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Tuesday 28th September 2010

Keynote Address: **Dr. Mahmoud Mohieldin**

Richard Banks: After 6 years in the ministerial role Dr. Mahmoud has a 4 days holiday. I would personally like to thank him. After the last 6 years we have formed a (strong!) relationship and taken the Egyptian investment story to a much wider world audience. I have a sneaking suspicion that in 6 or 7 years Dr. Mahmoud will be coming back. But for now, he will be taking on a very prestigious position in the World Bank.

MM: Ladies and gentleman, good morning. It's a pleasure for me to be with you today. It's an annual habit to start the year with this kind of gathering. I would like to congratulate Euromoney on their good choice of topic, the topic of competitiveness in investment. This topic matches the challenges and expectations of both the business and the government.

In my very first year as a minister we started looking at business opportunities. We started with ideas, went on looking at strategies, fixing growth rates, then focusing on a second wave of reform, in addition to beating inflation and sustaining growth rates, and finally, we faced the 2009 global financial crisis and innovation in the financial sector.

I would like to take competitiveness away from firms and look to nations. How do we survive change and maintain competitiveness? It is not the strongest or most intelligent species that survive; it's the ones who are most receptive to change. It's about a country's ability to be flexible and pragmatic towards creating change. Today, despite globalization, there is competition on markets, talents and the access we have to both. Companies do fight for access to these markets both locally and internationally.

Now, the question is how can we get access to these markets? Through the efficiency of our labor force, innovation, investments, development and having a pro-business environment. It is not just political issues or how you rank amongst other countries that define your ability to access these markets and become competitive, but more about having a culture that supports business, and its growth. You put that all in an atmosphere of political and macro stability, you focus on the transfer of human knowledge, work to ensure investments in infrastructure, and integrate yourself into the world market, only then you have the tools to be competitive. These are the pillars that drove the growth rates of countries such as India, China and the rest of the Eastern hemisphere up. These countries have become competitive by being pragmatic.

We are living in a complex international system. Twenty years ago we used to say the international community was complicated, now it's even more complex. In the global market system the rising stars are in the Eastern hemisphere; India and China and now to some extent Russia, South Africa and Brazil. There are changes in the economy, in the models of development and in the way politics are conducted. There is a development model that is being developed based on these changes, a kind of modified capitalism. In the context of this framework we need to look to Egypt and identify issues and challenges. We have to monitor the progress of these 5 pillars of development.

Many issues have been raised in the last few weeks, mostly questions suggesting that the future is unclear. I don't see that. This country has been stable, is stable and will be stable in the future as far as politics goes. This is evident from those who are investing in this country on a long term basis. I am not talking about capital markets or investment portfolios; I am talking about long term investments. Five years ago, the average number of companies being established annually was 2,860. Now, the average number of companies being established has reached 7,122, and this includes 2009, the year of the crisis. In fact before the crisis we experienced a peak in the number of companies being established each year, reaching 7,940.

75% of those investing in Egypt are Egyptians, this means we are confident enough in the stability of the (economy?) to continue to invest in Egypt. People are investing today, to start construction tomorrow, and are expecting returns by 2012 or 2014. They are confident about returns. 50% of investors are Arabs too which means interest and confidence in Egypt is evenly divided between regional and international support. In the past; investments amounted to 8% of the GDP, now this figure has reached 13%, and was in fact as high as 15% before the crisis. Politically, it is clear that we are stable, as investors continue to choose the Egyptian market for investment. On the macro finance investment scene, the government has focused on budget deficit and fiscal stability, as the core of their financial plans.

Regarding investments in infrastructure, we have reached 150 billion EGP this year, despite this private investment in infrastructure has not reached more than 2% in each of the last 5 years. In Asia these investments have reached as much as 40% in some countries, this is where Egypt needs to be. Our infrastructure will not attract the private sector or have a conducive growth, unless there is more private sector investments, and I am not just talking about PPP's. Being limited to one idea is wrong; we need to focus more on the results and not just the means. Results are created through infrastructure, we need roads, we need routes to transport materials and support the creation of business. PPP's are one of the ways that these infrastructures can be developed. Direct public sector contributions are also great once achieved, so, let's get it done. We need investment in human capital and technology; we need to create a pro business environment. The need to invest in human capital is already being focused on by the government and experts but spending

should be directed correctly. We may spend more on education than many other countries, but this money is not being correctly directed. 40% of household incomes are spent on education, but this money is clearly not being directly allocated to create the outcome needed.

In addition to the efficiency of our labor force, we need to support technology. The Ministry of Trade and Industry is providing incentives for researches and development, but there is still a need for more private sector and government support. There need to be more legislature changes, more laws to support businesses and procedures need to be simplified. Since 1974, we have been talking about the open door policy, and reliance on the private sector. Egypt started the process of development and privatization long before China or India who started in 1990. But do we have the culture to support businesses; SME's and startup companies? Do we have that culture? We are not just talking about joint ventures but also public projects. It's not just about company ownership. Not all private sector companies are efficient and not all public companies are just. Those who seek employment are not interested in whether the company is private or public.

The concept of supporting and having culture conducive to business is, unfortunately, not in Egypt. The huge support that companies get from the president, NGO's and private sector, is benchmarked by a culture that can be traced back to the 60's. If those who created this culture were around now they would change the benchmark. They would support private and public enterprise; they would support those women and men trying to make a living for them, and would not put constraints on the growth of business and investment. We need to invest here. There is very tough competition and there is a limited pool of resources. It's all about progress. You can't look to the future when you're stuck in the past.

I have left the Ministry of Investment with confidence and trust in it for three reasons; asset management, investment portfolio and financial services. Reforms are linked to institutions and not individuals. Today, we have authorities who are capable of delivery and getting things done. We have long term plans and timelines and a great deal of accountability. We only need to look to the cases of the finance authority and asset management agency to see this. 14 laws and changes have made it very hard to change things unless for the better. I leave behind 4 laws, covering corporate governance, corporate rules, the investment authority and support of businesses and SME's. Other changes in the law will enhance efficiency of the market and support micro enterprises.

Q&A

1) Dostoor Newspaper – What are the things that the government will do to reduce the poverty rate in Egypt as Dr. Boutrous Ghali said?

MM: Many countries in the Eastern hemisphere had poverty levels, almost twice as Egypt. Poverty that had resulted from conditions similar to Egypt's. They dealt with it through short term support of subsidizes, through social spending from the budget and through focusing on high quality growth, such as industry and labor intensive manufacturing. This growth needs to be continual and stable to be successful. China has managed to do that by providing subsidies, focusing on social spending and high growth. Growth alone is not enough. There is not automatic trickledown effect, unless you invest in human capital and make this money more accessible to them through employment and education.

2) Daily News – Investor confidence. We have a President who has not yet chosen an heir. I think for investors this would be a problem especially with the issues of Madinaty and the problems with legal contracts, I think investor confidence at the present time is low because of corruption and instability. What are your thoughts?

MM: In the case of Madinaty, there was a very quick intervention. If we look at the market, when the verdict came out the market dropped. There was a quick reaction to the issue and the market responded positively. Short term solutions are acceptable and create a precedent to follow. There could also be long term solutions in the next parliamentary session. Regarding political succession, we have a constitution and legitimate sources of power. There is no issue regarding succession. This is the view of the market, and the people who are still investing. Parliamentary elections and presidential elections are part of the democratic process.

3) How do you see privatization proceeding in the next 5 years? There is a lot of resistance amongst the people assembly to privatization.

Since November 2008 we have stopped dealing with privatization by traditional means. Privatization did not continue as we know it traditionally. The flexibility and changes taking place may not rule out privatization. There are 147 public companies at present, but in terms of share and dominance, they do not dominate the market. This is with the exception of 2 companies, one produces Aluminum, and the other produces Sugar. The rest of the companies are free from no performing loans, there are some lay backs, but there are ways to get the private sector to be more active. The solution is to have laws that create efficient public enterprises. If we look at the investment authority we see this. Before it was reformed, the authority was ranked 126; it is now ranked 24 worldwide. Dealing with reforms and changing bureaucratic structures is easy if there is support especially political-wise.