC Financial Sector Assessment. We very much agree that continued cooperation in sharing this data should be a minimum trigger for the base case lending scenario.

Finally, we urge the authorities to promote civil society participation in decision-making and service delivery and would have liked to see a description of such consultation in preparing this CAS. In this light, we encourage the authorities to make this CAS publicly available and would appreciate learning the GOE’s plans in this regard.