



EGYPT TOMORROW ECONOMIC FORUM
Video Interviews

THE CORONA ECONOMY: CRISIS & OPPORTUNITIES

**EPISODE THREE: DON'T LET TODAY'S CRISIS
SINK TOMORROW'S ECONOMY**

*Interview with Dr. Ziad Bahaa ELDin, Former Deputy
Prime Minister of Economic Development, Egypt*

*Interview conducted by Seif ElKhawanky, CIPE Egypt Program Officer,
on March 29, 2020*

CIPE: *Despite the present effects of the Coronavirus, we need to think of the future, and try to bring new ideas and institutions to be ready to move forward after the crisis ends. Today, we are pleased to resume this series of the "Corona Economy: Crisis and Opportunities," hosting Dr. Ziad Bahaa ELDin. To make a long CV short, he was the Deputy Prime Minister and Minister of International Cooperation (2013-2014), first Chairman of the Egyptian Financial Regulatory Authority (2008-2011), and Chairman of the General Authority for Investment and Free Zones in (2004-2007). Dr. Ziad was also a member of previous parliament, representing Assuit (2012). Now, he is Chairman of Thebes Consultancy, which worked with CIPE on the transformation towards a cashless economy project. It is my pleasure to welcome you, Dr. Ziad.*

Bahaa ELDin: *It is my pleasure to be featured today, Seif.*

CIPE: *As mentioned in my introduction, we are trying to react and think strategically about the crisis consequences and the future. Health policy and managing the crisis is important but thinking about the economy at large and addressing the new challenges is critical too. How do you see the current situation, and what are the necessary policies and institutions, in your opinion?*

Link to Arabic Video: <https://www.facebook.com/CIPEArabia/videos/771133949961146/>

Bahaa ELDin: I am happy to talk about the near future because countries throughout the world are facing challenges; as we talk, Egypt too is in a critical period and I hope we see an end soon to the crisis. As the government announced, the coming two weeks are critical in containing the spread of Corona. Hopefully we pass this period safely, in the minimum span of time and with the minimum possible losses.

Today, as expected, everyone will be concerned with the health issues and with the immediate economic losses we are facing. The most significant negative consequence is people losing their jobs, especially those employees who depend on day by day income and those who work informally. But I am happy with CIPE's initiative and its work here discussing and thinking about the post-Corona future and how to be prepared for the future while we are living through the crisis. Countries that will overcome today's crisis with the least damage will have a better chance in the post-Corona years. Many say the world after corona will not be the same as the world before corona; I am not sure to what extent this is accurate, but I hope there are lessons to be learned in Egypt and around the world; I hope things change for the better. But let us also assume it would also be possible to overcome this crisis, adjust for a short time, then go back to the pre-crisis status-quo without learning enough from the lesson. However, let's be optimistic, optimistic that Egypt will pass through this crisis with the least damage possible and that we can lay the foundation for the future starting now.

How can we benefit on the economic front? I want to split my answer into three big takeaways.

The first relates to the urgent measures that need to be taken on public expenditures, which I think should be re-structured, and this time is a good time to do so. Let's take spending on health and protective health; we must not only increase public spending on health but spend in a smarter manner. Spending on health infrastructure is the most important priority in public expenditures, including building new hospitals, institutes, clinics, training doctors and nurses, and equipping universities to continue building the healthcare workforce. The entire world will realize it is the most important category of public expenditure. We are in a relatively good position. Last year, Egypt passed one of the most important laws in recent years—the comprehensive health insurance law. We already started implementing it in the Suez Canal Governorates. If we come out with one thing from this crisis, it should be building both the policy framework for health care and its infrastructure. The annual health care budget could be doubled.

CIPE: *Sorry to interrupt, do you believe this law is good enough and capable of paving the path towards a better health care system in Egypt?*

Bahaa ELDin: It is just a law; it is a good framework as a basis for implementation, but when it was issued by the parliament, it was projected to take 12-15 years to implement, at the government's projected capacity and dedication of resources. Implementation is the execution part, which we can work on changing and expediting based on the current crisis. The law is a container, but if we execute faster, within 5-7 years with more resources, we will see good results, while not undermining quality standards. During the crisis, we saw countries with good, strong, health systems that were well able to manage the crisis, and others with fragile health systems that failed to address it. So, restructuring health systems is a real priority.

The public expenditure restructuring should also consider the worn-out old infrastructure in Egypt. Related to health is the sewage system, which has a direct effect on citizens' health. There was a good government program that identified poor villages in Upper Egypt in order to improve their infrastructure, including the sewage system. But once again, one of the lessons of this crisis is to prioritize development-related programs, such as improving the current worn out sewage system, as opposed to building new cities. Building new cities might be more visible, but in fact sewage systems are directly related to health and are a top priority.

Another lesson from the crisis is that countries with a strong IT infrastructure were able to cope better with the current crisis, so we need to think about this issue. Our pace of development before 2011 was impressive and competitive worldwide. This IT infrastructure may not have changed, but it may also not be up to date. We have experienced in the last weeks how different businesses, schools, and universities are teleworking; see how we are connecting now online! Technological preparedness is important and is one of the most important tools for sustainable development.

The second category is upgrading e-government services. For example, in response to the crisis, the government shut down some activities such as prayers in mosques and churches, entertainment venues, concerts and some businesses; at the same time, they shut down government public services. Shutting down certain government functions was the right move to contain the virus, but there is no reason not to provide these key services online. The government stopped providing services to issue driver's and vehicles licenses for instance, while this could have been done electronically through the e-government portal. There are a variety of services that can be provided. This will increase government revenues and cash inflow. In brief, digital transformation is much-needed not only by the government but also by the private sector.

As for the third category, it is about time to see the state play a role to enable the private sector at large, not only the big enterprises, but business of all sizes, anyone who has an idea for a business, business owners of any kind, and those who need to establish a company, obtain land, or secure a license. We have been raising these issues for several years, and maybe the current Coronavirus crisis could be an opportunity for the government to reconsider easing many restrictions and change many existing conditions that the private sector has simply gotten used to dealing with. We need to think of the private sector and private investments in the coming period in very different ways—different than what used to be.

***CIPE:** Going back to your point on government advancing the use of technology since 2005/2006 by developing the e-government services portal issuing online citizen services such as IDs and birth certificates. These services have barely been upgraded since then; the portal is not accessible through smart phones, and very few services have been added to it. Do we need a government department to take ownership of improving the e-government portal while linking it with administrative reforms?*

Bahaa Eldin: I would like to make a big shift here and discuss the issue from a different angle. We agree that the government e-services are the subject of discussion, but I want to present it differently. It is not about submitting a request online for a driver license instead of going in person to get it, or about paying for the license online using electronic payments, which have seen great progress. Let's be more ambitious;

assume a person wants to establish a business entity, thus needs to register, apply for a construction and building permit, file for employees' social insurance, issue the tax card, and complete all the needed documentation for an establishment. The process is not about facilitation of the application process and the payment process. There will be a considerable number of parties engaged in the process, such as the engineering office to do the design. This engineering office was given an incentive to continue working from home, continue paying salaries, while saving on overheads. Same for the accountant, and external auditor, and others. As you can see, the purpose was not just to apply electronically and pay electronically, but the purpose is to keep all professional services running and at high standards. It is important in this difficult time to help business owners not to wonder or worry about meeting their financial obligations. When we have government integrated services, it confers an added value and improves efficiency.

CIPE: *To sum it up, you spoke about three aspects; government spending, the advancement in technology services by the government, and the role of the private sector and the necessary facilitations. I will start my questions from the bottom of the list. Talking about the role of the private sector, we see a higher level of government intervention, even in established capitalist markets. However, in capitalist markets, government intervenes for a quick operation, to fix and exit, just like a surgeon; there are exit mechanisms and tools; there are institutions who monitor, ensure accountability and regulate exit strategies. This is different in developing economies like Egypt. Currently, I understand that government intervention is needed to secure some market needs, but what's next? Would it be easy for the government to exit the market after the crisis ends, knowing that the private sector was not happy with its inability to compete with the government?*

Bahaa ElDin: Again, we are in an exceptional time. If we look at the emergency intervention of the U.S. government in the market, for example, invoking the Defense Production act to manufacture specific products needed to face the pandemic. These are measures taken during war time, or exceptional emergencies such as this time. In 2008, governments intervened exceptionally, acquired financial institutions and banks, then returned them to the market through market offerings. So, let us set aside the exceptional times and focus on the normal times. Let me first mention that I am not for the complete and absolute withdrawal of governments [from the market]. I am totally convinced that in a country with an economic status like Egypt and other similar developing and emerging economies, the state has a big role to play... as long as the country is suffering a significant poverty rate, worn out infrastructure, and a high rate of informality. Here the state has a role— a big one. Thus, the issue is not whether the state's role is big or small; more important is what the state is doing and what is its role. In my point of view, we should make use of the global ongoing talks on what people would do post-Corona and during the Corona crisis and start thinking calmly and with no tensions, disregarding the old experiences and controversy on what the state role should be, regardless of having a "big" or "limited" role. To start from the beginning, defining the role of the state in the economy, it is to set the rules, regulations and legislation, enforce it, collect taxes, and enforce rule of law. This is the least that must be done by the state. However, in my opinion, the state has a role to play in the long term [to address needs] which might be too big to be carried out by the private sector, or it could be too unprofitable to incentivize the private sector to do it, or it could be of a nature where the people need specific assurance and protection.

It is normal that the state has a role in building infrastructure like constructing roads, bridges, cities, sewage, and expanding projects related to power and all infrastructure works, noting that in doing so, government will still use the private sector services. What is of utmost importance here is that the state should specify its plan and announce this plan, make it known to the private sector that the government's three-year plan, for instance, will cover specific projects. It should also be made known to the private sector that the state will not compete in specific sectors or sizes. What causes disturbance on the ground is not whether the state has a role or not, the role is there in all circumstances. What creates the disturbance is the ability of the private sector to predict what the state will do or what it is truly leaving to the private sector. For example, a foreign investor would not expect that after deciding to invest in the food processing business, and after completing all the required feasibility studies, buying the equipment and the land, and just as he gets ready to start production, the government decides to enter this market, and becomes the biggest producer in the market in this business. This will result in the state losing and in the private sector losing, while the economy will not benefit at all. So, first of all, public-private dialogue should take place for the state to know the private sector's needs, potential, and capacity, and to know what kind of support the private sector needs, then to transparently publicize its next three-year plan, and leave the private sector free to work and compete so long as private sector players comply with the law and pay their taxes. In short, clarity is the most important, not the size and level of government intervention.

CIPE: *Back to the point on predictability and certainty, what are the steps or package that the government should adopt to be clear and transparent to build investors' trust?*

Bahaa ELDin: Talking about foreign direct investments, let's agree the coming period will be far more difficult than the normal conditions pre-corona crisis. Hence, the challenge will be doubled, and the exerted efforts should be doubled as well. You started this interview by referencing the "Corona Economy: Crisis and Opportunities," and there are opportunities! I assume the most important opportunity is that many of the givens or standard practices in production and distribution at the global level will change. I do not think that the world post-corona will be ready, no matter how enthusiastic people are about globalization and international trade. I do not think the world will be ready to face the collapse that is presently happening in some of the fields of production and distribution. To realize that 70-80% of certain international branded products such as electronics, spare parts, chemicals, cosmetics, and pharmaceuticals are produced by one country whether it is China or elsewhere. I do not think the world can continue to take this anymore even if the alternative results in additional cost and less efficiency. Today, there is strong consideration for safety and security worldwide to avoid full or over-dependence on international trade. All countries, big markets specifically, will work on diversifying sources of imports to avoid leaning on one sole source, even if in small percentages and with extra cost. Egypt and other similar markets should be ready for this critical moment; should identify its competitive advantages, its production capacity, and its ability to improve and acquire new skills and capacities. If we take electronics for example, you may say we cannot compete with Ireland, Singapore or Indonesia. We may not be able to compete today, but in what ways can we be enabled to compete and take even a small market share in this coming push for market diversity? This is what I consider the most important lesson learned from the corona economic crisis and its impact on international trade. There is no way that markets worldwide will rely again on three or four countries and face again this kind of problem.

CIPE: *So, we are seeking self-sufficiency instead of efficiency? The goal will not be to seek the best quality and lowest price? Does this give a chance for the local industries, especially the SMEs, in the coming period?*

Bahaa ELDin: I want to make it clear I don't mean self-sufficiency at the level of Egypt, as if Egypt will not deal with other countries. I mean Egypt, as an example, will look at what big markets such as the U.S., Germany, UK, Italy, etc. need and produce to export to these, winning a share of these markets—even a small market share will be a win. I believe the big markets are ready to diversify their resources, especially intermediate goods, in the coming period, at the expense of small increases in cost. This is the space where Egypt can open new markets and be part of global supply chain.

CIPE: *This means Egypt's industries needs to be ready for the take-off. In your opinion, what are the actions needed by the government and the private sector to improve the level of preparedness for this take-off towards the global markets after the crisis?*

Bahaa ELDin: Despite the government's current priority of dealing with the Corona crisis's instant consequences, protect its people from the virus, protect health, and support them to maintain their living, it should also bring a group of independent Egyptians to initiate a dialogue with the Federation of Egyptian Industries, and the different chambers of industry, to identify what world markets such as Germany import and their sources of imports. Do these markets import from one source? Can Egypt manufacture these commodities and export them? Does it have a competitive advantage? What did the US used to import? What did Russia used to import? This is the time where we have the chance to discuss this thoroughly with the Federation of Egyptian Industries and its chambers and think through if Egypt can fill this gap and export our products to other big markets worldwide. This needs to start immediately. The government can work on managing the daily issues but can also dedicate time for strategic thinking in partnership with the private sector, the Federation of Egyptian Industries, industrial chambers, and the Federated Chambers of Commerce. These stakeholders have the real experience, the ability to put capital in the market and take the risks and become an invaluable support to the economy. This, in my point of view, can be implemented now smoothly and nothing will obstruct it. Chambers of industry need to do a lot of work, think thoroughly of all details, put a vision and a detailed plan on paper. Each industrial chamber should do its own research and develop its agenda and submit the results of its thinking to the government. However, the government needs to give the chambers a signal they will be heard if they submit solid ideas. Before allocating money to industries, we need to understand and develop our priorities, and know what we can and what we can't achieve and do.

CIPE: *I will go back to your first point about public expenditure. The majority are talking about postponement of the taxes, decline in resources from fees on government services which are pending now, and other sources of revenue. How will the government finance its promises during the crisis? What are the resources? Will it be printing money? Some would agree printing money is a quick solution to help support a stimulus package, and Egypt can deal later with issues resulting from inflation.*

Bahaa ELDin: The government and Central Bank may resort to printing money as a short-term solution to the crisis; but it is not an easy decision to make. We should not print money when we need money. It has fatal consequences to the economy and the economically vulnerable population. This is not a solution in itself; it might be a temporary tool. Revenues can be from two resources; first, what we have just said about supporting and encouraging the private sector in good faith. We can be brave in removing the barriers to business and boosting the private sector, streamline and facilitate the business environment, even if we use unconventional means, such as extraordinary facilitation of the registration and licensing process, legalization of land property, licensing of land, addressing demands of foreign investors...etc. These issues should be tackled in a nontraditional manner. In addition, government transparency is a must; government should announce in which sectors it will invest, in which sectors it will compete with the private sector, which sectors will be completely left to the private sector. This is to make the investment landscape clear, establish a level of trust and have the private sector invest. This is the main resource of public revenue—through the private sector investing, hiring, employing, and paying taxes.

The second resource which might be considered after the Corona crisis is to reconsider the public expenditure. Some expenditures can be postponed until we overcome the consequences of the current crisis such as government investment in “national mega projects” including new cities, roads, bridges, etc. and infrastructure projects. Maybe cuts in public expenditure can be directed towards sanitation, sewage networks, and health care as well, to promote investments. All countries reset their priorities; maybe it is the time for Egypt to reconsider its priorities.

On another note, if the economy is in dire need, we can be more flexible in the level of budget deficit, more loans, etc. I understand we have been working aggressively over the last years to address the deficit, but these are not normal times. Citizens will need to trust that the loans will be allocated to an economic stimulus package, or to improve public sanitation and public health services.

***CIPE:** With the measures you mentioned, transparency, trust, public-private dialogue, and rationalizing public expenditure, do you think the informal sector might be encouraged to formalize?*

Bahaa ELDin: Let me tell you, the informal sector will not disappear. We must give this sector credit for its efficiency at times of crisis and for saving many people during hard times like what happened during the 2011 revolution. The size of the informal sector will not be reduced until a greater level of trust is established with government. As an example of trust, once the government practiced transparency and efficiency in dealing with the excessive rain crisis last month and coronavirus in the last week, the private sector, civil society, and Egyptians at large appreciated this, and were able to engage in a constructive manner. The current crisis has resulted in a great opportunity, establishing a good level of trust, that should continue beyond the crisis. If the only opportunity from the Corona crisis is maintaining this trust, this is a big win.

***CIPE:** Before we end this meeting, I want to go back to CIPE’s endeavor, working since 2014 on the transformation towards a cashless economy. You were a leading partner in this initiative. Do you think it is a good chance to accelerate this transition?*

Bahaa ELDin: This should not be our number one concern, not because it is not important, but because in the last few weeks, it proved without doubt that the cashless economy is the future. We need to work on it in practice, but we don't need to work on advocating for its significance. The progress that occurred in the last three years in payment systems helped us in dealing better with the current crisis. The effort that was put into the cashless economy initiative in the last five years paid off—its impact was evident now. Otherwise, our situation would have been much more difficult, and you would have seen long queues at bank's branches and ATMs. Now people resort to various channels like mobile payments, fintech solutions, digitized banking systems and other tools.

In the coming days, we will see more people opening accounts and using digital wallets. But this needs to be coupled with the government delivering its services electronically. The payment systems worked efficiently in the crisis, but the entire system needs to digitize. I can transfer money from my phone, but what is on the supply side? This is the real issue now. More work is needed to develop public service delivery and digitize it. To make it clear, there should be a supply of digital services, so we can build on the new payment systems.

CIPE: *You have been engaged and very aware of CIPE initiatives since the 2003 project on developing the code of corporate governance and throughout the years, and in 2015 on the cashless economy initiative. You are fully aware of our capacity, experience, and our scope of work, what is the one thing you recommend us to do now?*

Bahaa ELDin: There are many things to be said, but I would suggest something related to your previous work because CIPE had acquired experience in the transition towards a cashless economy, and you have the capacity to lead while ensuring sustainability. CIPE successfully worked on promoting and supporting the transition to the cashless economy. It was the first to call for the transition, worked with different agencies such as the Central Bank of Egypt, the Federation of Egyptian Industries, the Federation of Egyptian Banks, and other stakeholders. These efforts led to tangible results and quick changes in electronic payments. Let's continue working on that. Electronic payments will see more results, if more services are supplied and made available in the market. It would be great if you could work with some select ministries to support them in making all their services available electronically, and transitioning payments to be electronic as well. I think CIPE is qualified to do this and complete its initiative.

CIPE: *Thank you so much for your time and your valuable input.*

Bahaa ELDin: Thank you.



Dr. Ziad Bahaa ElDine is an Egyptian lawyer, and an expert in finance and mortgage laws, investment and corporate laws, corporate governance, compliance, and economic legislations. He is currently the managing director of Thebes consultancy and non-executive director on several corporate boards including HSBC Bank Egypt, the National Bank of Egypt UK, the Arabian Cement Company, EMMAR Egypt, AXA Egypt, and Allam Holding. In the last 15 years, he held several public positions including the Deputy Prime Minister of Economic Development and Minister for International Cooperation (2014-2013). Member of Parliament representing Assuit (2012), the Chairman of the Financial Regulatory Authority (2011-2009), and the Chairman of the General Authority of Investment and Free Zones (2007-2004). He is also a former non-executive member of the Board of Directors of the Central Bank of Egypt (2011-2004) and the National Bank of Egypt (2010-2005), and a former Senior Legal Advisor of the Central Bank of Egypt (2011). He is the founder and member of the Board of Directors of Ahmed Bahaa ElDine Cultural Foundation, member of Trustees of the American University in Cairo, and the Board of Trustees of the Cairo Regional Center for International Commercial Arbitration.