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## Tackling Egypt's Transformational Challenges

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# The Current Column

*of 30 March 2015*

# Tackling Egypt's Transformational Challenges

Bonn, Cairo, 30 March 2015. From 13-15 March 2015 the Egyptian government organized a major international event, the "Egypt Economic Development Conference", aimed at repositioning the country on the investors' agenda to stabilize Egypt's economy. The outcomes of this conference are encouraging but also point to how important it is for Egypt to show commitment for a transformational agenda.

Egypt's transformation to a sustainable development economy could become a necessary condition for its economic and political stability. The country's population has more than doubled during the last four decades, living on less than 7 % of the national territory, an area that has clearly surpassed its carrying capacity. With a modest per capita gross domestic product, 40 % of the population living under the poverty line and youth unemployment higher than ever before, the development challenges are chronic and substantive. These problems are compounded by decreasing economic competitiveness, dwindling energy, water and food security, low investment and a weakened industrial sector. The additional burden of historically high and poorly targeted fossil-fuel subsidies contributed to worsening the energy crisis, deterred spending on social and economic goals, and discouraged investments in clean energy technologies. Transformation needs to take place in the midst of political transition and in the context of a precarious economic condition accentuated by a long political turmoil.

The conference's objective of shedding a fresh light on Egypt's vast development potential and of attracting investments to finance large-scale projects seems to have been achieved. The Egyptian Government has presented first steps to stabilize the economy, such as starting the reform of subsidies, fiscal reforms, and planning large infrastructure projects. By the end of the three-day event, agreements and memoranda of understanding were signed with international companies, estimated to amount somewhere between \$ US 150-170 billion. Most projects targeted energy, real estate, food, and infrastructure sectors. This event signalled interest from investors in the Egyptian market and ushered a new development phase aimed to address immediate problems inherited from the past.

But, is the Egyptian Government doing enough to address its transformational challenges towards sustainable development? Take the energy sector, for example: while some clean energy investments have been agreed on at the conference, the balance

of energy projects is clearly tilting towards conventional fuel based generation reflecting the Government's least cost energy mix strategy. A major land reclamation project and the development of the Suez Canal Region discussed in the conference seem to respond to the challenge of population distribution. However, it is questionable whether these capital intensive investments can also alleviate the pressing unemployment problem. Similarly, on the wider scheme of high population density in existing urban centres, the proposed real estate projects that also include the new administrative capital are controversial.

The Egyptian Government appears to be aware that the conference cannot be a sole pivot for development. For instance, a nation-wide program to support SMEs has been initiated in parallel. However, the interconnections between the different lines of action and their mutual support need to be clarified. A long-term sustainable development strategy is yet to be developed. Once in place, its success critically depends on implementation.

The desired transformation entails action by a strong and capable state that should effectively foresee, and deal with, unavoidable imbalances and bottlenecks typical of transition phases, a state that has the ability to reflect on earlier mistakes, integrate systematic learning in its decision-making process, and follow a long-term transformational vision. A strong and capable state should aim for inclusive solutions and be prepared to address pushback from groups interested to preserve the status quo. Its actions should also reflect a shift away from the currently prevailing school of thought claiming that discrepancy in wealth distribution is an unavoidable phase that will eventually lead to 'trickle down'.

Thus, the success of the conference in attracting investments keeps open some important questions: how can transformation to sustainable development balance problems of the past and the vision of the future? How can investors whose focus is generally on low risk and high short-term profit, be adequately involved in this process? How can such investments be geared towards job creation and socially inclusive outcomes? How can the government address energy security concerns while avoiding conventional fuels lock-in? More generally, what steps should the governments take to build state capacity and ensure that future growth is the result of an inclusive governance approach?