



EGYPT TOMORROW ECONOMIC FORUM
Video Interviews

THE CORONA ECONOMY: CRISIS & OPPORTUNITIES

**EPISODE FIVE: A LOCAL ANTIDOTE TO THE
ECONOMIC CRISIS**

*Interview with Dr. Abla Abdel Latif,
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*Interview conducted by Dr. Mohamed Sabry Abdel-Mottaleb,
Chairman, X-Pay, and member of Egypt Tomorrow Economic Forum;
& Lobna Afify, CIPE Egypt Program Officer on April 6, 2020*

Background: In response to the coronavirus crisis and the havoc it created on a global scale, CIPE launched a new video-based interview series title, 'Corona Economy: Crisis and Opportunities'. The series invites leading Egyptian business leaders, young entrepreneurs, academics, opinion-makers, and leaders of thought to share their perspective on the evolving situation and implications for the economy in general, and the business community in particular. The series provide insight and analysis into the economic and social impact of the current crisis, both at the macro and the micro level, and attempt to glean insights into the path ahead.

The transcript below has been condensed and edited for clarity.

Abdel-Mottaleb: *Hello, Dr. Abdel-Latif, pleased to have you with us today. I would like to start by discussing the topic of the informal sector. As you are aware, several studies concluded that at the time of the 2011 revolution, the informal sector which represented more than 40% of the economy, was able to continue operations and salvage the Egyptian economy. Working alongside the informal sector, was the semi-formal sector, which is made up of enterprises that while being formally registered, nevertheless, continue to carry out some informal practices (e.g., they do not issue invoices nor pay taxes or social insurance, etc.). In your view, what is the impact of this informality or semi-formality on the economy in general, and labor in particular, given the current global economic crisis?*

Link to Arabic Video: <https://www.facebook.com/CIPEArabia/videos/3166442253389301/>

CIPE: *I would like to add to the question posed by Dr. Abdel-Mottaleb. We have recently witnessed some practices, which reflected the depth of the informality that existed, even prior to the current crisis. For example, recently, the retail industry laid off a large number of workers, and there were similar practices in the construction/real estate sector. What is expected now in terms of formalization?*

Abdel-Latif: Thank you Mohamed and Lobna for hosting me. When discussing the informal sector, people tend to view it as homogeneous whole; in fact, the informal sector in Egypt is comprised of three parts, and each part must be closely examined separately to understand what is happening in the sector. The first part comprises of informal establishments, be it industrial or commercial, that are operating without having all the required paperwork in place, such as a license, social insurance for employees, etc. The second part includes individuals, such as those working on their own account, or street vendors, or others primarily engaged in commercial activities; and the third part includes individuals who work in formal enterprises, however not under full-time contracts, but rather, they receive honorarium payments, or are employed under part-time or intermittent contracts, making them the most vulnerable. In fact, those working in the informal sector represent approximately 63% of the total workforce, with 40% alone working in the agriculture sector; and producing 50% of the local production.

The informal sector is viewed as a blessing and a curse at the same time. On the one hand, it is viewed as a blessing because in times of crisis, it is the sector that supports us. When the formal sector crashes during crisis and workers are laid off, the informal sector absorbs them. On the other hand, it is viewed as a curse on account that it represents unutilized resources, and does not fulfill its obligations towards the state. In terms of the impact of the current crisis on the sector, I would like to underscore here that the current crisis is completely different from the earlier economic crises that Egypt experienced, whether the global crisis of 2008 or the post-2011 revolution economic crisis. The current crisis hit the informal sector at both the supply and demand ends and created a multiplier effect, due to the interconnection between poverty and informality. The informal sector, particularly the individuals who are engaged in informal activities, depend primarily on Chinese products for their operations. Thus, since China was the first country to be hit by the Corona virus, this source dried up, and these individuals kept operating until their inventory ran out; they were left without work. At the same time, Chinese products are low-priced, affordable, and consumed by the poor and the low-income groups. Thus, all concerned were impacted by the crisis.

As for the formal sector, a big chunk of Egypt's imports of production inputs come from China. Hence, with this disruption caused by the corona crisis, all production lines were interrupted, and the first to be laid off will be the informal workers. Regarding the unfair labor practices by employers, these are primarily a result of unhealthy work environment, a price that workers pay for working in an informal setting, which lacks any form of state protection, such as social insurance; since these workers are operating outside the system, they work at the whim of these employers.

That said, there is a positive side to the current crisis. Before it hit, some enterprises opted to operate informally, either in an attempt to avoid the problems entailed in operating formally, or because they could not find the right opportunity in the formal sector. However, when the crisis developed, these enterprises came to realize the

repercussions of operating informally; operating outside the system denied them the opportunity to take advantage of the privileges offered by the government to the formal sector in response to the crisis. I actually see this a positive point and good opportunity that should be capitalized on; informal enterprises should be encouraged to formalize. In the meantime, starting now, the government should provide support to the informal sector; along the lines of the support provided by the Ministry of Manpower to irregular workers; financial assistance should be extended to workers in the informal sector to help them during these difficult times. This effort will also help with building an accurate database for the sector and developing a well-informed strategy to formalize it. It should be emphasized that the prime motive of the government should not be tax collection, but rather, it should be more keen on having the sector contribute to production, and limit its unfair competition with the formal sector. Therefore, the opportunity is available, and there are ideas which await the government to act on. I would like to add here that as the informal sector was the first to be hit by the crisis, it will also be the first to recover; its flexibility, ease of reconfiguration, and the fact that it is not constrained by cumbersome government regulation will facilitate recovery. However, it should also be noted that the recovery of the informal sector will be, in many ways, contingent on the recovery of the formal sector, which is not expected to happen before one year or longer, even though China started to reemerge on the scene.

Abdel-Mottaleb: *You clearly clarified the role that the government should play to reintegrate the informal sector, in this regard, what should the formal sector do to assist in this effort, and what steps should informal enterprises take to formalize?*

Abdel-Latif: We should not be shouldering the formal sector with this responsibility of taking care of the informal sector, it is not its role; its responsibility towards the informal sector is limited to the realm of social responsibility, and that too, should be on an individual level. The responsibility of formal enterprises should be towards their employees, especially temporary workers, and they should ensure that they are not abandoned during difficult times. Similar to practices in other countries, the government need to support the formal sector in fulfilling this responsibility. We notice too that, nowadays, civil society is incessantly called upon to assist in this situation; but for this to happen, the government needs to provide civil society with incentives. As you are aware, the recent changes in the NGO law have pushed civil society away from the scene; at this moment, their presence would have been of great assistance.

I would like also to mention a very important tool that can be very helpful in the effort of providing assistance to the informal sector - the Egyptian Post. There are approximately 4,000 post offices spread all over the country, however, they remain underutilized by the government. Post office-based transactions related to receiving money transfers (whether from individuals, associations or the state), only require a valid ID card. To capitalize on this opportunity, we need the government to facilitate the process by which banks transfer funds to individuals through post offices; the process is currently very cumbersome and not much practiced. This will allow the Ministry of Manpower to easily transfer its pledged assistance (LE 500, which is not enough and only for a short period) to individuals across the country, and also open the door for reaching people who live in remote areas without much burden.

Since informality is correlated with poverty as many of those engaged in the informal sector are among the poor, the government can use the databases that were recently updated by the Ministry of Supply and Internal Trade and the Ministry of Social Solidarity (for Takkafol & Karama programs) to identify deserving beneficiaries and provide them with assistance. In short, government efforts should entail using available data for identifying and target the needy, and facilitate the use of post offices to provide the assistance.

CIPE: *Given the vested interest that the formal sector has in the integration of informal enterprises, at least from the stand point of curtailing the unfair competition they face from these informal enterprises, I would like you to expand on the point you just mentioned - that the formal sector has no role to play in the process. Also, could you please elaborate on the role, if any, of civil society, particularly business associations and federations, in the formalization effort.*

Abdel-Latif: First, let me clarify a point here. The formal sector has always been cognizant of the unfair competition posed by informal enterprises. This is not news and is not related to the current crisis. Thus, the notion that the formal sector has a vested interest in the formalization of informal enterprises has no much bearing on the current situation. In fact, formal enterprises have their own calculus when look at their operations, and the unfair competition from informal enterprises is not necessarily a significant consideration. Actually, at certain points, and in an effort to reduce supply chain costs, we find formal enterprises resorting to using the informal sector, for example, they hire daily workers on informal basis to avoid any employment obligations. Such practices became evident during the current crisis and present an opportunity that can be taken advantage of. However, at this difficult time, we cannot expect the private sector to act on this opportunity. It is the government that should step in and take advantage of the situation; it should let the informal enterprises clearly understand that for them to be able to benefit from the support, they need to share information about their operations; this can usher in a new chapter in the relationship between informal enterprises and government. It is critical that the government provides informal enterprises with a grace period to prepare themselves for formalization, at the same time, use this period to prepare itself too for the process to work. For example, the government should not rush and force an informal workshop to immediately move out of the city center, or else face a penalty, if the government itself is not prepared to provide the workshop with another location. In brief, the government should provide incentives to entice informal enterprises into formalizing; protection provided by the government in terms of financial aid, and social security is needed for this to work and for the formal enterprises to feel secure to make the move. The government should use this opportunity to overcome the structural impediments that always worked against properly addressing many of the issues related to formalization, which were driven, to a great extent, by different perceptions and takes on the matter. For example, while the Ministry of Finance always looks at informal enterprises as a source of revenue, which, in and of itself, is a wrong approach to formalization efforts, yet we find the government offering these enterprises grace periods from paying taxes as an incentive. It is safe to say that informal enterprises are really looking for two things: 1) a sense of security and social protection, which is much needed during this crisis; and 2) access to low interest credit facilities, as their informality forces them to seek loans from associations, and the like organizations at very high interest rates To reiterate, it is the responsibility

of the government, not the formal enterprises, to take advantage of this opportunity and provide informal enterprises with incentives to move towards formalization. As for business associations and federations, their role should be supportive of the government's efforts, and should entail advocating and pushing in the direction of formalization. This view is informed by lessons learned from other countries that succeeded in integrating the informal sector into the economy; they offered well-thought out incentives. The government should not be offering incentives that come across as rewarding informality. To sum, at this time, there is an opportunity here, and it should be taken up; and the government should adopt a well-thought out approach, including providing balanced incentives to encourage the transformation.

Abdel-Mottaleb: *From a wider economic perspective, Egypt's economy, in many respects, relies on revenues from the tourism sector, the Suez Canal, remittances of Egyptians, and lately the oil and gas exports. These revenues, which represent a significant portion of the GNP, depend on external factors which makes the economy susceptible to global disruptions. Given the current crisis, and the opportunities it can present, what should be done to help avoid crisis in the future?*

Abdel-Latif: You are absolutely right! Since 1974, Egypt has been relying on sectors that are dependent on external factors; these sectors are also interconnected, where changes in one sector can set off a domino effect and perpetuate effects in the other sectors. For example, when the oil prices go down, the workers' remittances decline, as well revenues from the Suez Canal and tourism. Before delving into how to use the opportunities to our advantage, I would like to briefly mention these sectors' prospects in terms of recovery.

We have carried a number of in-depth analysis at ECES, closely examining all these sectors and their expected trajectories over the course of this crisis, from its inception to its anticipated end. Setting aside the oil sector, which is experiencing its own challenges, these sectors are not expected to return to normalcy, any time before at least one year, assuming that the virus is controlled by the end of summer, and steps towards recovery follow. The tourism sector may even take longer than a year to recover, as tourism is a recreational commodity; given the depression resulting from the crisis, it is expected that people will give priority to basic and essential needs. As for the potential opportunities and how best to use them to our advantage, the main opportunity I can identify here is the time afforded to us by the crisis; we should use this time and focus our attention on the serious structural and institutional weakness that these sectors suffer from and were clearly manifested at the break of the crisis. A case in point here is the tourism sector, and the challenges it faced because of the virus (e.g., challenges related to infections tied to the Nile cruise ship, and other health and hygiene issues that were not too obvious before the crisis). Thus, since the sector is stagnant and not expected to recover soon, we should use this time and work hard on analyzing these weaknesses and addressing them. For example, during this period, attention could be directed to protecting the investments in the tourism sector, training the workers, reforming the institutional arrangements within the sector, improving the health and hygiene standards, and refurbishing the areas around the tourist sites. At the same time, and in spite of the current crisis, it is important to continue with marketing Egyptian tourism, capitalizing on major events, such as the anticipated opening of the new Egyptian museum, which hopefully will take place at the end of the year.

With regards to the Suez Canal, as we know, operations are directly linked to international transportation and freight movement. So, as long as there is global recession, international trade will also slow down. It is estimated that, on the global level, the 2020 economic growth rate will be -1.5%, which means a considerable slowdown of trade and the movement of goods. In this regard, I would suggest that the government reconsider the service fees of Suez Canal and reduce them to attract more vessels, particularly that these fees are higher than the fees charged by the Panama and other countries. Attention should also be given too to improving services and reducing the transit time for vessels. Perhaps more important in this regard is for Egypt to reconsider its notion that the Suez Canal is merely a passageway. Utmost attention should be given to pushing forward the mega project 'Suez Canal Economic Zone' which has been under discussion since 2014. However, to date, no concrete actions were taken to provide investors with any incentives or support existing industries in the area. It is critical that the government carries out serious research to clearly identify the kind of industries and investments that are most appropriate to the nature of the project and have the potential of being attracted to the area. This should be followed by a robust investment promotion effort to entice foreign investors to move their investments to Egypt. At the same time, the government should work towards deepening local manufacturing, by identifying its real needs, and start replacing foreign imports with domestic production. Therefore, revitalizing the project, within a reasonable time and ensuring that we have in place effective KPIs to measure progress, is very critical at this juncture.

As for remittances from Egyptians living abroad, I am not sure if you are aware of the fact that to date, Egypt does not have a database of Egyptians living abroad; Egypt does not have any information about these Egyptians (who they are, what they do, what is their area of expertise); there is an opportunity here to start learning more about these Egyptians and gather adequate information about them. While to be commended, yet setting up a website by the Ministry of State for Immigration and Expatriates Affairs is not adequate to develop the needed database; Egyptian embassies should reach out to Egyptians living abroad, get their information, and at the same time, provide them with assistance as needed; it is expected that some will face challenges or be subjected to abuse from their employers due to the current crisis. Egyptians abroad need to feel that their government is fully supporting them; both the Ministry of State for Immigration and Expatriates Affairs and Egyptian embassies have a critical role to play in this regard. It is worth mentioning here, that contrary to the prevailing perception, Egyptians abroad are not a homogeneous whole; they fall into different categories, there are those who are currently working abroad, others who were on vacation in Egypt, and had their contracts cancelled, and some who could not travel in spite of holding valid contracts. However, regardless of which category they fit, they all have families, financial obligations, and some have investments, whether in real estate or a small business. From this view, Egyptians abroad constitutes a system in and of itself, and directly links with several ministries. Civil society can also play a role in supporting those who are impacted by the crisis.

Abdel-Mottaleb: *Aside from the leading sectors mentioned above, did you identify other sectors that government or the private sector should focus on in the near future to avoid similar challenges?*

Abdel-Latif: Let us say that the idea of avoiding future or a new crisis is impossible, as Egypt is engaged with the outside world, especially if the crisis is of a global nature. However, while Egypt will not be able to avoid such global crisis, it can still work on protecting itself. This can be achieved mainly through deepening local manufacturing; the industrial sector is now the only available sector that can generate foreign currency, noting of course that exports are directly affected by the conditions in international markets. However, what is key here is that there should be an earnest effort to keep local industries alive during this crisis. Thus, the most important objectives that the state should pursue during these times are: 1) Ensuring that all Egyptians are able to live with dignity; and 2) Protecting local investments, and help them stay alive; if these investments shut down, they will never recover.

Agriculture and transformative industries are two sectors that deserve focus during these times. Given the current crisis, and the slowdown in travel and trade, the role of the agriculture sector in providing food for the population will be prominent; countries that are able to ensure its own food security will be in a better position. In this regard, attention should be given to agriculture in the Delta area as it has been neglected for some years now.

I would like to mention here an important point related to industry in general. Worldwide, the industrial sector has been hit hard, mainly due to the globalization effect, which has fragmented industrial processes in many countries; it is not uncommon to find that each component of single final product is manufactured in a different country. The corona crisis will result in reintegrating the supply chain; this does not mean that supply chains will be entirely local though. We have examined the impact of the crisis on many industries. In general, one can say that some industries stand to ostensibly benefit from the current crisis, at least at this time (food industries, hygiene and medical products); other industries such as refrigerators and washing machine, automotive are now totally marginalized, the third category, ready-made garments, are struggling due to a decrease in demand, and because of their reliance on Chinese inputs. It will be important to carefully examine industries within each of these categories to identify the best way to move forward. As a starter, we need to focus on food industries, and also look into how we can help industries reorient their production lines to manufacture needed commodities, for example factories producing ready-made clothes, can look into producing medical and hospital supplies, such as gowns, mask, etc. This will also help address the needs in our health sector, which is in dire need. Engineering industries can help meet the needs for ventilators. This will require the government to step up to the plate and support this effort by making some procurement agreements. The government also needs to give attention to the ICT sector, as teleworking and distant learning are adding burden on the current system and this necessitates investing in it to boost its performance.

In this regard, it is critical that management of the crisis be handled at the central level, however, implementation has to be carried out in a decentralized manner, with adequate monitoring in place. There is an opportunity here to revitalize the role of civil society. By virtue of having presence across the country, and being close to beneficiaries, civil society can play an important role in monitoring the implementation the government plans, identify and reach out to beneficiaries, fund raise, and complement the role of the government.

Abdel-Mottaleb: *I have another question for you Dr. Abla. Across the world, the issue of locking down the economy is receiving much attention and debate. Should we go back to work, or continue the lock down and for how long? The economy at large is the most affected by the current crisis; the economy means people and employment, and people are worried. And no one knows the actual cost of this lockdown? What is your view on this issue?*

Abdel-Latif: Let me tell you that this is not a unique Egyptian problem. The entire world is facing the same dilemma and we are all affected. Countries around the world have taken very clear positions regarding this issue: protecting human life, which is given the top priority everywhere. All countries are expected to suffer from severe budget deficits, and accrue significant debt, primarily to ensure that citizens can maintain dignified life, and survive the crises. I would like to stress here that the public deficit is a fiscal tool, that the government can properly utilize if it has a clear vision of where it wants to head and know what it is doing. I cannot stress enough how the human life, and the welfare of citizens should be the priority. Regarding your question about my expectation as to when life will return to normal, the fact is, this is an issue outside our control, our return to normalcy is interlinked with the situation in the entire world.

I would like to say a few words on Egypt's lockdown policy. It seems that Egypt chose a middle ground, which does not seem to benefit anyone. Neither the economy is functioning well, nor are we able to truly contain the spread of the virus. A full lockdown for a period of time might be the best approach that should be taken to flatten the curve. In this regard, we need to assess our food and essential commodities reserves. If we lockdown, and decide to return back to normal, again, the first and foremost consideration should be given to human life, as infection is passed through individuals who are asymptomatic or have tested negative. We also need to prioritize the sectors that should be reopened first; we can start with the food sector. I do not believe priority should be given to the real estate and construction sectors, which were the main force behind growth in the past years, yet, they do not contribute much in terms of diversifying the economy, and their commodities are not really tradable to a large extent.

To conclude, let us look at what is happening around us in the world and learn from the experiences of other countries to shape our course. Currently, countries around the world are focusing on agriculture, the food industries, the logistics industry, human capital development, ICT, and ensuring income for all citizens, whether they work in the formal or informal sector, employed or unemployed. If we look around us, we will have a clearer direction.

Before we end, let me stress on a final point. A real challenge in this crisis relates to the densely populated and slum areas, where housing units are too small in the first place. It is imperative that citizens living in these areas receive adequate protection; these areas need to be sanitized and disinfected on a daily basis, as it will be difficult to enforce social distancing. Again, we can look at other countries and learn from their experience.

Abdel-Mottaleb: *Thank you Dr. Abla A. Latif for your valuable views and insights. Thank you for your time and for sharing the studies conducted by ECES.*

Abdel-Latif: Thank you both and for CIPE for such efforts and I ask anyone who watched the video to visit ECES website for the various resources.



Dr. Abla Abdel Latif is currently the Chair of the Presidential Advisory Council for Economic Development; and the Executive Director and Director of Research, the Egyptian Center for Economic Studies (ECES).

She is also a Member of the Central Bank of Egypt's Coordinating Council and has been a Board Member of the National Bank of Egypt – the first female in this position, for over six years.

In 2013, she was honored with membership of the Committee of Fifty, whose mission was to draft Egypt's Constitution following June 2013 ,30. In that capacity, she was officially representing the Egyptian Federation of Industries, and one of only five women on the Committee. She is also a cofounder and Board Member of BASEERA (the Egyptian Center for Public Opinion Research), and "El Nidaa" Foundation for job creation for women and youth.

In addition to her teaching career as Professor of Economics at the American University in Cairo (AUC) for over twenty years, she has been selected to be a Life Time Research Fellow at the Economic Research Forum (ERF) and member of the Advisory Board for (Femise). She has authored many publications in class A internationally refereed Journals and has been a senior international expert in several UNIDO projects and other international organizations.

Her professional experience is also extensive, starting from being the Policy Unit Manager in the Industrial Modernisation Centre (IMC) to being the Minister of Industry's Advisor shortly after the 2011 Revolution and up to May 2015 when she became the main economic advisor to the President of the Republic till present.

Dr. Abla received a special award for outstanding achievement and excellence in research from Sussex University in the UK and another faculty excellence teaching award from the American University in Cairo. She was also invited by the Singapore Government to participate in the 10th Leaders in Governance Programme in 2017. She is an Egyptian national with a B.A. in economics from the American University in Cairo (AUC) (with highest honors) and an M.A. and Ph.D. in economics from the University of Southern California in Los Angeles, California.



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