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TOWARD INCLUSIVE GROWTH

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P R O C E E D I N G S

MR. DERVIS: All right. Good afternoon, everyone. Thanks for joining us. Thanks to this wonderful panel, which I will introduce in a minute.

We really have a very interesting panel and I'm so grateful to all of those who are participating today, including to you from the audience. We'll have a discussion led by Hafez Ghanem and then we'll have interaction with the audience as usual.

Let me say just a brief few words on each of the panelists. We have Vice President Inger Andersen from the World Bank, who is now the vice president of MENA, of the MENA region. She was before the vice president for sustainable development. She knows the region extremely well, has also worked -- we have the common feature of having both worked at UNDP and the World Bank. Twelve years at UNDP?

MS. ANDERSEN: That's right.

MR. DERVIS: Yeah. So also in the Bureau of Arab -- the Arab Region at UNDP. And I think you speak quite fluent Arabic, also, so couldn't have a more -- I think more qualified vice president for MENA at the World Bank.

We have Akihiko Koenuma, who is the director for Middle East and Europe at JICA, the Japanese International Cooperation Agency, who also knows the region extremely well, has crisscrossed it for many, many years, has undertaken many studies and advises governments. And I really want to take the opportunity to thank him and his colleagues and JICA and the Japanese government for their support. They really -- without them -- we're partners in this fully. They're participating in the work and everything, and so it's a great partnership and I hope it will be of benefit to the region.

We have Heidi Crebo-Rediker, who's the first chief economist of the State Department. Now the State Department has -- you know, that's a big step. As an

economist I applaud it; who has also been the director of the Senate Committee on International Financial and Economic Affairs when Hillary was still at the State Department; was also interacting, of course, with the State Department, but she is there. And her, I guess, former boss in some ways, John Kerry, is now Secretary of State.

So, Heidi, welcome and I know you're a great friend of ours at Brookings. You come and participate and we're extremely grateful.

Heidi has also had a very long career in finance in Europe, I think close to 20 years, and knows European affairs also extremely well.

And then we're very grateful, also, for Andy Baukol, who's the deputy assistant secretary at Treasury since 2008. So he's been there while the whole Arab situation has been unfolding, I guess from "Spring" to I don't know what we call the present situation, "Challenge," "Turmoil" definitely, and a lot of stress. He's also had a long career in government and has been also a senior advisor to the executive director of the U.S. at the IMF.

And finally, we have, of course, Hafez Ghanem, who is the director of the Brookings Global Economy Projects on the Arab economies, who has had a very, very successful career at the World Bank in many incarnations, but several times country director. And I always remember Hafez as somebody whom the partners really trusted. I remember once in Nigeria I was amazed at how strong his access was, how trusted he was by the president, by the whole Nigerian team. And that, I think, he replicated in quite a few settings. And he also was vice president for policy at the Food and Agricultural Organization in Rome.

So the topic is the Arab economies, obviously a region under tremendous stress right now. And I'm not going -- you know, my role is to moderator and keep the time limits and so on, so I won't really say too much, but I want to say maybe

three things.

One is that I don't think we really understand a lot about the functioning of the Arab economies and the regional economies. I have to say that, you know, having been myself involved for many -- almost decades in the region it's not easy to understand. I think many of the international institutions -- I should less UNDP than the Bretton Woods institutions. In many ways, UNDP was more realistic, I would say, in the assessment of what was happening; probably painted a picture that was not in reality as positive as the analysis of the Fund and Bank often led us to believe. And there's a big debate on what -- you know, are the numbers wrong? Were they not capturing some phenomena which were there? Is income distribution much more important than it was allowed for in the analysis of the past? Or is it in major ways a political issue more than a narrow economic issue that has led to the degree of discontent and tension? I think these are some of the questions I think everyone is struggling with, foremost the people of the Arab countries themselves. So I think that's one issue and I hope the project in its various dimensions will shed some light on this debate and try to understand better.

Second, of course, is the whole issue of what are the practical policy approaches that are available or, hopefully, can be used to improve the situation? And I think the pressure is, of course, great. You know, in terms of employment, in terms of social stress, probably it is the most stressed region in the world now, more stressed than in many parts of Sub-Saharan Africa, I would say. So finding avenues which actually work is very important. And then clearly, just reiterating that one should, you know, let markets function, one should encourage private initiative, one should have good governance, all these things are true, but if that's all we can, we won't get very far. We have to go to different levels of specificity to really be of help.

And finally, the third dimension, of course particularly important for the

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panel today, is how the United States relates to all this; what the United States -- a very key actor, of course, always in the region -- can do; how the United States perceives the challenges; and how the donor community or the financial community can really help to allow this transition to democracy and greater participation to succeed.

So I think these are some of the key themes of our project at Brookings, which, thanks to support from our donors and friends, will continue; support also from Sweden and from Germany and from others and primarily from Japan.

So with that, I'll turn it over to Hafez, who will give you a brief overview of the first year of work and the first results which are there in the form of papers. And I should just take the opportunity -- I mean, I know there are many here who have participated, particularly in the Japanese team, but I also want to particularly welcome Professor Mung Iwazata from the University of Tunis, who has been a key partner in this for us. And Tunisia, after all, in many ways started this, started this which we still regard as a very good thing, but a lot of challenges.

Hafez?

MR. GHANEM: Thank you very much, Kemal. As Kemal explained, the work that we are doing is really a partnership between Brookings and JICA. We have so far produced about five papers that we got published on our website yesterday and I hope after this discussion you will all go and download them. The papers were done jointly with a JICA team, with partners from universities in Tunisia and Egypt and with governments, also, in Yemen and Iraq. And actually all of the authors of the papers are sitting here in the front row. So if I say anything wrong they will correct me and they will also be able to respond to your questions at the end of the sessions.

The work that we are doing on inclusive growth in the Arab world is actually providing recommendations and suggestions both to the countries, to the

countries themselves, as well as to the donor community. But today, since we are in Washington, I will focus on the donor community and the role of the donor community and their work.

I would like to start by saying that it is very important for all of us to recognize that the Arab revolutions had economic as well as political reasons. It is often said that the main demands were political: for freedom, liberty, anti-corruption, and so on. But, in fact, when I go around Tahrir Square or Habib Bourguiba Avenue and talk to young people, and if you ask them why was there a revolution, typically you will get an answer that says, oh, because Mubarak or Ben Ali had been in power for too long, because they were corrupt, and because they have put in place failed economic policies.

Then you go and tell them what do you mean by "failed economic policies?" As Kemal was saying, Tunisia has been growing for the last 10 years before the revolution at 5 percent. Egypt was growing at 5 to 7 percent for those 10 years. All the economic numbers looked very good. So how can you call this failed?

The explanation that -- the answers that I usually get is that, okay, maybe there was -- all of this growth is really on paper, it hasn't touched me. I was not affected by this growth. I'm not even sure that it is true.

So it is really -- so it is an issue, in my view, it's really an issue of equity and social justice that needs to be looked at.

In our research we looked at the data. We looked in greater detail, not just looking at poverty numbers or Gini coefficients, but looking more at details of the different income classes and what happened to them over the years. And you get -- actually you don't get the same story across all countries. But if it's clear, for example, that in a place like Egypt or Yemen the middle class has been squeezed. They don't seem to have benefited as much from the growth as in a place like Tunisia, for example.

In fact, if you define poverty at the fairly high level of \$5 a day, the number of people living on less than \$5 a day increased rapidly in Egypt over the 10 years when growth was going on. It increased even faster in Yemen. So we do see that, yes, there has been growth, but the middle class has been squeezed. In Tunisia, the story's a bit different. There you see inequalities in terms of regions, where the western regions of the country are much, much poorer than Tunis region, for example.

The middle class was also hurt during those periods, the 10 years preceding the revolutions, because of the decline in social services, like education and health. There is a fall in the quality of those services that the middle class really depended on.

But there is also analysis not just looking at regional inequalities or class inequalities. There is also certain inequalities among generations. And if you look at the data, it seems that the young people in the region -- and it's a very young region: nearly 55 percent of Egyptians are less than 25 years old. So if you look at the young people in the region they suffered the most in terms of unemployment, in terms of access to jobs, to housing, and so on.

So that is -- I mean, the first message that we get from our own work is that one has to really look very carefully at the questions of social justice and when the revolutionaries in Tahrir Square talk about bread and social justice, there is a reason for it.

But, unfortunately, when I go back now, two years after the revolutions, and I ask those same young people, well, are you better off, the answer is a resounding no. And, of course, one would not expect much to happen right after a revolution. Political instability is not good for the economy, certainly. However, what I find disturbing is that if you look at other countries, if you look at Indonesia right after the fall of Suharto,

they did put in place certain policies, for example the decentralization policies, the Partnership Against Corruption. There were certain actions which were immediately started after the revolutions that demonstrated, that gave a signal of a change in direction, that gave a signal that the people have been heard.

If you look at the Arab countries, I don't really see much of that kind of signal. The economic policies now are not that much different from economic policies before the revolutions. Programs are more or less the same and the donor community's more or less financing very similar projects are before. So the message -- one key message from our work is that we'd like to urge the donors to adjust their programs to focus much more on issues of equity and social justice in those countries.

We're still talking to many of our colleagues at the different donor agencies. They still talk about, well, our objective should be the resumption of growth. Not really. Resuming past growth patterns is not the solution. I think that our objective should be to start a new type of growth, a more inclusive growth.

Now, talking about inclusive growth is a very, very broad subject and I do not claim that our papers cover all aspects. But at least what we are trying to do is give some directions or some hints on areas where donors could act with the governments to give a new signal, a new direction. And one of those first areas is doing something to help young people, especially in the area of entrepreneurship and developing small businesses.

If you look at a country like Tunisia, the fastest-growing sector is actually the informal sector today. It's the small business, informal sector. It's growing at 5 percent a year and it is the sector that's employing most of the young people now.

If you look at a country like Egypt, new entrants into the labor market who actually find jobs, 70 percent of them end up working in small enterprises and in the

informal sector. More than 70 percent. Their wages -- the average wage rate in this sector in Egypt for a woman is \$2.6 a day. For a man it's \$3.7 a day.

So if you want to have inclusive growth, more opportunities for young people, this is the area where one should look at. What can be done? What kinds of programs can we put in place to support small business, to help young people -- educated young people -- to start their own business to be more entrepreneurial?

All the donors have programs more or less in this area. Our comment on those programs is, well, you need to do more, but, also, that the focus has always been on providing credit whereas the problem in most case is not just money. The problem that those young people face is lack of access to technology and lack of access to markets. And I think that this (inaudible).

Of course, as the -- we all agree that you need to have the right legal and regulatory framework that is supportive of business, supportive of the private sector. That is very important. But even more important than just changing the laws and what's on the books is to get it implemented properly. And one of the things that we found in our research is that if you look at Egypt and Tunisia over the 10 years before the revolutions, they were getting very high marks from everybody in terms of the private sector development indicators or doing business indicators.

Interestingly, for Egypt we have enterprise surveys before the major deregulation took place, before the reforms took place, and enterprise surveys after the reforms took place focusing on small enterprises. And what we find is that nothing has changed; that there was a change in the regulation, but in terms of small businesspeople being harassed by the authorities, the level of harassment has not changed. And what this tells me is that what needs to focus on right now is really institutional strengthening, fighting corruption, so that this is key to helping the private sector and to supporting small

businesses.

Now, as our colleague Danny Kaufman always says, you do not fight corruption by fighting corruption alone. You fight corruption by doing other things, by putting in place transparent systems, by putting in place systems for voice, and by putting in place consultative processes. And so those are the areas that I think need to be stressed in terms of our approach to supporting those countries and help and doing private sector development there.

Now, all of the Arab countries are lagging behind the rest of the world in those areas: voice, transparency, and participation, and especially participation in policy-making and planning. One of the papers that we did looks at the experiences of Japan, Malaysia, and Indonesia in terms of participatory processes. And the paper really shows how important it is to achieve a national consensus on economic policies. And it also shows that to achieve this consensus you need to put in place the right institutional structures. The successful East Asia countries have in place consultative processes that include the different government departments, the private sector, the civil society. Those people agree on policies or programs and plans, and they monitor their implementation.

Now, if you look at Egypt, they don't even have a functioning system of coordination among the government departments, not to mention civil society, private sector, and so on. Actually what this paper does which is very interesting is to try to apply the East Asian experience and to show how this can be used in a country like Egypt.

One could argue, and my boss is telling me I should stop -- (Laughter)

MR. DERVIS: Two more minutes.

MR. GHANEM: One could argue, and actually it's often argued, that it is very important to -- that education is key; that the problem with youth unemployment or

the lack of entrepreneurship is because you have bad education systems. And actually Arab education systems in general suffer from three problems: equity, not everybody has the same access to education; there's a problem of relevance, people are not taught things that help them operate in the market; and a problem of quality of learning.

So what we are proposing is that, using Yemen as an example, is that in the short run you can do a lot in the terms of the quality of learning. And that is mainly by putting in place systems to monitor how schools are doing and to monitor teacher presence in schools and stuff like that.

It's very difficult for donors to operate in post-revolutionary situations. It's very difficult for them because of the security risks -- we see what is happening in the regions -- and because the governments are weak, there is -- less effective. We have a paper that's arguing this. Actually in those post-revolution circumstances, it is a time when donors should be engaging more. And we are proposing certain ways for donor engagement in those circumstances, which focus on providing better information and more available information, providing systems for social recognition for project managers, and a system for mediation when there are problems.

So to conclude, what we're trying to say is that we think donors should continue to be engaged in the Arab Spring countries, even more engaged than before, but that they need to shift focus and they need to focus much more than they did in the past on the issues of inclusiveness and social justice. Thank you, Kemal.

MR. DERVIS: Thank you, Hafez. And now we're turning to Vice President Inger Andersen. Just one little question. I know you want to focus on quite a few things, but I had your job from '96 to 2000.

MS. ANDERSEN: It's all your fault. (Laughter)

MR. DERVIS: And then I went to UNDP and you did the other thing, you

came from UNDP to the World Bank, right? And I must admit, okay, in '96 to 2000 was a relatively privileged period: the Oslo Accords, peace was much more -- you know, Middle East peace was more tangible, and in many ways the situation was politically better. But the feedback I was getting as vice president from, you know, the very good technical World Bank staff and then the feedback I got at UNDP was different. I won't say more. But do you feel the same?

I mean, different in the sense that, as I said before, somehow the UNDP staff -- and, you know, technically the World Bank has the best staff with the IMF and others, you know. But in terms of actually receiving the messages from civil society, from the country, I must say the UNDP staff was more perceptive.

MS. ANDERSEN: So maybe it was good that one UNDP staff went the other way.

MR. DERVIS: Right. (Laughter) So anyway, it's somewhat, you know --

MS. ANDERSEN: No, so I think certainly there have been times where the Bank may not have been able to have its ear as close to the ground as it should have, and maybe this is what you're reflecting. One thing that I will say is that we have learned a lot from this Arab Spring and these revolutions, and I hope that many others -- I know that many others have, too, whether they be bilaterals or think tanks or others that have come to see that we may not have seen the full story and we may not have heard all that we've heard. Although I will point out that as early as 2009 and before, we published a number -- we published a report on governance where we highlighted a number of issues. I think that was '07 or such. We published a report in 2009 called "From Privilege to Competition," which precisely highlighted the predatory nature of parts of the private sector in the region.

Now, could we have gone further? Absolutely. And so I think everyone

needs to take something to heart about what we said and what we did not do. But I would not say that just because of the very, very good human development report that our Arab Region Bureau issued in New York, that the Bank stood idly on the sidelines because they did not. But it is different when you're working, in a stricter sense, more the Bank space than the U.N. space, which gives you more lateral and more political flexibility. But the point that Hafez is making on the importance of social justice and inclusion, I think that's a lesson that we all take away.

And so for us immediately after these revolutions, and I came to the region just as this was getting underway in the summer of 2011, and regimes were changing and we were in the center of transition. We did a lot of listening. And so the four priorities that we have in our strategy and that very much reflects the conversation with civil society, with academia, with political parties, and, of course, with the governments, too, reflect one inclusion. That's our first priority. And I'll talk a little bit about what we do under that rubric, if you like.

Two, governance, clean government, but also governance in terms of open and transparent, et cetera.

Three, although it sits oddly, but that's what everyone speaks about: jobs. Jobs, jobs, jobs.

And four, of course, growth.

Now this under sort of a sense of it's not enough to have the first election. We have to have a series of these. So one has to have enough to help to anchor pluralism in a way. How can you ensure that this becomes a place and a setting for reaching across the middle? And that's difficult because, as Hafez rights says, the sense of national dialogue, the emergence of political party maturity is still being written as we speak because many political parties were underground. And so there is a little bit

of a sense of winner takes all and a little bit of antagonistic emergence of this. And so how do we in our role as the World Bank help create a platform of bringing together toward convergence? And that's all about signaling.

One of the things we did, the first thing that we did when I came there, we opened a Facebook page, and it went like wildfire. We have about 150,000 fans, most of them are, I have to say, between 18 and 26 and most of them are Egyptians. For example, we consult all of our -- we have something called CASIS -- anyway, strategies for how to engage with countries, and we put them out on Facebook. And we get -- in Tunisia, we reached 18 percent of the population when we put our strategy on Facebook. The point being that we recognize that we are in a very different space from yesterday and we're learning from this. And frankly, there is no book written on how to do this, so I think everyone has to learn together on this.

But the point around figuring out then what to do, clearly the days of just speaking strict macro reform, et cetera, those are long gone because we know that what will help anchor stability in these countries is not a lone economic policy, but it is very much the degree to which these societies are inclusive. It is very much the manner in which the political leaders of the day reach out and across the middle. And it is very much the way in which they will deal with diversity, gender, youth, et cetera, and finding voice and space for all of those.

So what's the Bank doing? Well, first of all, we have tried to be very innovative and not just do what we're known for, which is lending, which at time matters and matters greatly. But we have a very active technical assistance program. For example, we signed very early on, it was Spring Meetings 2011, I believe, or maybe Annual Meeting -- maybe Annual Meeting 2011, we signed an agreement with a series of Arab NGOs to help them establish the Affiliated Networks for Social Accountability.

Now, what does that mean? If you look at Networks for Social Accountability across the world the Arab region was blank. There were none. But this is a global NGO outfit that we are very proud to be supporting to help them create the capacity to make their governments more accountable. Small step, but an important step and a signaling step.

Similarly, working, for example, one of our first DPLs in Tunisia dealt essentially with five freedoms. Now, this is not the kind of things that we -- sorry, DPL budget support, supporting the budget against certain measures that the government would take. So what were they? Freedom to assemble, freedom to information, scorecards for public-oriented ministries that provide services, public procurement act, and a fifth thing I can't remember right now. The point being that it was pushing things to help create that broader sense of inclusion.

But one thing, as Hafez rightly said, one thing is to just pass the law that says now we are going to have freedom of information or a service-oriented minister that needs to issue scorecards. How does it work? For that ministerial appointee that yesterday his job was to hold things close to the chest and today it is the opposite, that's hard. And I tell you it's hard in this country. It's hard in all countries. Try when you are going to be in a country where they're coming out and trying to flick the switch.

So accompanying this we're working very much with technical assistance to accompany many of these reforms. And it's hard, it's a slog, but I think that slowly, slowly we're getting there in spite of the roils of history that we are in because surely, I mean, this is not done by far.

The MSME space is a very important space, micro and small and medium-sized enterprises. And it's a busy space because it's a popular space and everybody wants to get into it. And we wanted to make sure that in countries where this

space was still developing nevertheless we put available resources. So we approved very fast MSME-type projects for all of the Arab Spring except Yemen. We're just working on it as we speak and Jordan is coming any day now, but putting together some packages on that to allow for greater access to finance and to create some degree of space there. But there's a lot to be done in that sector to make it more regular, to make it mainstream, to make it something that doesn't need regular injections of cash from outside.

At the very same time, though -- and one can argue around this as has been the discussion in the U.S. with the package of support that was provided by the Obama administration to create jobs -- we've also had some packages that were labor-intensive job creation. And one can argue is this sustainable? No, it's not, but it creates jobs and it sort of kick-starts the job market. And so we're very proud, early project in Yemen, early project in Egypt, to help create labor-intensive jobs for the poor. Now, this is a short-term measure, but, hopefully, a confidence and a signaling-type measure.

But we've also found that south-south work, and this is what I think Hafez mentioned. You know, bringing expertise and experience from elsewhere, people are hungry for this. Frankly, we can speak from the World Bank and so on, but what they really want to hear is so what did South Africa do at the time of the fall of the apartheid? How did they deal with inclusion? How was it that Indonesia dealt with subsidies at the time of the fall of Suharto? So how did exactly Bolsa Familia work and social safety nets in Brazil? These were the kind of discussions. And we've, again, the same of open government, same for education equality, bringing people in who've had to work with these things and hearing from practitioners has been very important.

You have to tell me when I have to stop.

MR. DERVIS: I think.

MS. ANDERSEN: Two last points.

MR. DERVIS: Last points.

MS. ANDERSEN: Thank you. Dealing with your question about what can the U.S. do and what can donors do, donor money is one thing and that's fine, but a near neighbor to the Arab world is Europe, and Europe early on rolled out a policy on the three Ms: money, markets, and mobility. There was a sense that money would be coming. There was a sense that markets would become more flexible and thus generate impetus for the Arab economies. And that mobility would be more regularized. And this is still very much on the European to-do list, let's put it that way. And so we're very much hoping that this will be an area that we can see some change on because these reforms that need to happen, it is not enough. The Arab world is not an island. They are deeply linked with the global economy and obviously with the European economy. And whilst the European economy is going through its own troubles, it would be at its peril if it only focused inward and did not focus outward on those on its shores.

Let me stop there. Thank you.

MR. DERVIS: Great last word. That's great.

Well, now we're turning to Director-General Akihiko Koenuma. I mean, again, thank you so much and to your team here who -- I think all of them are here. What have you taken from this last year's work? What are your perspectives?

MR. KOENUMA: All right. Thank you, Kemal. Well, first of all -- oh, I would like to thank you, thank Brookings Institution for organizing this seminar. And for us, we had a very fascinating experience. All of the officers had a fascinating experience with the staff and especially with Hafez.

Well, as a bilateral donor, Japan, you know, we are not probably in a position to comment on U.S. policy, but, of course, as a bilateral donor, and Japan has a

special interest in the Middle East, so let me start with how we started or, you know, we really -- you know, full-scale, we started the full-scale cooperation in the middle of the '70s where, you know, there was an oil crisis. And, of course, that could be presumed it started with the interest of promoting the relationship with resource-rich countries for our national interest, but since then we have continuously financed large infrastructures, social programs, or, you know, health sector, education, and always in respect of promoting the ownership of the recipient countries. That was the policy of the Japanese cooperation.

But, you know, for us what has happened since 2011 was kind of really an eye-opening event. Myself, I was, you know, engaged in this region for the Cooperation for more than 20 years, but, you know, one could never have expected such rapid change since 2 years. But, you know, analyzing what has happened since the last two years really comes to the word of "inclusiveness." Of course, you know, our experience is rather project-based, program-based. And, of course, thanks to Madam Ogata's, the former president of JICA, strong leadership we've been insisting on the inclusive and dynamic development since she has come to the office. But we really felt the need for the inclusiveness in our assistance.

And throughout this research I hope we are not kind of -- we have just accumulated the experiences of the project bases or the research work at this time. And we have learned probably three lessons so far.

So first, you know, we must really recognize the importance of investment in primary education through our research to Yemen. Of course, we have, also, good experience in Sub-Saharan Africa, but the primary education is really key for the fragile state.

And the second lesson that we are now conducting is that especially it's

not like Arab Spring states, but what we've been experiencing through our assistance through Iraq is that, you know, economic cooperation and support for good governance in fragile states can happen coincidentally. Normally speaking, of course, we have to wait until the governance structure is established, but what we are learning in Iraq is that it can happen in doing the cooperation. That is a report that we have produced. So this sounds some contradictory to what's been discussed, but practicing good governance through cooperation among the donors can, you know, accumulate the experience. And it will bring the governance and good transparency in the cooperation.

And thirdly, as Hafez has remarked, of course Japan has experience in assisting the East Asian development experience, and especially throughout the political changes in Indonesia, for example, in the last '90s and 2000s. And we find that the current transition period that is going on in the Arab world we can incorporate our experience and their experience into the current transition period. And that's why that we've been already -- we have started some of the technical assistance programs to transfer what we have experienced after post-war period or the Japanese experience of the master planning for the plan as well as we would like to incorporate the East Asian-Indonesian-Malaysian experience for the democratization, and that is going on. And from the Japanese perspective I think that we are not like the international institutions or the World Bank, but as a bilateral donor we would like to bring and accumulate step by step what we have experienced and what we can incorporate our partners' experience.

Thank you very much.

MR. DERVIS: Thank you very much. Thank you.

Well, we have two very senior policy leaders of the U.S. here with us, and thank you again for joining us. And Heidi, why don't you start and then we go to Andy?

MS. CREBO-REDIKER: Sure. Thank you very much for inviting me here today. And I'd also like to say just from the start that it's always reassuring when you have a group of people with such a body of experience putting their minds together with the luxury of time to take a deep dive on these issues; that at the end the policymakers can look at the result of it and breathe a sigh of relief that we're actually on the same page because it's not always possible to do that when you're, you know, in the process of trying to move with a very, very quick-moving and fluid situation. So we're very much on the same page in terms of agreeing that there were obviously --

SPEAKER: It's hard to hear.

MR. DERVIS: Sorry. Questions later.

SPEAKER: No, she couldn't hear.

MR. DERVIS: Oh, I see, okay. Yeah, a little louder. Is the thing mic'd right? Okay.

MS. CREBO-REDIKER: Can you hear? Is that working? Okay, great.

MR. DERVIS: Yeah, now it's better.

MS. CREBO-REDIKER: So I think we're in complete agreement that there were clear economic drivers of change in addition to the political and social that have required us to take a big rethink about how we've engaged in the region as the U.S. Government.

And the first thing to recognize is that none of this is easy. And it's underestimated from the outside the degree of difficulty in actually implementing much of the change that is happening. And when I'm talking about the implementation, leaders of these countries are under tremendous pressure to make very difficult policy decisions against a backdrop of very high expectations, some of which haven't been met, and political instability. So we recognize that this is an enormously important time, but we

don't underestimate the challenge for actually making a lot of the tough decisions on the ground.

A lot of the threads of this work lead to one word from me, which is "opportunity." And, you know, when you take the basket of being able to have a job, have an education that's going to lead to employment that people can be proud of and feel engaged and feel like they actually have the chance if they're going to put the time and work into achieving a goal, that they actually have the opportunity. And so that's something as a backdrop that we think about in our own approach to this.

All of this begins with the need for macroeconomic stability, and my colleague from Treasury will spend some more time on that. And clearly, all of the countries that we're talking about in this region are facing some form or another of challenges, both due to internal factors and also some of the external headwinds from the euro zone crisis and the global economic downturn.

Egypt, in particular, as you know, faces a quite acute near-term fiscal challenge and a balance-of-payment challenge that has come from falling tourism revenues. And, you know, we encourage very much the dialogue with the IMF and it's key to implementing a credible medium-term framework for that dialogue to continue.

Much of the paper focused on getting the policy mix right. And, you know, the use of the term "inclusive growth" is one that's been readily adopted not only by the U.S., but I think largely by the global donor community. And not just with regard to Middle East and North Africa transition countries. It's something that we all are becoming very much aware of the importance of looking at factors other than simple measures of GDP growth because you elements of income inequality around the world that are drivers of change. And some of it's positive, some of it is destabilizing, but it's a driver of change and a very important area to note. I think it's a big shift.

But the policy mix that you highlighted in terms of employment, a focus on youth, women, education, and accountability, they're all very much interrelated. In looking at the region it's also important, and I think you did this as well, to remember that each country is different. You can make broad characterizations of challenges and problems that the region has as a whole, but those can often lead to broad policy recommendations that aren't necessarily specific to individual countries. And so we've been trying to do that. And I applaud the work that you've done because it really takes a very specific look at individual countries.

So in terms of what we've heard and how we've tried to approach a very different type of support from the U.S. Government, we started by listening. And in listening what I've heard and what a number of my colleagues have heard is that many people in the region want us to invest in them, not necessarily to write the big check, but to invest in them, invest in their businesses, in their innovation, in their individual ability to realize the opportunity that they would like to have.

We've seen a need to shift in keeping with that to a private sector focus. So, you know, we've done things like Deputy Secretary Tom Nides brought a very, very large delegation, I think the largest ever delegation, of U.S. companies to Cairo at the end of last year. We've been doubling down on a number of types of engagement with private sector companies to try and make sure that we are moving together with them into the region and making sure they're aware of all the opportunities that they themselves have because the investment part is one that keeps coming back to us as a real request.

One thing that is key amongst all of the multilateral and bilateral engagement is that that private investment does focus very largely on small- and medium-sized enterprises. And the engagement that we have seen both bilaterally and

multilaterally reflect the desire of all of the countries to support small- and medium-sized enterprise growth.

Now, when I was in Cairo once, I talked to the IFC that it had a great experience in investing in Egypt and, in particular, in small- and medium-sized enterprises. And it was described to me that, you know, there are a lot of very, very small enterprises, a few large ones, and there are no "M's." There are very few M's in the middle. And so the challenge is really to get the small into the M category. And the way that you do that is by doing things like opening access to credit, but credit is a very multifaceted and complicated thing to get right. That's something that we've worked with Overseas Private Investment Corporation, our development finance arm, to try in many countries to open up access to credit, to SMEs.

We have two enterprise funds that are for Egypt --Egypt-American Enterprise Fund and Tunisian-American Enterprise Fund that are based on the model that we had after the fall of the Berlin Wall where there was really no risk capital that was available for equity investment in new enterprises. And the idea is that you pull together some extremely experienced investors in emerging markets, in SMEs, and have them work together, find companies that you can invest in, and that investment goes beyond just providing the money. It's the know-how, it's the technology, it's the management and expertise and saying this is how you grow from here, this is how you get from S up to M because that's where you get a lot of employment. And so at the end of that you really -- you know, that's one of the big drivers of trying to have an approach like that.

The SMEs development is not all about the access to credit and access to equity investment. It's also about reducing administrative burdens and reducing red tape and creating a regulatory environment in countries that enable the flourishing of private sector activity on a broad base, not for a few. And that's something that we have

a number of initiatives bilaterally and multilaterally to try and encourage. And other areas that we focus on are improving entrepreneurship policies, and particularly a focus on women's entrepreneurship.

So what I thought I'd do just because it sometimes -- you know, when you hear about the big statements of commitment for funds that are committed to this very, very important region of the world, you might miss the fact that for specific countries we actually are doing a whole lot that are very in line, very in keeping with some of the themes that you drew out in your paper. And I just wanted to take a minute not to go down a laundry list, but to talk about Tunisia because I think we have a number of different things that the U.S. has been working on there that are very important.

Obviously we provided \$100 million in budget support and provided a sovereign loan guarantee for Tunisia to be able to issue debt in the capital markets last year. But we also have created a Tunisian Workforce Development Scholarship Fund to send hundreds of Tunisian students to study at American universities and colleges, and particularly focused on technical and vocational studies. We have a very strong youth- and women-focused entrepreneurship program and we're currently providing assistance to more than 5,000 Tunisian youth and 1,500 women entrepreneurs in job training, in market-relevant skills training. And the idea is to help them partner with companies so that they can be mentored and actually realize what they're trying to achieve in Tunisia.

We have a return of the Peace Corps to Tunisia to work on both language training as well as professional skills enhancement. The Overseas Private Investment Corporation, again, a very important tool in the U.S. toolbox, has created a \$50 million franchising facility to enable Tunisian small- and medium-sized enterprise, and particularly franchisers, to gain access to credit.

I think we also have a number of public-private partnerships. It's a very

long list, but what it does is it reinforces what, again, was the request from Tunisians that said invest in us, that said we need to be able to benefit from educational exchanges, from the support for women's entrepreneurship. How do we innovate? How do we educate? How do we get investment and how do we take things to the next step on our own? So I think it's been a very big shift in the way that we've approached our policy and our support mechanisms in the region. But it's been with a very keen eye to wanting to reflect what we heard and what we want to show as our best foot forward in the region.

MR. DERVIS: Thank you very much, Heidi. And the various branches of the assistance community are involved, right? The AID --

MS. CREBO-REDIKER: We have AID, OPIC, we work very closely with our counterparts and colleagues at Treasury. I mean, it's been a very cohesive effort and I think that extends very much to the multilateral world, which Andy's going to talk about.

MR. DERVIS: Okay. All right. Andy, maybe you can take us a little bit to the macro side. I mean, it's up to you, but there's a huge challenge obviously because so much pent up pressure, you know, for more services, government services, more expenditures satisfying social needs, you know, wage pressure, and all that. And at the same time, at least in some cases, a very precarious macroeconomic balance. And yet, also, at the same time, when you look at the region as a whole, of course, which may be a mistake to look at the region as a whole, but still there is an Arab region, you know, huge surpluses in some countries, a lot of liquidity, a lot of money is actually available and has been moving around from Morocco to Egypt to Lebanon, you know. I think Hafez mentioned it over lunch, there's always a last-minute loan that arrives to kind of save the situation, you know, when the macro is stressed. So how do you look at it from that angle?

MR. BAUKOL: Sure. Thank you very much first for having me here on

the panel today and a very impressive set of papers. And as Heidi said, it's very useful for us policymakers to have such research going on so that we can draw from that.

Let me start by saying that, as Inger and Heidi both said, I think the themes that Hafez laid out on inclusive growth and social justice have been a big new element of our thinking over the last two years and it has required a rethink, as they said, about how we look at the region and how we design our interventions to be as effective as possible.

So I'd say from Treasury's perspective there's been two sort of key priorities over the last two years. One is laying the groundwork for a more inclusive growth pattern, more social justice. And this is, of course, a longer term challenge that will take years to get right. It involves a whole range of things from education to infrastructure to credit, SMEs, et cetera, as has been discussed.

Second, though, as Heidi referred to and Kemal just mentioned, is getting the macroeconomics also right since it won't do anyone any good either politically or economically if these countries face some sort of banking sector crisis or balance of payments crisis during this period of transition. And just about every country in the region, although they're all different, has faced significant macroeconomic challenges over the last couple years with, you know, lower growth of exports, lower tourism, bigger demands on budgets. So most countries have undertaken stimulus programs to some extent, widening their budget deficits. And they've had challenges in financing these deficits, both from a fiscal perspective as well as a balance-of-payments perspective. So one of the key challenges and focuses for us at Treasury is to try to help these countries avoid some sort of financing crisis.

Now, we at Treasury engage on both these issues, both bilaterally as well as multilaterally. Heidi has described it, a number of the things that the U.S.

Government is doing bilaterally. Let me just mention one other item. And using Tunisia as the example, Treasury has a relatively small technical assistance unit that we use with countries to offer advice on banking, budget, debt issues. And Tunisia is one example of a country that we've worked closely with to try to provide some technical assistance, in this case on the banking sector issues, which is of particular importance in Tunisia.

But turning to the multilateral segment, let me talk about two broad areas: one is working through the international financial institutions, including the World Bank, but also the IMF, the African Bank, as well as others; and then let me also briefly mention the Deauville Partnership process, which is the G8 plus Gulf partnership that was set up a year and a half ago or so to help these countries in transitions.

So first with the international financial institutions, and, again, on this theme of macroeconomic stabilization, the IMF, of course, has been active in the region and I think very much in the mode of not trying to have a one-size-fits-all policy. So they have, for example, right now a program in Yemen, a program in Jordan, a program in Morocco, but they're all three different programs under the IMF's menu of programs. And, of course, they're very actively engaged with Egypt and also, of course, engaged with Tunisia on possible programs as needed in those countries. And we obviously strongly support these countries' engagement with the IMF not only on possible financial programs, but also on the technical assistance and policy advice that comes with it.

The World Bank also an equally important player on all aspects of the agenda from macroeconomic stabilization to being really the key player on the inclusive growth, social justice agenda. And Inger has described what the Bank is doing, so I won't comment any more on that as she did an excellent job already.

Let me turn then briefly to the so-called Deauville Partnership. In the spring of 2011, Secretary Geithner and at the time Finance Minister Lagarde of France

had a meeting here in Washington during the IMF-World Bank Spring Meetings that included Egypt and Tunisia as well as Gulf countries and others. And that helped to kick off a process then picked up by President Sarkozy of France, who created the so-called Deauville Partnership. Deauville was the head of -- the site of the G8 Summit that year in 2011. And this partnership includes all the G8 countries obviously; all the transition countries, including Jordan, Morocco, Tunisia, Egypt, Yemen; as well as the Gulf countries as well as Turkey; and it includes all of the relevant international financial institutions, including IMF, World Bank, but also Islamic Development Bank, Arab Monetary Fund, and others. And this is sort of a somewhat unique partnership that has endeavored to try to support these countries' transitions, both in political and economic areas.

There's a wide variety of work streams underway under this partnership from asset recovery issues to trade issues to investment issues. I will comment on a couple things that have been developed in the finance ministry track of this process.

One is we created last year something called the Transition Fund, which is a new pot of money managed by the World Bank. And I thank Inger and her team for taking this on in a very serious way. It has not a huge amount of money from donors. We're aiming for 250 million over several years. We haven't quite reached that target yet, but we're aiming for that. But it's already up and running. The Transition Fund aims to provide technical assistance and other funding for small pilot projects, very much along the lines of the themes that Hafez laid out: how do we encourage inclusive growth and social justice? So one of the first projects approved, for example, was a project in Yemen that is aimed at improving university graduates' employment opportunities and small and medium enterprise ability to hire workers. So this is one thing that got off and running very quickly. It's not a big item, but something practical.

The second thing is the European Bank for Reconstruction and Development has expanded from its traditional mandate in Eastern Europe. Now it is also covering countries that border the Mediterranean as well as Jordan. EBRD membership for these countries was just approved last year and already the bank has approved investments in the region. These are all private sector projects of close to a quarter of a billion dollars, which is not large relative to the economies of the region, but is a start.

And thirdly and lastly, the Deauville Partnership has helped to set up what we call a capital markets initiative, which aims to provide financing to these countries in transition, both to the public sector and private sector. Heidi mentioned the U.S. loan guarantee for Tunisia; that was part of this. Japan also did a loan guarantee for Tunisia and that's been part of this. And there's additional work going on thereafter.

So I think that the Deauville Partnership, while it hasn't solved that many of the many challenges, it has been an incremental help to the region and is aimed at, as Kemal mentioned, trying to bring together all the folks in the region, not just the ones in -- countries in transition, but also the Gulf as well as Turkey, where there's a lot of financial as well as policy expertise available.

MR. DERVIS: Thank you very much, Andy. Thank you for this very -- for this panel that really tackled questions in a coherent way, but also from very different angles. And I guess one of the messages that -- Hafez' initial message was shared by everybody, namely the more social justice and more inclusive growth as one of the leading themes. And I think we have some beginnings of how to translate that into actual, you know, results because I think that's the real challenge. And all of you have touched on that within an overall framework of reasonably stable macroeconomics.

I think I'll turn it over straight to the audience now. But I think, you know,

for those of us who perhaps are a little bit disappointed that, you know, things are moving slowly and things in some areas are going worse than we thought two years ago, I think there is a real -- I mean, some of you used the word "revolution." You know, it's a loaded word, but there is a real huge transformation underway. I mean, I don't think in any way the Arab world will go back to where it was five years ago. So one has to remember, I guess, from history that these kinds of transformations are not easy and take some time. They're not things that can be done in two or three years.

I was associated, you know, when I was working at the World Bank, and one of my jobs -- and also later on with UNDP, in the transformation in Eastern Europe and the ex-Soviet Union. And now things are, of course, in some places quite good and others more difficult, but we may perhaps already have forgotten that there were GDP contractions of 10, 15, 20, 30 percent in those transition years in Eastern Europe. I mean, some countries had, you know, their living standards temporarily go much lower than they were before. And, of course, there was also a lot of political turmoil there; thankfully, not that much violence except in Yugoslavia. But these transformations are extremely difficult because the politics, the economics, everything goes together, and building a new system, a new mechanism is very hard. So maybe we shouldn't be too impatient. I mean, impatient in the sense of wanting to do things, yes, but not impatience in the sense of getting discouraged when we don't see results in the first two or three years.

Okay. Having said that, let me turn to the audience. Yes, you first over there in the middle, the gentleman here, and then the lady there. I will take three questions and then -- or three or four questions and then turn back to the panel. Yes?

SPEAKER: (inaudible), Georgetown University. My question to you refers to rule of law that you have mentioned, which is an important element in all that

you make, the development, and a better economic and political inclusiveness. My question to you is as follows: As donors or as potential donors what kind of lever can you use on the different governments in this region in order to push the institutionalization and rule of law ahead? Isn't there a risk that if you push too much, then it will be simply rejected, especially by some of these governments? On the contrary, if you just try to help on the side, it might not be as efficient as it could be. Thank you.

MR. DERVIS: Yes? Please identify yourself very briefly for the rest of us.

MS. KIPPER: Judith Kipper. Thank you. An excellent panel. I was surprised that at least three of the panelists used the words "inclusion" and "social justice" as if it has been discovered when the Arab Spring started. I guess that replaces "stability" and "security."

It seems to me that the -- a brief comment and a question -- that the region is suffering from the whole world basically, but mainly the U.S. and Europe living in a fool's paradise after '73 that quiet was stability. In the Soviet Union, the people were an enemy of the state. In the Middle East, in the Arab world, the government is the enemy of the people and that's still true in most countries. So how we adapt -- all of your organizations, U.S. Government, Europe, Japan, Russia, et cetera -- to the monumental historic changes, as Kemal has said, I think is the biggest question here, not how we help them because that I think we know how to do.

Kemal, if I may, I'd like to address my question to you. What do you think the international community, particularly the U.S., which is always a little bit behind the curve -- what can we learn from the Turkish experience? Turkey was much more advanced than most of the countries in the Middle East. It's a democracy, but still the Turkish transition to an economy that's growing now by leaps and bounds is really quite

extraordinary, and I think your wisdom on that would be very helpful.

MR. DERVIS: Thank you. Yes, there were. Yes?

MR. HANKIN: Thank you. Mark Hankin from the Solidarity Center.

In Indonesia, after Suharto fell, I recall the World Bank advocated for social inclusion in a very specific way. It advocated for the adoption of ILO Conventions on freedom of association. Yet in the Middle East today we see backwards steps or no steps. In Egypt, we see a rejection of an ILO-compliant labor law. In Tunisia, we see attacks on an independent labor movement. In Jordan, we see nothing happening. So I wonder if any of the people on the panel would like to comment on that.

MR. DERVIS: Yeah. There was one question -- yes, the lady over there. Yeah.

MS. BARROW: Lacy Barrow. I'm wondering how you respond to criticism that neo-liberal economic policies are a continuation of authoritarian power structure and what you might be prepared to do if you saw that income inequality was rising. Thank you.

MR. DERVIS: Okay, one last comment. Yes?

MR. WEINTRAUB: Thank you. I'm Leon Weintraub, University of Wisconsin.

After hearing our opening speaker saying that the macro figures looked reasonably good, but yet virtually everyone agreed there were problems with inclusive growth and social governance, that reminds me of a term of a book almost 50 years ago written about Liberia that was called *Growth Without Development*, and that figures were good, but the main drivers of the economy didn't have many linkages throughout the economy. They were primarily based on shipping, use of flags of convenience, exports of rubber, and exports of iron ore, extractive industry or industries without much linkages.

I'm wondering if in all the economic advice that's being offered if we're doing much to stimulate particularly the types of small- and medium-sized industries not only in size, but are shown to have particular linkages, such as in food processing or small-scale manufacturing.

MR. DERVIS: Thank you. Okay, I'll take one more than I'll -- sorry, yes, in the back. I skipped you.

DR. ALTREJ: I am Dr. Nasaj Altrej. A delight to listen to this information.

My question is that in the case of cooperation you all are doing and working together as a team to uplift the equality of life there and give them rule of law, women empowerment, and institution-building, and a better future for the generations of the future. What is the degree level of interest and interest of? Because these countries you have mentioned, they stretch right across the globe going up to Australia, who are working together, including Japan. What is the level and interest and degree of support by China and Russia in improving the quality of life in that region?

MR. DERVIS: All right. That's an interesting question.

Okay. So we'll have a round and then maybe if we have a little more time we may take or may not, I don't know, we'll see, one or two questions or comments.

Hafez, I'm going to give you the last word at the end, so, I mean, get ready for that. (Laughter) But there was one question, you know, on this whole issue of conditionality in a sense, you know, in terms of, you know, if one tries to be too intrusive or too constraining, I think that interferes with government ownership, national ownership, and yet, at the same time, obviously some rules have to be attached. Who would like to tackle that? I mean, it's -- Inger?

MS. ANDERSEN: Sure. I think that the days of conditionality as we may

know it from books of the past, those are long gone. That's just not the world we're living in. People have opinions, people are connected, and people want to be heard, and more so than anywhere else in the Arab world right now. And so -- and the beauty of that is that it gives an opening for dialogue and so on.

And in a way, you ask, well, can you push too much and, therefore, can it be backfiring? Yes, one could, but by opening it up, by shining a light, by having transparency, by enabling voice and so on into a process, actually that's where the accountability comes in. I think it's much less from -- and Hafez referred to this. He said, you know, rules were passed in the past and you could say, oh, look at the books, they look really well, these are well performing. That was de jure. But de facto none of this was maybe adhered to in the reality of the day, the sort of throes of doing business or whatever it might have been. So the story here I think is one of ensuring that shining a light is probably nothing better than as a disinfectant and so ensuring that there is a much greater degree of accountability.

Now, any program -- and maybe, Kemal, if you allow me on the macro and the fiscal -- any program or reform has to be homegrown. It has to be owned. And it has to be, in a way, allowing for the government to own it, explain it, and have a broader dialogue around it. And maybe that's where in this transition countries have come up short. Why? Because they've had to deal with the political and so at the expense, frankly, of the economic.

The story has been around what kind of constitution, what kind of identity, the role of women, da-da-dee, da-da-da. And that's fine and important, but as a consequence, therefore, there's not been a sufficient emphasis and attention to the economic because we would say that ensuring a much broader level of understanding of what you called national dialogue is obviously very important and something that we're

encouraging many of the governments to do. But, frankly, in the throes of this, it's not happening. And so thus flicking the switch from 30, 40 years of dictatorship and flick it over and now we are in democracy, that's not what's going to happen and that's what you were saying. And so staying very open and engaged is the way that we have to continue.

MR. DERVIS: And did you want to say maybe a word on the IMF side of this conditionality? Because, you know, in Egypt it's been on and off and on and off. And, of course, again, I think the IMF has changed a lot, too. But, on the other hand, you know, there are billions of dollars involved and one cannot just kind of disburse them into a vacuum.

MR. BAUKOL: That's right. I think Inger's right in that, you know, sort of the old modes of conditionality have changed, including at the IMF. And there's, I think, much more recognition that it doesn't do any good to approve sort of the ideal economic program if it doesn't have a chance of being implemented. So you have to have a program that the country designs that takes into account their own political circumstances and the sequencing that they set in terms of their priorities on addressing weaknesses. At the same time, you know, the program has to add up and, you know, budgets have to be financed and balance of payments gaps have to be financed, and so that's the tension in designing something that meets both of those criteria.

I think, you know, no one expects these countries to deal with some of their largest challenges overnight, such as subsidy reform. Everyone recognizes it'll take time and so having a phased approach in a lot of these reforms is going to be essential. In any case, a phased approach that also includes, you know, development of social safety nets and other things to cushion the impact and make things more politically achievable.

So, as I mentioned, the IMF has several programs in the region already that are all somewhat quite a bit different actually and very close to reaching an agreement with Egypt we all hope. And even more important then will be the implementation of the program.

MR. KOENUMA: Maybe one comment?

MR. DERVIS: Yes, and I then, also. Yes, Akihiko, yes.

MR. KOENUMA: Yeah, maybe one comment from the Japanese perspective. You know, of course, it takes time, but really as two of the panelists already insisted that the reform process has to be owned by themselves. And that's why we are now trying to put the experience of the other developing countries, you know, in East Asia to transfer their experience. So that, for example, Egyptians would like to think about themselves and how -- and it takes time and we have to wait for that.

MR. DERVIS: Heidi, some --

MS. CREBO-REDIKER: Well, just to touch on Judith's comment and reflecting yours, Kemal, I mean, clearly this is monumental change that we're witnessing, but it's also one that's going to play out over a longer period of time. And so I think that we're looking and approaching is very much with an eye to being strategic in our engagement. And, you know, I'd look specifically at our economic engagement, but I would say that that's probably, you know, writ large with an understanding of the complexities of monumental change of this nature.

In terms of just -- there was a comment about rule of law and conditionality, but there's also market forces and investment forces that are reflective of best practices and strength of rule of law. I just was talking with somebody about investing not just in Middle East-North Africa, but also in many other emerging markets. And that person said the first, second, and third thing on the checklist for whether or not

he invested was what is the strength of rule of law in that country? And so I think, you know, particularly given the need to attract foreign direct investment and investment from portfolio investors as well, having strong rule of law is something that -- there are other reinforcements of that that are outside of just pure conditionality or internal reform movements.

In terms of the SME focus, agricultural, how we're looking at it, I think one of the lessons, at least with the enterprise funds, is that making investment -- making those types of investment decisions are much better left to people who have experience in making investment decisions. And so we, in our engagement, in setting up enterprise funds or in the way that we've provided capital to private equity funds that invest in Middle East and North Africa is that it's much better when those investment decisions are made by investment professionals that look at industries strategically, but also in companies that are going to, you know, thrive and survive and grow. And that is in alignment with our interests and wanting to have jobs created because those are the companies that are going to be the success stories of the next generation.

MR. DERVIS: Thank you very much. In terms of the Russia-China question, I don't think we have anybody on the panel that can really answer that, but it's a good question. These are two big countries and, you know, with strong interests obviously in the region, but, frankly, I don't think we have the -- unless Hafez wants to venture, but we don't really have the expertise to speak for them, so I'm sorry about that.

Let me say maybe two or three little points in response to Judith, not so much about Turkey per se, but more generally, I think, also my take on these transition. And I'll say two or three words about Turkey.

I mean, first, you know, the first competitive multiparty elections were held in Turkey in 1946. The founder of the republic, with great good will, but in a very

difficult period in the 1930s, tried to launch an opposition party by asking one of his best friends to found it, but, you know, he was too close a friend, let's put it this way. But really, truly multiparty elections started since '46, so that's a long process.

However, having said that, you know, in terms of democracy and a democratic market economy, if you like, there are many aspects of that one can talk about. But competitive elections are a must. You know, without competitive elections, I mean, the electoral laws can change, it can be a presidential system, prime ministerial, you can spend endless energy on constitutions and so on, but, I mean, the bottom line is, you know, are there competitive elections? And I think that's an important point.

Now, in Turkey, there have been competitive elections, you know, for decades and that, of course, is a long experience. However, and this is very important, democracy does not end there. And at the beginning there is the feeling which we also saw in Eastern Europe that, you know, once I won the election, I can do whatever I want. And, you know, as long as you have that approach, you are at the very beginning of the democratic process because the whole point about democracy is that there are balances of power, checks and balances, and an independent judiciary and all that kind of stuff. So that takes quite a while, you know, to move from a dictatorship to competitive elections to a system where people really believe in these checks and balances takes time.

The second point I'd like to make, which is very, very important, which is very important for the success of Turkey in the last 10, 15 years, is that politics has a very legitimate role, of course, in democracy. I mean, democracy's all about politics. You can't have democracy without politics.

Now, I'm caricaturing a little bit the old IMF, not today's IMF, but the old IMF. Sometimes I thought some of my IMF colleagues were kind of saying, well, if only

technocrats could rule the world, you know, if only we could appoint independent Central Bank governors with full powers and finance ministers with full powers, and then just implement good economics, we'd be okay. That's obviously not the way the world or democracy can work, and one has to give politics the legitimacy of some degree of populism, some degree of exaggeration, and some -- you know, of interference, if you like, of the politics into the economic sphere.

But one key issue here is how much and what type? For example, politics defines the broad strategy of a country, whether it's going to be an open market exporter against the economy or more of an infant industry protectionist kind of economy. That's a political debate, valid. Whether the inflation target should be 5 percent or 2 percent, you know, or even 10 percent in certain circumstances, I think that's a valid political debate. You have experiences of countries that have done well with various inflation rhythms. So I think that's a valid space for the political debate. Whether that should end is the interference of politicians and of political power, ministers, bureaucrats, and so on in the actual workings of the market and who gets awarded what contract and who gets credit, who gets subsidy, who gets nominated to head, you know, even private sector enterprises. That kind of mechanism, which was so prevalent, of course, in the Arab world and, you know, has been prevalent in many other parts of the world, when that becomes excessive, then the economy cannot run efficiently.

And I think one of the reforms that were really fundamental in Turkey around the turn of the century is to put in place, not perfect by any means, but a new procurement law, a new competition law, a framework for a truly independent Central Bank, and a framework, even more important, for bank supervision. Okay. That took, how shall I put it, an approach that while politics can determine the overall strategy, technical and politically independent bodies regulate the economy, not politicians who

use the economy to gain votes, period. I mean, of course, they can use economic policy to gain votes. That's perfectly fine. But not favoring one against the other in order to collect rents or finance election campaigns and so on.

Now, that's easily said, but I really think it's one of the most important things. Once a society reaches a certain degree of maturity on those matters, then -- you know, it's never perfect -- I think the market economy functions much more effectively. As long as politicians believe that because they're in power, whether they're elected or not, they can actually regiment even private transactions in the economy, then you will have a lot of problems. And I think this is one of the challenges, also, in the Arab economies in the future.

Hafez, last word.

MR. GHANEM: Well, thank you, Kemal. Last word. Well, I've been listening to everything that was said. We all seem to agree that the focus should be on inclusive growth and social justice in those countries. But the real question is how to achieve that, specifically what can we do? And we have talked about small businesses, programs for youth opportunities, good governance, education.

Now, there were questions about what levers do the donors have, and actually we should realize that different donors can do different things, like the World Bank has certain constraints that maybe JICA does not have or that UNDP does not have. And the key here is to be able to support building the new democratic institutions, democratic in the sense that they ensure transparency and that they give an opportunity for people to provide their voice. That is the way that you can deal with issues. Even in the education paper the way to improve the quality of education we find was very much in terms of increasing transparency in the allocation of grants to schools or in the way teachers are allocated to different parts of the country. So I think that this is key and

work together is trying to coordinate the activities, each institution working on its own competitive advantages is key.

Now, many of my colleagues in the Arab world, especially in Egypt now with so much turmoil, keep telling me, you know, there is very little that can be done on the economic side until there is political stability. I think that we all agree on this panel that this cannot be true, that achieving -- I mean, just listening to you, Kemal, about the history of Turkey, achieving a stable democracy in those countries will take, what, 40 years if I follow the Turkey example. If we do not do something about the economy now, this period of instability and turmoil could be much, much longer. So I really believe that we need to do steps today towards this greater inclusiveness, this greater social justice, and that this is essential to achieve democracy.

MR. DERVIS: Thank you very much. Well, thank you all. Please be seated still. Thank you all, but let's give the panel a round of applause. (Applause) And also thank all those working in the project, writing the papers, discussing it with their Arab colleagues. I think it's a very worthwhile enterprise. And for all of you who support it, thanks a lot. If we can make a small difference, I think we'll be happy.

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