



Cutting the Burden of Regulatory Controls!?

Economic Advance between
Markets, Firms & Policy

Professor Dr. Ralf Boscheck
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Cutting the Burden of Regulatory Controls!?

Economic Advance between
Markets, Firms & Policy in the Egyptian Context

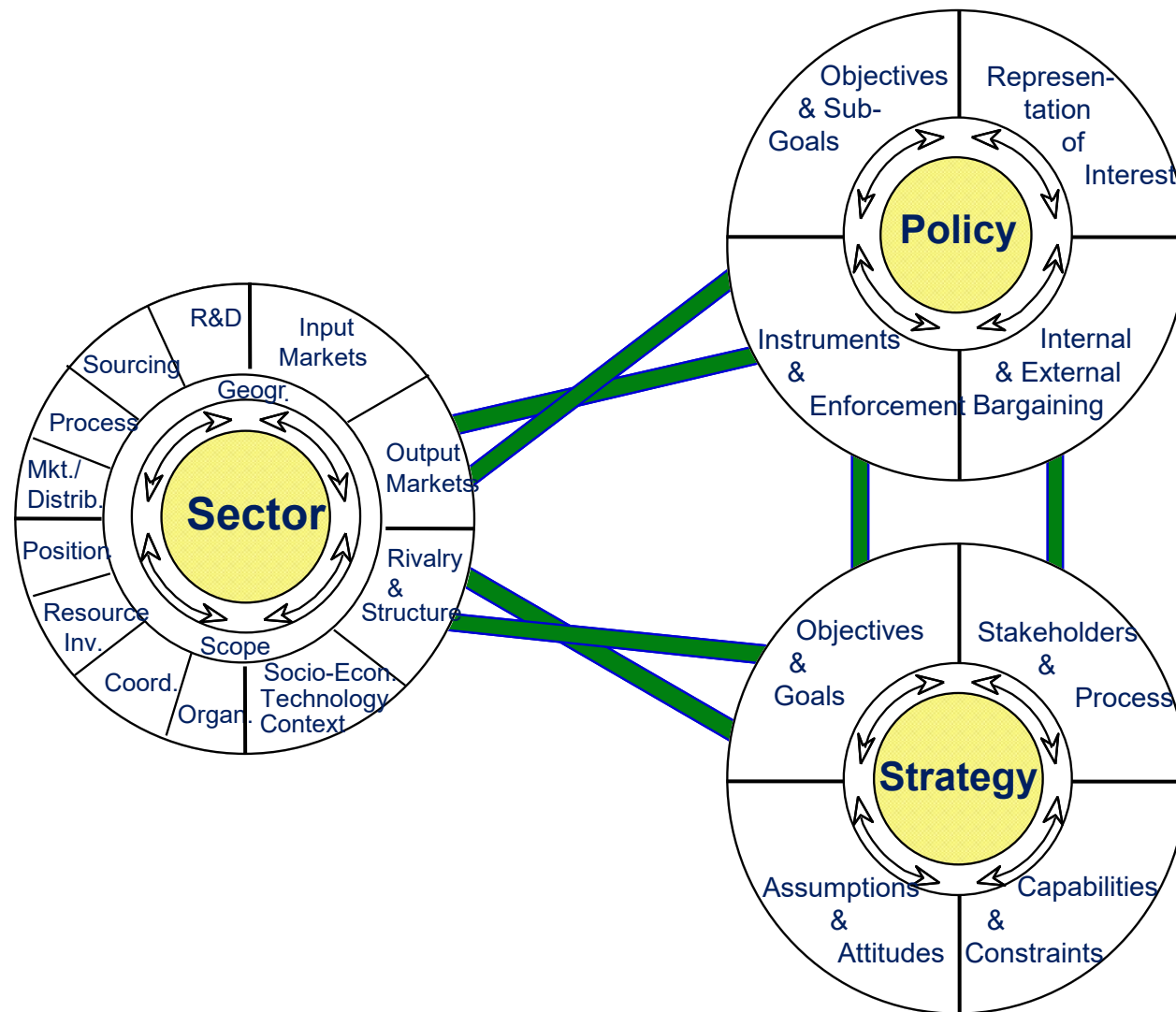
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Public Policy towards Business: Initiatives, Impacts, Maneuvers & Consequences



Governance of SOEs

Privatization

Deregulation

Regulatory Reforms

Trade Policy

Industrial Targeting/Policy

Antitrust & Competition Law

IPRs – Necessity & Dilution

Platform Regulation - EU

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The Context of Egypt: Key Data, Implications & Concerns

World Bank E(GDP),
Ratings & Ranks

Consumption & Output
Constrained

Currency Devaluation

Record Inflation & High
Unemployment

Drop in Remittances

Slow IPO Program

Oil & Gas, Infrastructure
Investments

Budget with Planned
EGP 0.9 trillion Deficit

Borrowing: IMF, World Bank,
Saudi Arabia, China, ...

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Egyptian Renaissance:
Close to Breakthrough?

New Cairo & “A New
Republic”?

Position in the Region?

Position on the New Silk Road?

Impact of Covid & the
Ukrainian War!?

Focus?

Necessary Domestic Support

Upcoming Elections

SOPD: Regulatory Reforms,
the Governance of SOEs, the
Military-Industrial Sector

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**SOPD: Regulatory Reforms,
the Governance of SOEs, the
Military-Industrial Sector**

- Not explicit about the role of the military
- Presidents with military careers
- Military is resilient to transitions
- Sadat’s opening, diversification & demilitarization revised by Mubarak
- Constitution omits reference to civil oversight of the Egyptian armed forces & Law No. 313 prohibits publication
- Broadest industrial involvement but difficult to quantify
- Involvement brings soft power & approval
- A phased withdrawal of the military industry requires economic recovery, political stability and **a credible plan for cutting regulatory burden and promoting market-oriented reforms.**
- **Does the SOPD meet this need?**

The Context of Egypt: Key Data, Implications & Concerns

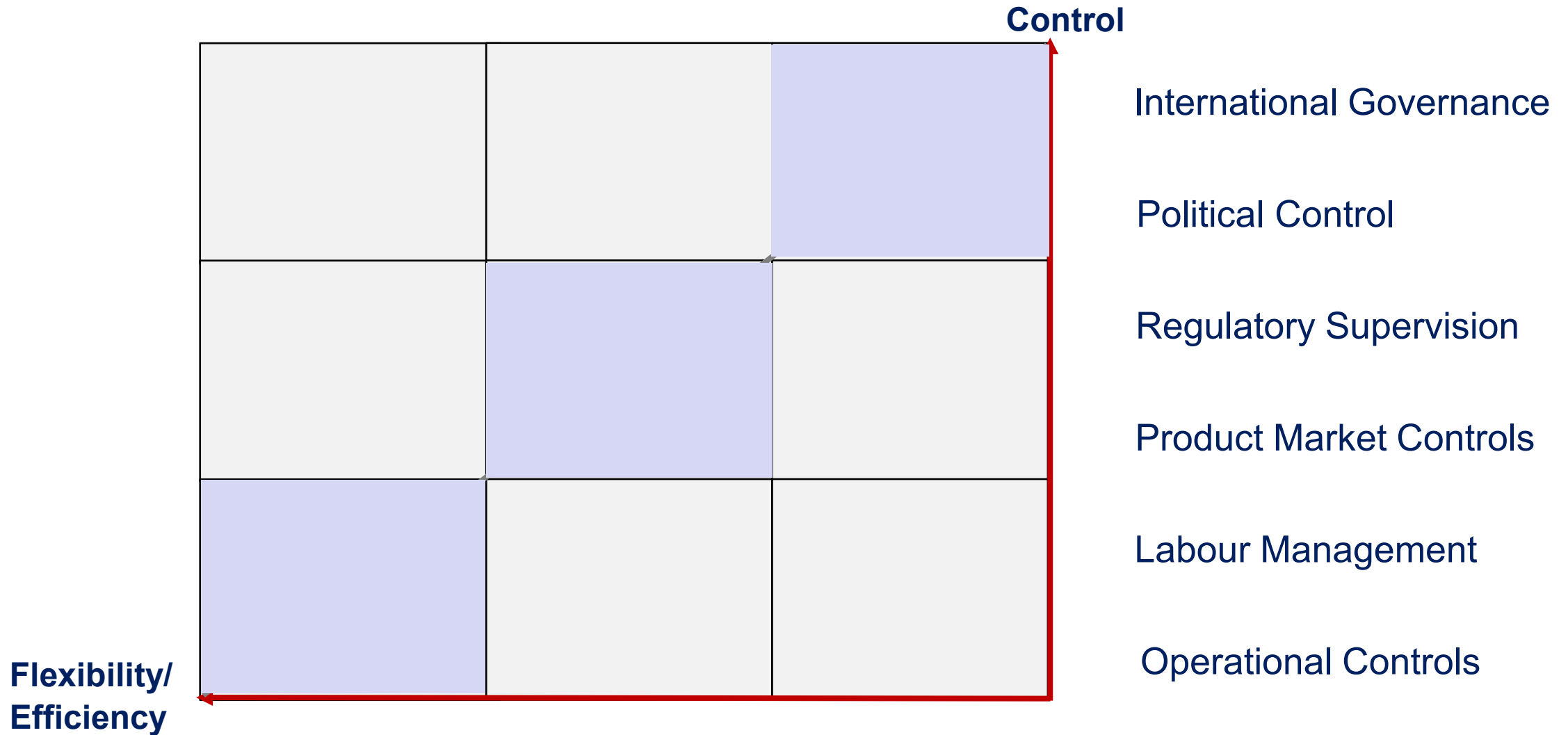
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| World Bank E(GDP), Ratings & Ranks | Egyptian Renaissance: Close to Breakthrough? |
| Consumption & Output Constrained | New Cairo & "A New Republic"? |
| Currency Devaluation | Position in the Region? |
| Record Inflation & High Unemployment | Position on the New Silk Road? |
| Drop in Remittances | Impact of Covid & the Ukrainian War!? |
| Slow IPO Program | Focus? |
| Oil & Gas, Infrastructure Investments | Necessary Domestic Support |
| Budget with Planned EGP 0.9 trillion Deficit | Upcoming Elections |
| Borrowing: IMF, World Bank, Saudi Arabia, China, ... | Regulatory Reforms, the Governance of SOEs, the Military-Industrial Sector |

- Efficiency, Control & Market Preference
- State Ownership Policy Document – Arab Republic of Egypt 12. 2022
- Selection Method & Alternatives
- *Competitive Neutrality* – Regulating vs. Self-enforcing
- Sectors – Challenges & Outside References
- Assessing Relations
- Summary & A Step Back

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Efficiency, Control & Market Preference – Beyond Cliches: Trade-offs & Organizational Formats

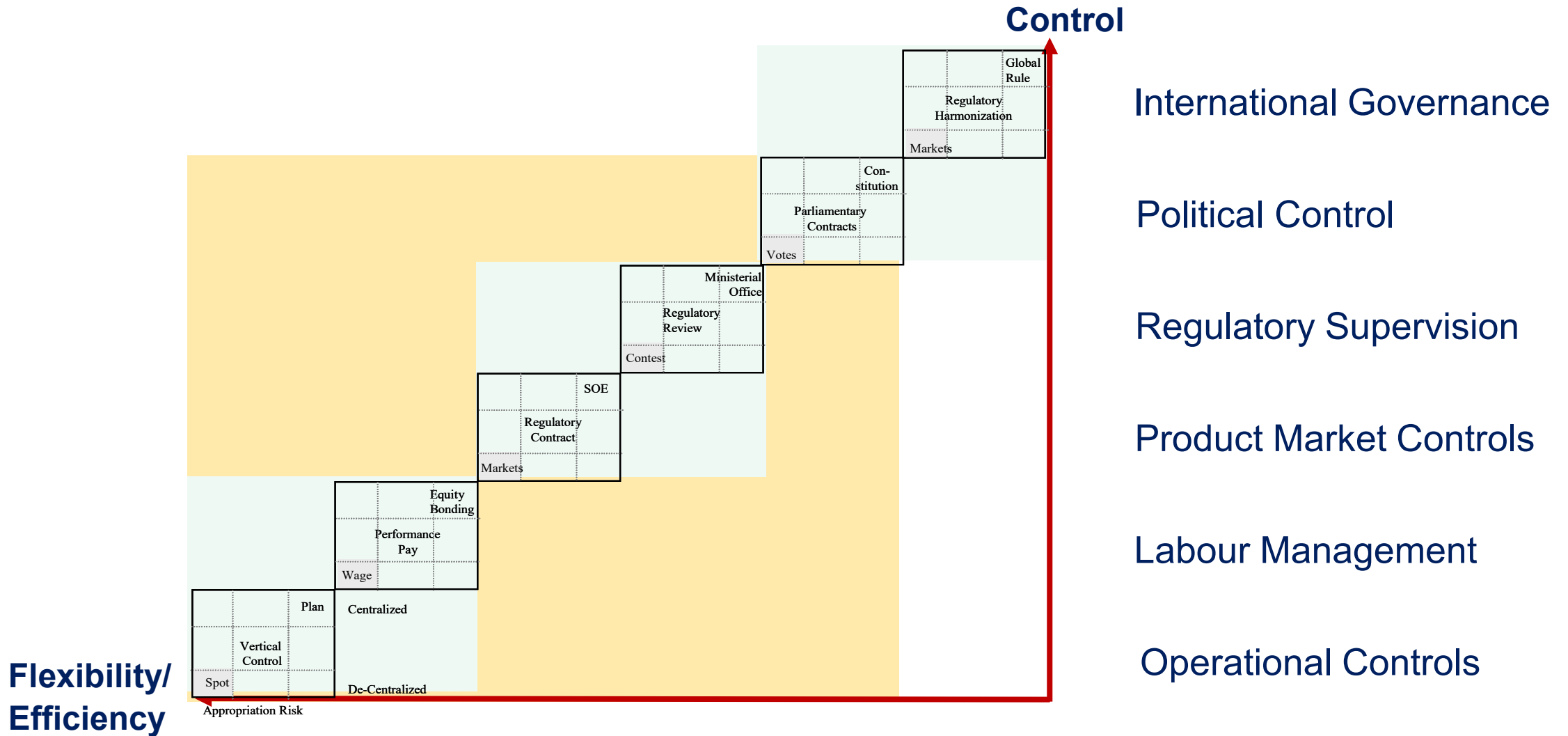


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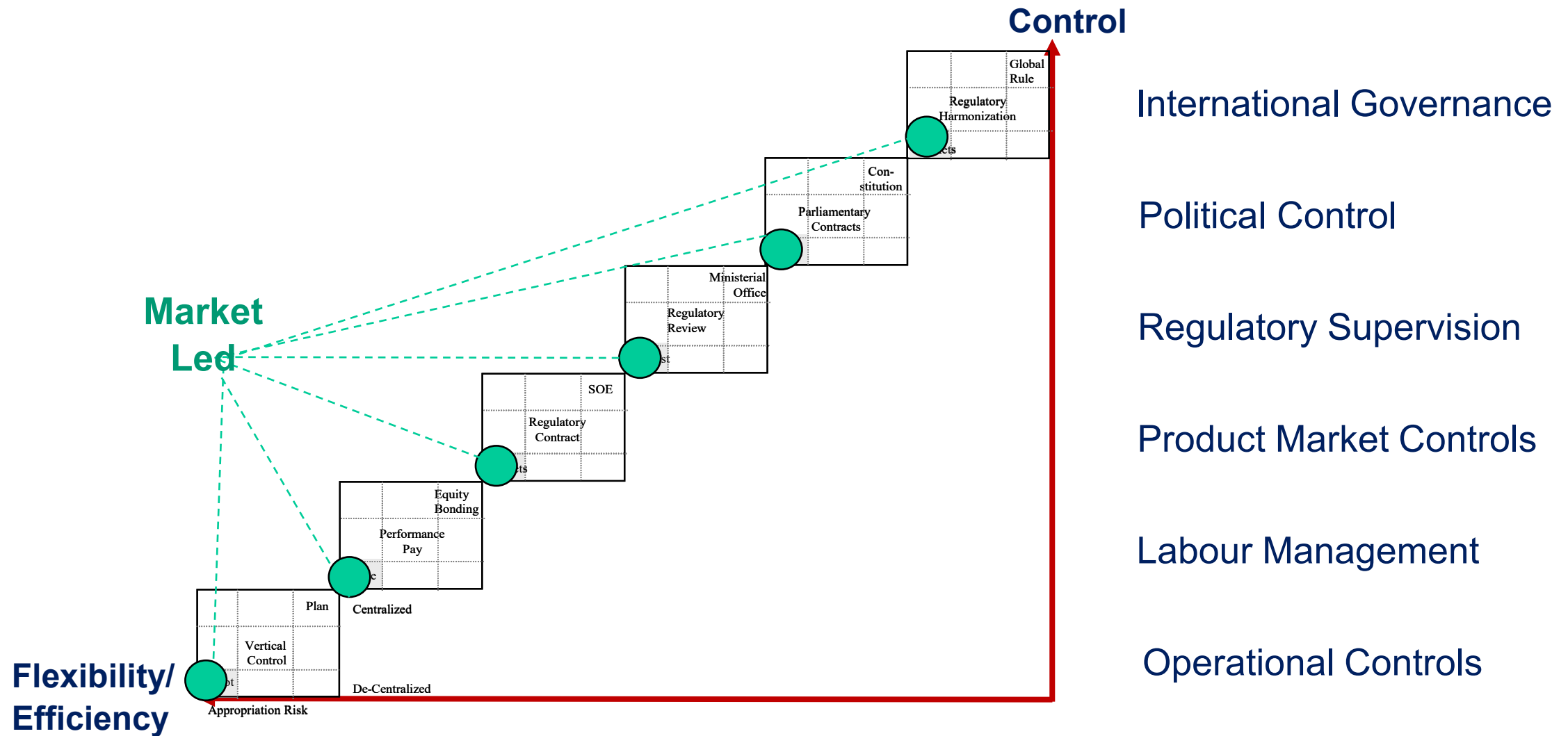


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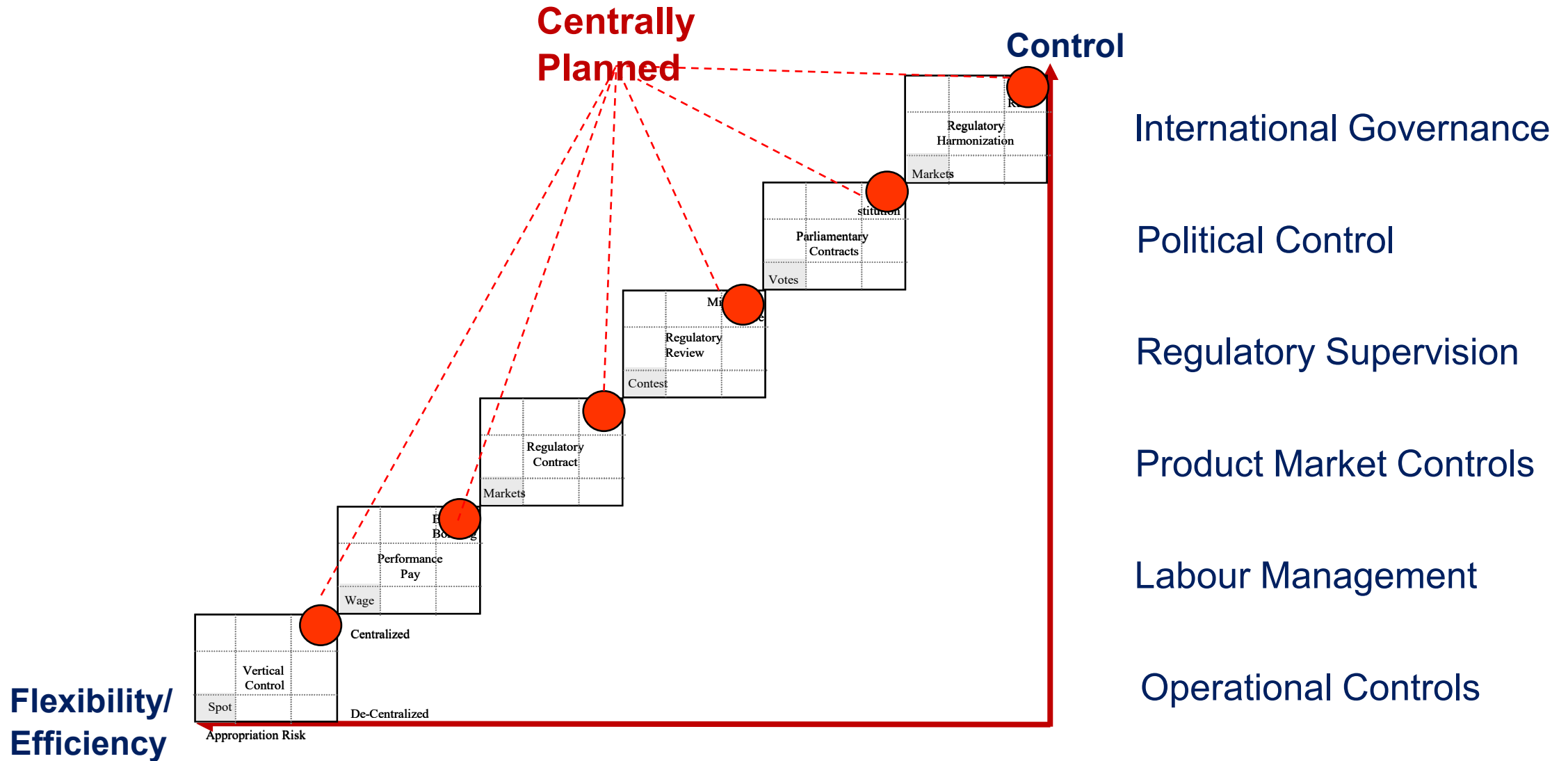


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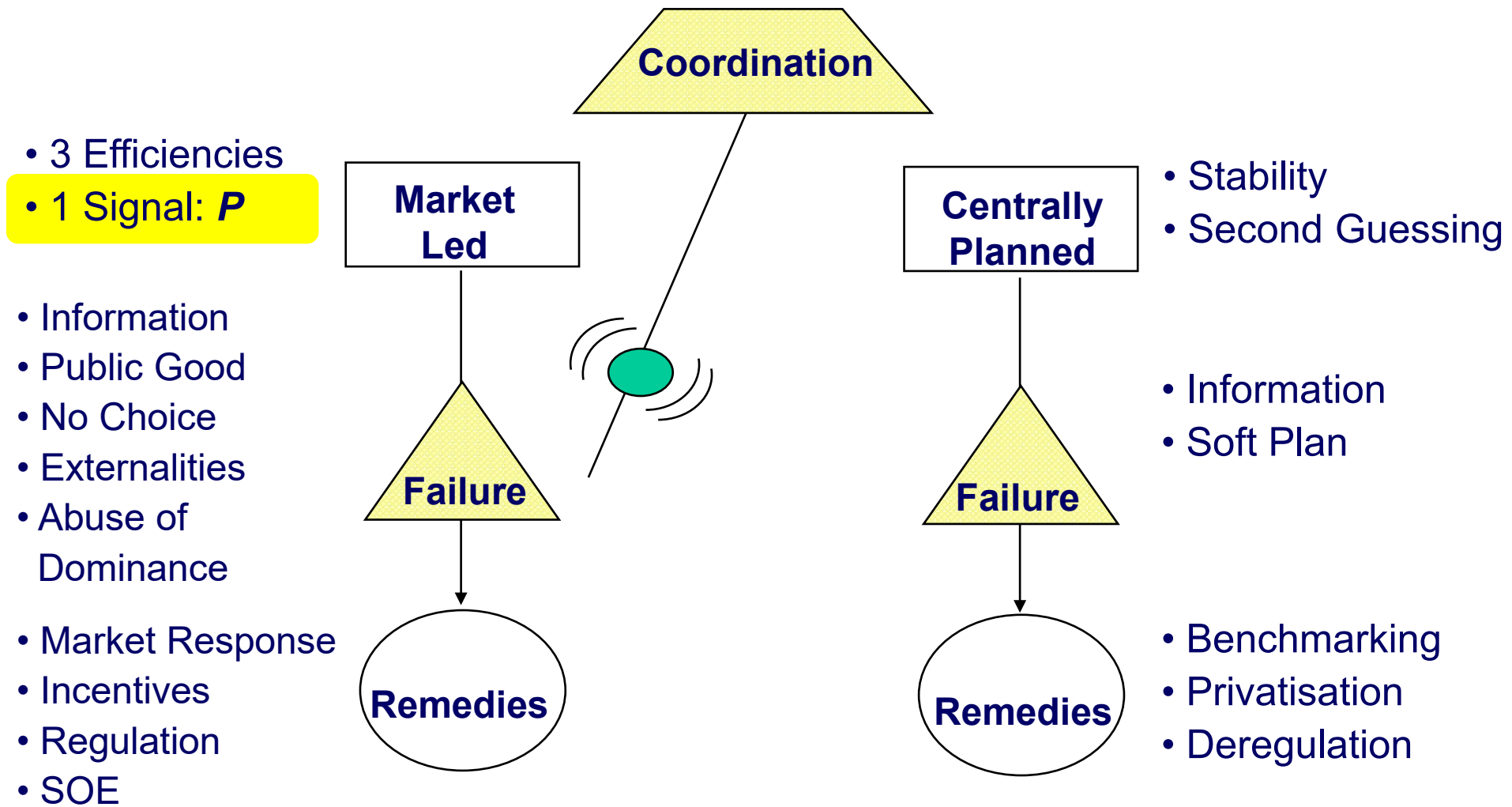


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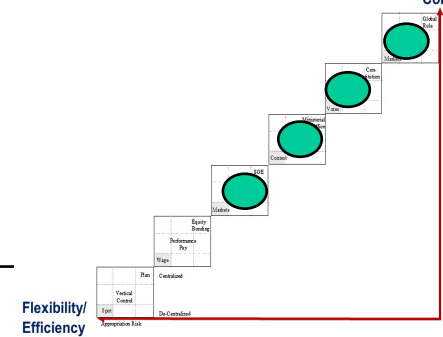
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Efficiency, Control & Market Preference: Market Led & Centrally Planned – Failures & Remedies

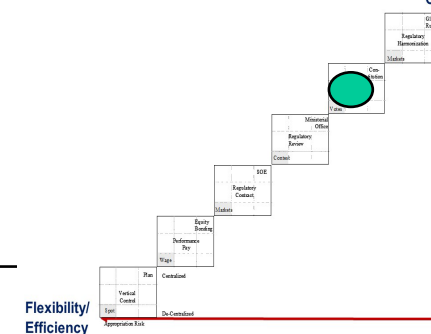


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State Ownership Policy Document: Framework Document



Arab Republic of Egypt
The Cabinet

State Ownership Policy

Framework Document

The Arab Republic of Egypt



December
2022

| | |
|---|----|
| General Context | 3 |
| First: State Ownership Policy: Key Objectives and Guidelines | 5 |
| Second: Methodology of Determining State-owned Assets and Promoting Private Sector's Empowerment | 7 |
| Third: Implementation Mechanisms of Egypt's State Ownership Policy for Public Assets and Private Sector Encouragement | 11 |
| Fourth: The Sovereign Fund of Egypt: Leading Role to Boost Partnership with Private Sector | 13 |
| Fifth: Enhancing Public - Private Partnership Approach | 14 |
| Sixth: Governing Principles for State's Presence in Economic Activity | 15 |
| Seventh: Competitive Neutrality and Favorable Legislative Environment for Economic Activity | 17 |
| Eighth: Implementation Framework of State Ownership Policy | 19 |
| Appendix (1): Justifications for Maintaining/Increasing State's Investments in Some Economic Activities and Sectors | 21 |

5 objectives

6 criteria/3 approaches

Egyptian Exchange (EGX)
Strategic Investors

PPPs

TSFE

Closing the Funding Gap

Seven Aspects

Competitive Neutrality
& its Bureaucratic Support

Supreme Committee to
Implement State

Ownership Policy for Assets

Sector Focus

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State Ownership Policy Document: Framework Document – Focus on Three Important Elements



State Ownership Policy

Framework Document

The Arab Republic of Egypt



December
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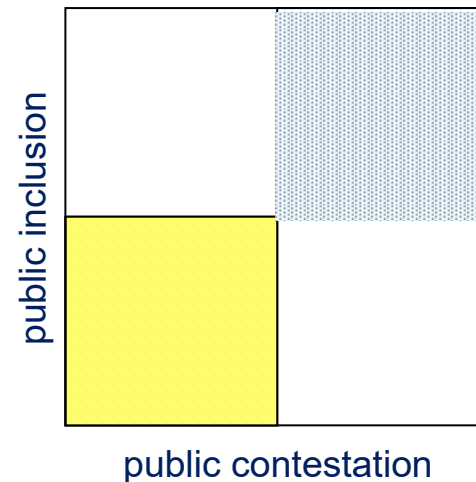
State Ownership Policy Document: Listed Selection Criteria vs. Market-Driven Alternatives

5 objectives: growth, private sector empowerment, public investments in neglected areas, governance of public capital, creation of fiscal space.

Method: correlation with public benefit/ national security, governmental support for 4IR, sector's attractiveness for private investments; no crowding out private initiatives, public exiting saturated markets, SOE's profitability.

Directions:

- Exit
- Maintaining or Reducing the State's Presence*
- Maintaining or Increasing the State's Presence*



State Ownership Policy Document: Listed Selection Criteria vs. Market-Driven Alternatives

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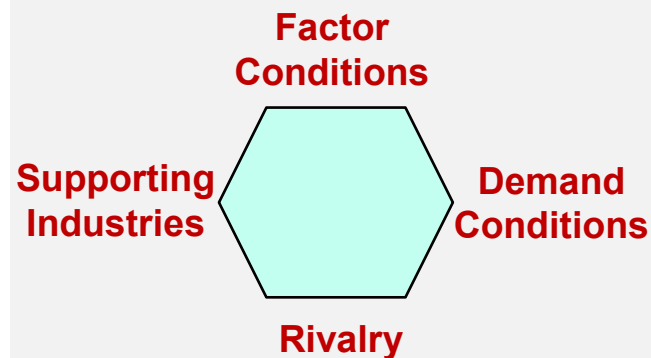
- Exit
- Maintaining or Reducing the State's Presence*
- Maintaining or Increasing the State's Presence*

Post-WWII – France's *filière économique*:

Productivity Missions, Technology Investments, Impossible Protection, Devaluation of FFr, Success & Failure

Competitive Advantage of Nation (Porter/Monitor):

- From Revealed to Created Comparative Advantage
- Export Market Share & FDI
- Cluster Characteristics
- Market Failure & Investment Needs
- Domestic vs. International Sources
- The Role of the Government/SOE



CRINE/NORSOK:

- North sea's Loss of Cost Competitiveness
- Contracting Costs & Technologies
- "0-based Budget" Exercise – UK / Norway Cross-sectors – industry associations & firms
- Total Business System Map
- Value-Creation & Value Capture
- New Offshore Contracting Standards (Andrew) & Operating Models
- NOC Governance (see below)

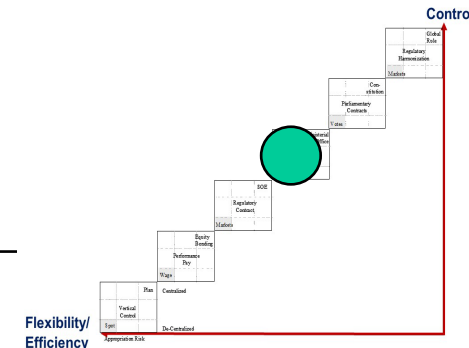
Questions:

Would any of the latter approaches result in a different sector list and action plan for the government?

Would a broader involvement of all stakeholders improve the selection process, the implementation of policy and economic results?

Who would win or lose?

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Ensuring Competitive Neutrality?

Variations in SOE/ Market Conditions

Competitive Neutrality?

The CPA has to

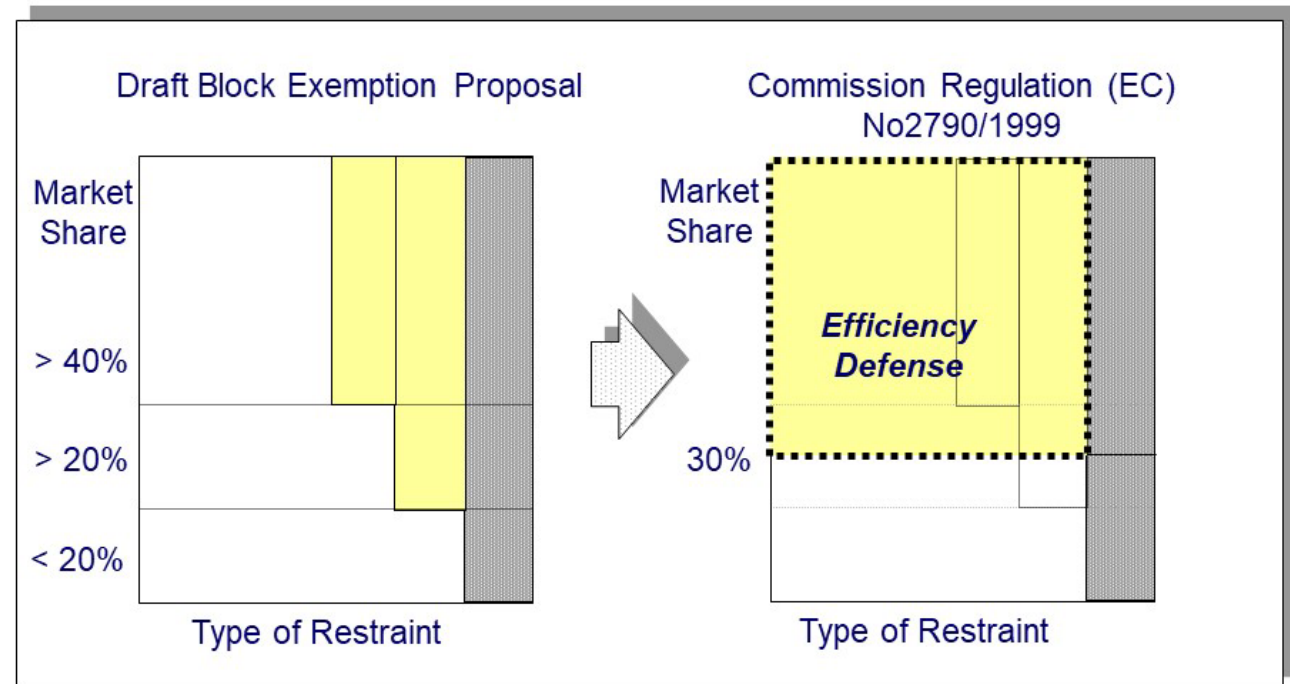
activate a “**Competitive Neutrality Strategy**” ...
and act as secretary in the **Supreme Committee for the Promotion of Competition Policy and Competitive Neutrality** ...

“Act pre-emptively to set government policies that limit any hindrances to entering the markets, increase investment and trade liberalization, and reduce unnecessary government intervention in the market.”

From Regulatory Nightmare to *Efficient Rules*

(The Model of EU Competition Policy Reform, ex. Vertical Contracts)

Assessing & Prejudging the Risk of Abuse in Vertical Contracts



Ensuring Competitive Neutrality?

Enforced Self-regulation!

Variations in SOE/ Market Conditions

Competitive Neutrality?

The CPA has to

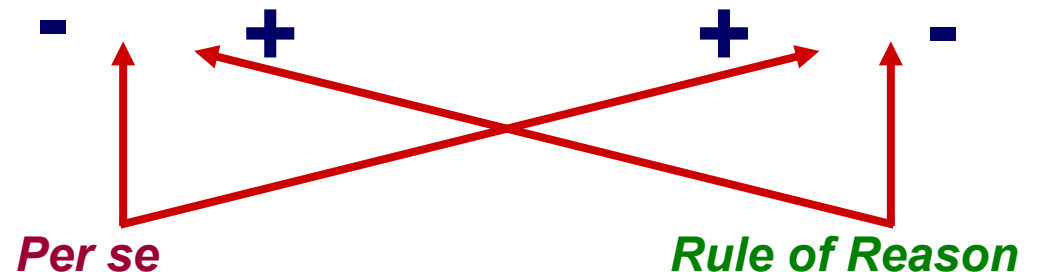
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From Regulatory Nightmare to *Efficient Rules*

Minimize! Σ (Administration Costs & Cost of Wrong Decision)



- **Simplicity!**
- **Enforcement Costs!**
- **Legal Certainty!**
- **Legitimacy!**
- **Adequacy?**

How to Enforce?

Enforced Self-regulation!

short black-list
efficiency defense without notification
inviting complaints
massive fines

(The “**Benign Big-Gun Approach**”)

Questions:

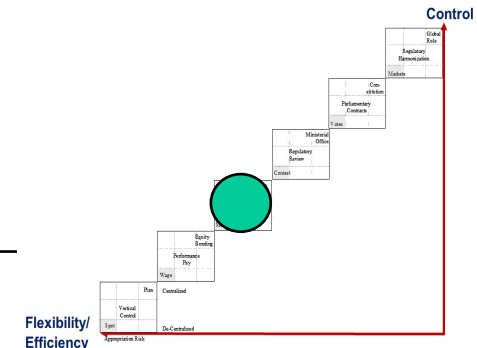
- **Would outsourcing regulation to SOEs be viable in Egypt?**
- **Would the CPA be ready to enforce this? How?**
- **Could this be the model for reforming all of Egypt’s Competition Rules?**

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→ “Renewables & Antidumping”

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Sectors – Challenges & Outside References:

Water: Covering “investments that the private sector cannot fulfill solely!”

Exit:

Drinking water production from desalination plants; projects to transform sludge into energy

Maintaining or Reducing the State’s Presence

(while allowing the private sector’s participation):

Drinking water pumping & distribution and sewage collection, treatment plants & reuse, metering and bill collection, network operations.

Maintaining or Increasing the State’s Presence:

(while allowing the private sector’s participation):

Drinking water production from surface water

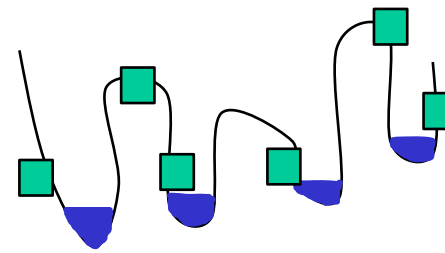
| Type of Management | UK | EU-Weighted Average |
|--|----|---------------------|
| Direct Public - direct management - autonomous bodies | 3 | 37 |
| Direct Supramunicipal - syndicates & associations - national & regional boards of companies | 9 | 11 |
| Delegated Public - cooperative companies - public trading companies | | 15.5 |
| Delegated Private or Mixed - private companies - mixed capital companies | | 20.5 |
| Direct Private - private companies | 88 | 16 |

| | Public Ownership & Operation | | | | Public Ownership & Private Operation | | Private Ownership & Operation | User Provision | |
|--|------------------------------|---------------------------------|--|--------------------------------------|---|--|---|--------------------------|----------------------|
| | Government department | Traditional | Corporatized & commercial | With service contract | With management contract | Leasing contract | Concession contract | | |
| Ownership of assets | Public | | Public (majority) | | Public (majority) | | Private (majority) | Private or in common | |
| Sectoral investment planning, coordination, regulation | Internal to government | By parent ministry | Parent ministry or separate public authority | | Public authority negotiated with private operator | | None or public authority | None or public authority | |
| Capital financing (fixed assets) | Government budget | Subsidies & public loans | Mainly market-based financing | | Public | Private operator | Private | Private | |
| Capital financing (working capital) | Government budget | Mainly Subsidies | Mainly internal revenues | | Private operator | | Private (government may pay for public service obligations) | Private | |
| Operation and maintenance | Government | Public enterprise | Private operator /specific services | Private operator | Private operator | | Private | Private | |
| Collection of tariff revenues | Government | Government or public enterprise | Public enterprise | | Private operator | | Private | Private | |
| Managerial authority | Government | | Public enterprise | Private operator | Private operator | | Private | Private | |
| Bearer of Commercial Risk | Government | | Public enterprise | Mainly public | Private operator | | Private | Private | |
| Basis of private party compensation | Not applicable | | | Fixed fee based on services rendered | Based on services and results | Based on results, net of fee paid by operator for use of existing assets | | Privately determined | Privately determined |
| Typical duration | No limit | | | Fewer than 5 years | About 3-5 years | 5-10 years | 10-30 years | No limit | No limit |

Sectors – Challenges & Outside References:

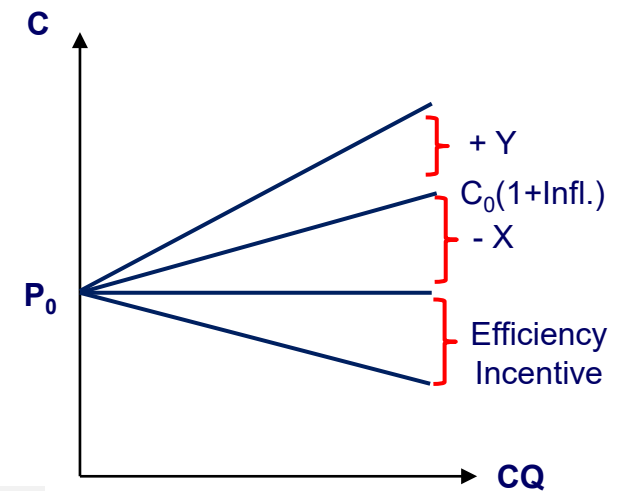
Water: Integrated and controlled via incentive-compatible regulation?

| | Public Ownership & Operation | | | | Public Ownership & Private Operation | | Private Ownership & Operation | User Provision | |
|--|------------------------------|---------------------------------|--|--------------------------------------|---|--|---|---|---------------------------------------|
| | Government department | Public Enterprise | | | | | | | |
| | | Traditional | Corporatized & commercial | With service contract | With management contract | Leasing contract | Concession contract | Private (incl. cooperative) ownership & operation | Community selfhelp/ buyer integration |
| Ownership of assets | Public | Public (majority) | | | Public (majority) | | Private (majority) | Private or in common | |
| Sectoral investment planning, coordination, regulation | Internal to government | By parent ministry | Parent ministry or separate public authority | | Public authority negotiated with private operator | | None or public authority | None or public authority | |
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- **Making water contestable!?**
Via Pipelines or Insets?

- **Regulation**
- *As if* competition
- No benchmarking
- ROA (US – model)
- **RPI-X+Y (K-factor)**



Questions:
Apart from colossal infrastructure projects, why would Lite-Touch Regulation not be viable across the entire Egyptian Water Sector?

- Volume Guarantee/Capacity
- No Ratchet-Games
- No Gaming on X & Y
- Reporters
- Dropping Po?
- Asset Mutualization!

Sectors – Challenges & Outside References:

Electricity

Maintaining or Reducing the State's Presence

(while allowing the private sector's participation):

Electric power plants, distribution networks, AC supply and electric power generation from new and renewable energy.

Maintaining or Increasing the State's Presence:

(while allowing the private sector's participation):

Electrical transmission networks

Due to natural monopoly, capital needs beyond private sector means, public interest

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Sectors – Challenges & Outside References:

Electricity – unbundled but well linked from pool up & down?

Maintaining or Reducing the State's Presence

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Maintaining or Increasing the State's Presence:

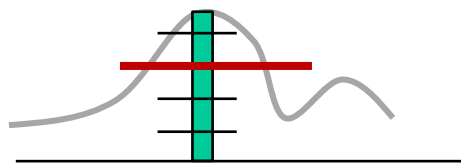
(while allowing the private sector's participation):

Electrical transmission networks

Due to natural monopoly, capital needs beyond private sector means, public interest

Original Justification for Government Intervention & Asset Ownership: “No storage”-based coordination concerns justified integrated production – generation, transmission and retail.

Unbundling & complete separation & privatization of asset ownership & management in a pool-based market to coordinate capacities & demand. **Expectation:** Industry prices to fall; consumers to benefit later. **Major User Industry Concern:** consumer prices went down, industry up; pool price set in 80% of peak-time cases by older generators – **cartelization charge**.



Criticism causes OFFER to install **price-cap** that effectively distorted all pool-based benefits but avoided initial review of claims by Monopoly Merger Commission (**MMC**).

Review by Monopoly Merger Commission after the Treasury sold its shares created **concern about the legitimacy of regulatory operations**.

Question: Obtaining proper and credible pool coordination requires complete separation of asset ownership. How can this separation be enforced? How to handle adjustment costs & how to shelter the regulator?

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Sectors – Challenges & Outside References:

Pharmaceuticals

- Population size & growth
- Healthcare expenditure 4% of GDP
- Adjacent markets
- 90% of raw materials imported
- Novartis, GSK, Sanofi
- Public sector share e(6%)
- Government strongly interested

Sectors – Challenges & Outside References:

Pharmaceuticals

Exit:

Perfume and make-up manufacture and aromatic packages.

Maintaining or Reducing the State's Presence

(while allowing the private sector's participation):

Several activities in the pharmaceutical industry; veterinary drugs

Maintaining or Increasing the State's Presence:

(while allowing the private sector's participation):

Medical supplies, biological industries, vaccines, medicinal plants, pharmaceutical raw materials, chemicals for the pharmaceutical industry, medical devices, surgical scalpels, medical syringes & needles, catheters, coronary stents, hemodialysis ... food industry.

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Sectors – Challenges & Outside References:

Pharmaceuticals – The Government on both Sides of the Table?

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Maintaining or Reducing the State's Presence

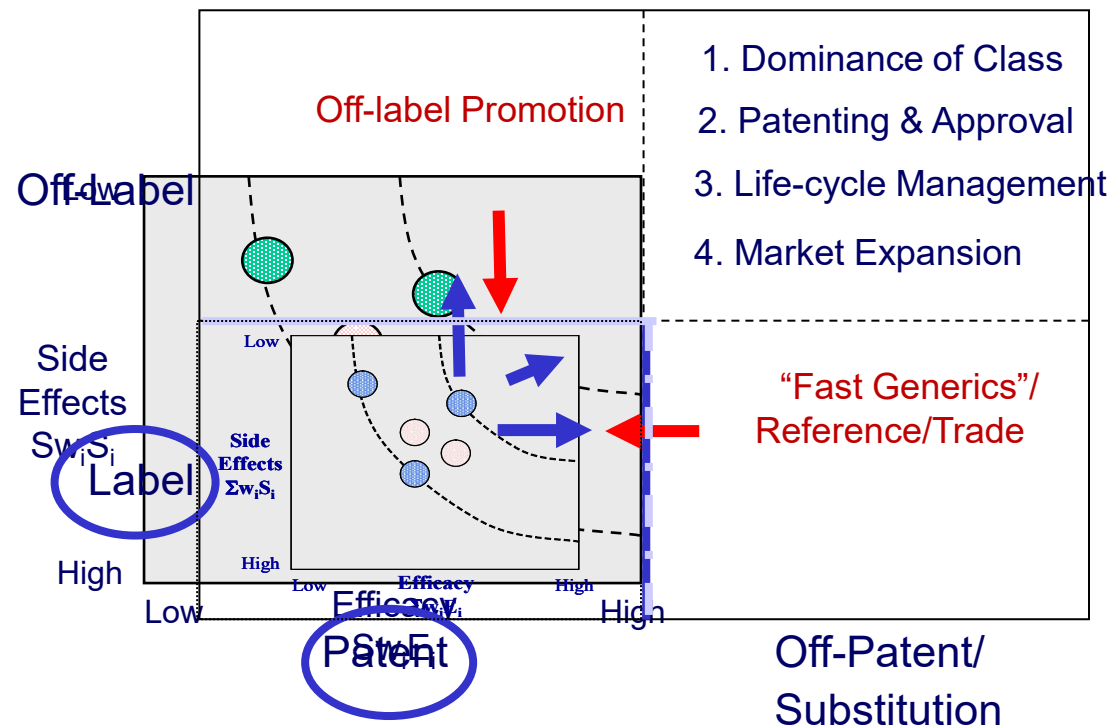
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Sectors – Challenges & Outside References:

Pharmaceuticals – The Government on both Sides of the Table?

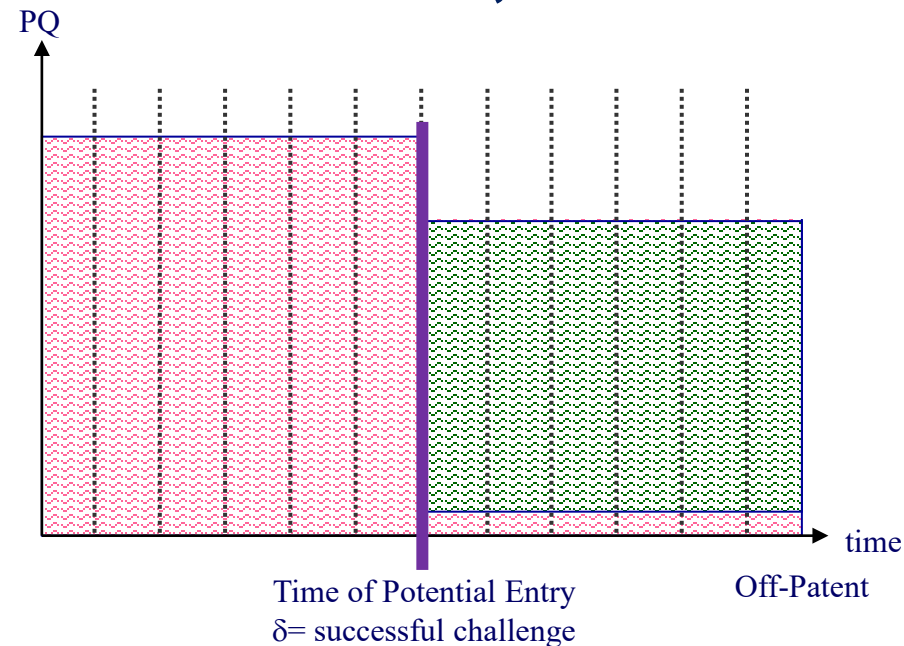
Fast Generics - Patent Costs, Benefits & Challenges

The **public benefits** of generic substitution are substantial:

As patents expire, the **first generic competitor** typically enters the market with a **20 to 30% discount** relative to the branded product, capturing **about 44% to 80% of total sales** within the first full year after launch. Subsequent entry quickly erodes prices to a cost-plus standard.

But so are the **costs of drug development**:

The current average drug development cost per compound, pre-approval, is estimated to be **around \$1.4bn** and the average new drug requires **\$0.5bn sales to earn a return just above the industry cost of capital**.



Question:

Will the government look favorably at patent challenges (HWA) as a way to use market checks to improve the efficiency of the IPR system?

Or will it seek to block these to avoid losing important funds? Will it even be tempted to get into **reverse payment** deals?

How would Egypt's new IPR efforts be affected in either case?

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Sectors – Challenges & Outside References:

Petroleum & Natural Gas Extraction Activities

Hydrocarbon export underpin infrastructures, technical issues, FDI substantial but less than expected

Maintaining or Increasing the State's Presence: (while allowing the private sector's participation):

Petroleum and Natural Gas Extraction Activities

Petroleum Refining Activities

Because these activities impact the national security and local needs of petroleum products.

Perspectives:

- “NOCs are badly run (...) signs of *resource nationalism* (...) that should be privatized.” **The Economist**
- “The onslaught against NOCs in recent years is largely due to generalizations, *lack of knowledge* and lack of appreciation of their role.”

Ali Al-Naimi, Former Minister of Petroleum & Mineral Resources, Saudi Arabia

No Simple Benchmarking!

NOCs cannot be compared with IOCs as they respond to and shape much broader economic interrelations.

Sectors – Challenges & Outside References:

Control the Agent – Complexity of NOC Governance

- **Depletion Policy:**

- f(p, E(p), CAPEX, OPEX, capacity, skills)
- f(E(prospectivity), E(total resource base))
- f(opportunity costs, revenue requirements)
- f(inter-generational contract)

- **Value Capture:**

- f(direct/indirect, tangible/intangible spill-overs)
- f(cost, capacity & time to 'ramp-up')
- f(enforceability of contractual relations)
- f(substitution potential)

- **Revenue Management:**

- f(E(revenue profile) relative to total)
- f(extent: inflation/Dutch Disease, crowding out)
- f(timing: readiness (domestic))
- f(fiscal/financial instruments)

- **Income Distribution:**

- Political system/legitimacy
- Propensities to consume/invest, import/substitute/export
- ...

- **Economic Balance & Development:**

- Total economic & sector balance
- Non-hydrocarbon fiscal deficit
- Non-hydrocarbon trade balance
- ...

Question:

Has Egypt's government sketched out the broader interrelationships and dilemma that its operations have to navigate?

Could it play markets & reduce the regulatory burden?

Norway: An Evolving Model!

Saudi Aramco: Permitting a State within the State?

~~**Nigeria – Regulatory Opportunities lost!?**~~

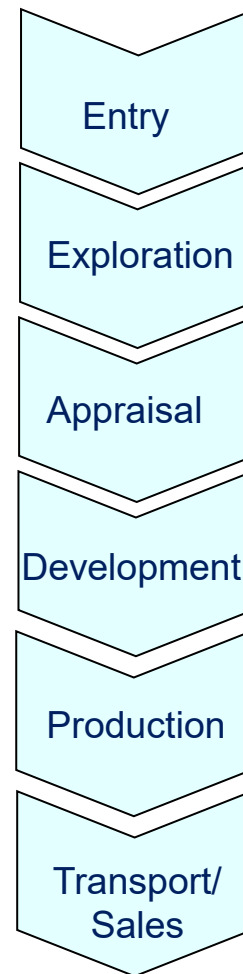
Sectors – Challenges & Outside References:

Petroleum & Natural Gas: Options for Governmental Commitment

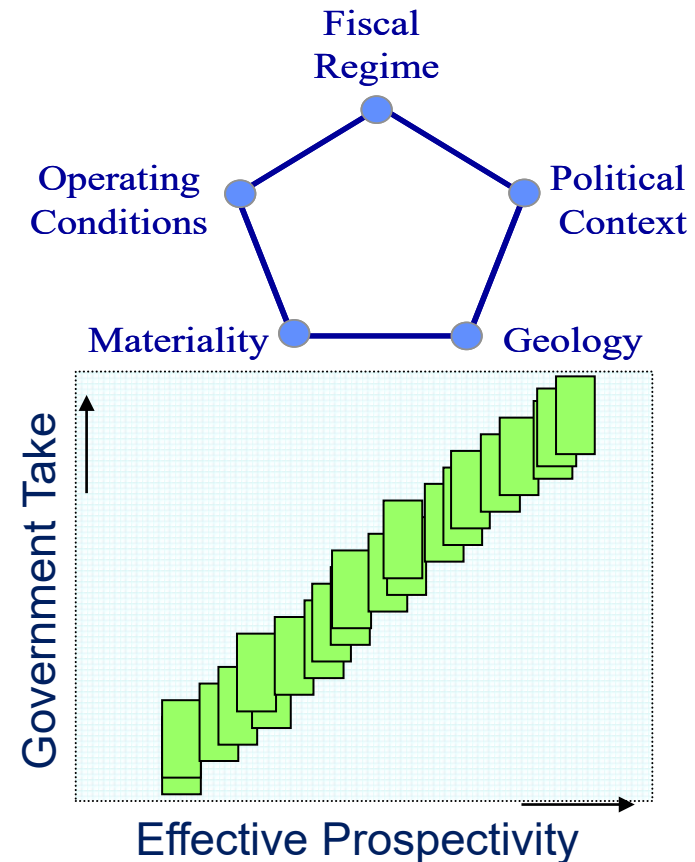
To Operate?

- No suitor
- Different view on resource value & development plans
- No trust in enforceability of contracts
- Import-substitution/infant industry
- Spill-overs & skill-building
- Existing capacity
- Political & economic leverage
-

**Control
the Agent!**



To Tax?



Play the Market!

Sectors – Challenges & Outside References:

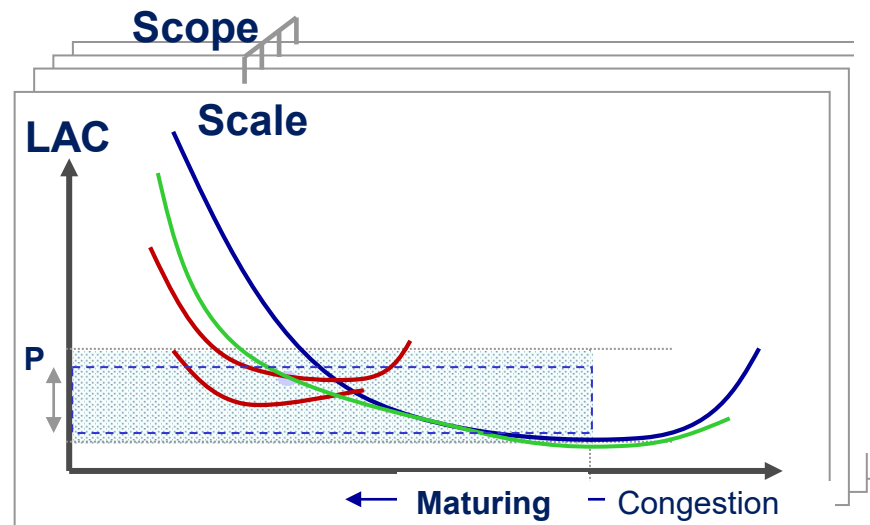
Play the Markets – at which level & how?

| | | | | |
|-----------------------|----------------|--------------------------|-------------------|------------------|
| Operator | | | | |
| | | | | |
| Core | | | | |
| | | | | |
| Partner Market | | | | |
| | E&A | Develop- ment | Production | Transport |

- Which part & how?
 - availability & costs of outsourcing
 - relative costs of control
 - complexity of task & contracting
 - switching costs, ...
 - interrelations & risk

Question:
Is the government prepared to review operations and markets bottom up?

- How to farm-in/coordinate?
 - “as is”, “lean & mean”
 - asset sharing
 - sources & forms of finance
- How to organize?
 - decision process
 - management style
 - incentives & responsiveness

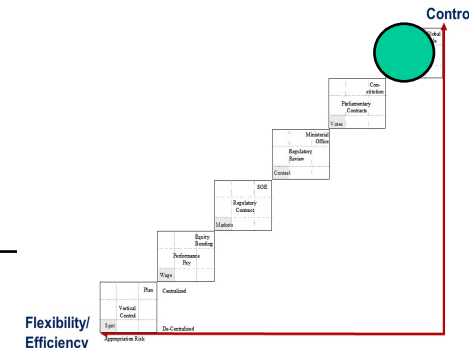


- How to disintegrate?
 - functional outsourcing
 - take on operator
 - service provision
 - sell-off assets
 - sell-off infrastructure
 - business developer
 - s.t. P, liquid markets, fiscal regime, ..

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IMD / Real learning
Real impact

Structure of Presentation:



- Efficiency, Control & Market Preference
- State Ownership Policy Document – Arab Republic of Egypt 12. 2022
- Selection Method & Alternatives
- *Competitive Neutrality* – Regulating vs. Self-enforcing
- Sectors – Challenges & Outside References
- **Assessing Relations**
- Summary & A Step Back

Assessing Relations:

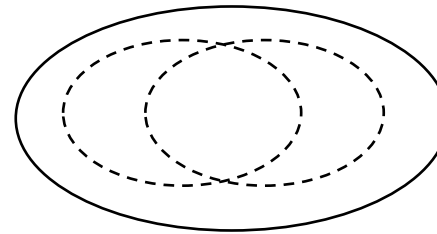
Preferential Trade Agreements – “The More the Better!” Really?

Egyptian Trade Agreements:

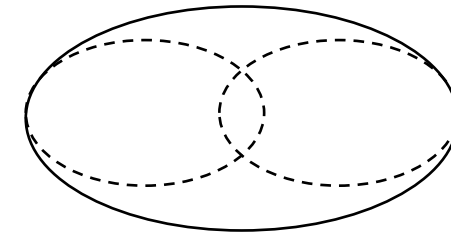
1. Pan Arab Free Trade Agreement/
Greater Arab Free Trade
Agreement (GAFTA)
2. Common Market for Eastern and
Southern Africa (COMESA)
3. Agadir Free Trade Agreement
4. Egypt-EU Association Agreement
5. Egypt-EFTA Free Trade Agreement
6. Qualified Industrial Zones (QIZ)
7. Egypt Turkey Free Trade
Agreement
8. Egypt-MERCOSUR Free Trade
Agreement
9. ...

One Belt:One Road
BRIC +

Competitive Specialization



Complementary Specialization

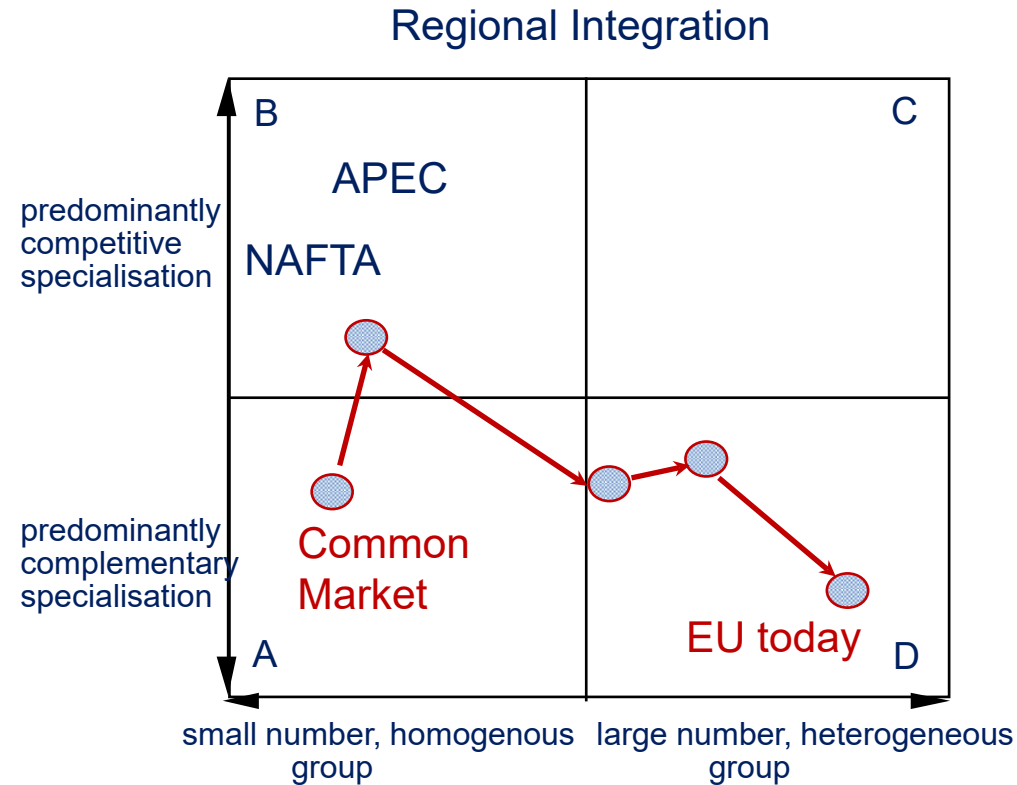


Question:

Is there an aggregate
valuation of sectoral
composition & terms?

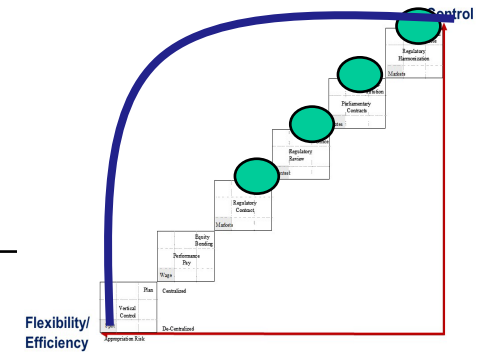
Assessing Relations:

Who are the parties involved & how are decisions being taken?



Not a Role Model to Follow!

Structure of Presentation:



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- **Summary & A Step Back**

Summary:

The State Ownership Policy Document requires a Substantial Review

The Egyptian economy is under pressure. The country needs income, jobs, investments and financial infusion. And the government must manage expectations - internally and externally.

There is talk about an “Egyptian Renaissance,” how the New Cairo symbolizes the success of “A New Republic,” how China’s Silk Road Initiative, the growing number of trade alliances and the move towards BRIC + will make Egypt the gateway to Africa and a centre piece in the economic revival of the region. Most importantly, there is talk about the necessary revitalization of the private sector. But is the government sending credible signals?

The State Ownership Policy Document of December 2022 sketches the future of the public and private sector involvement in the economy. Various important elements of the document could benefit from an external perspective. For one, not the process for selecting the sectors in which the government wants to maintain and increase control, but the criteria used would need to be reconsidered. The presentation highlights three alternatives. Next, the notion of competitive neutrality lacks clarity and operationality and thus results in excessive regulatory discretion. The presentation offers an alternative derived from the reform of EU competition law. Furthermore, discussing four key sectors, the above questions the rationale for government involvement, its format and welfare impact, suggesting the discussion of counterfactuals and illustrating diverse options. Finally, it is asked, whether the increasing use of preferential trade arrangements will be able to structurally transform the economy and give it the needed market-drive.

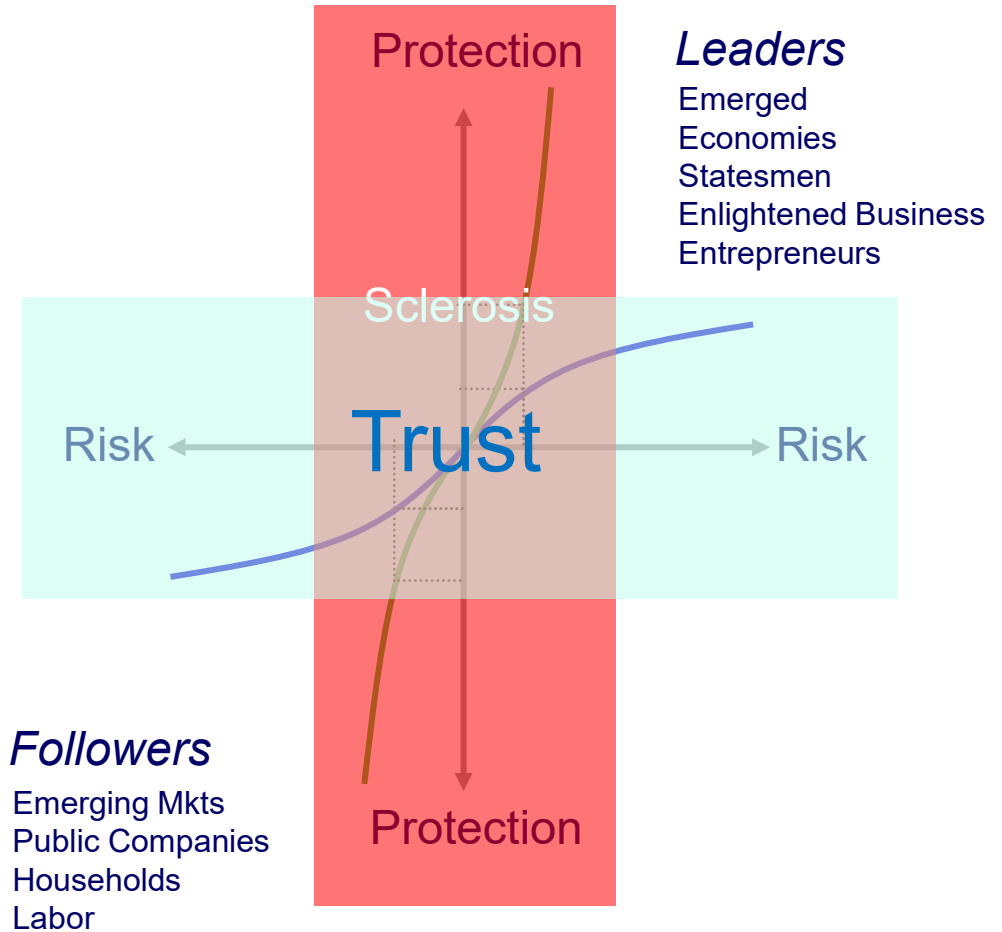
Hence, to guide internal and external stakeholders as well as the attainment of the espoused policy objectives, the State Ownership Policy Document requires a substantial review. It may be naïve to believe that the document was intended to provide such guidance in the first place. As a neutral bystander, I would give it the benefit of the doubt.

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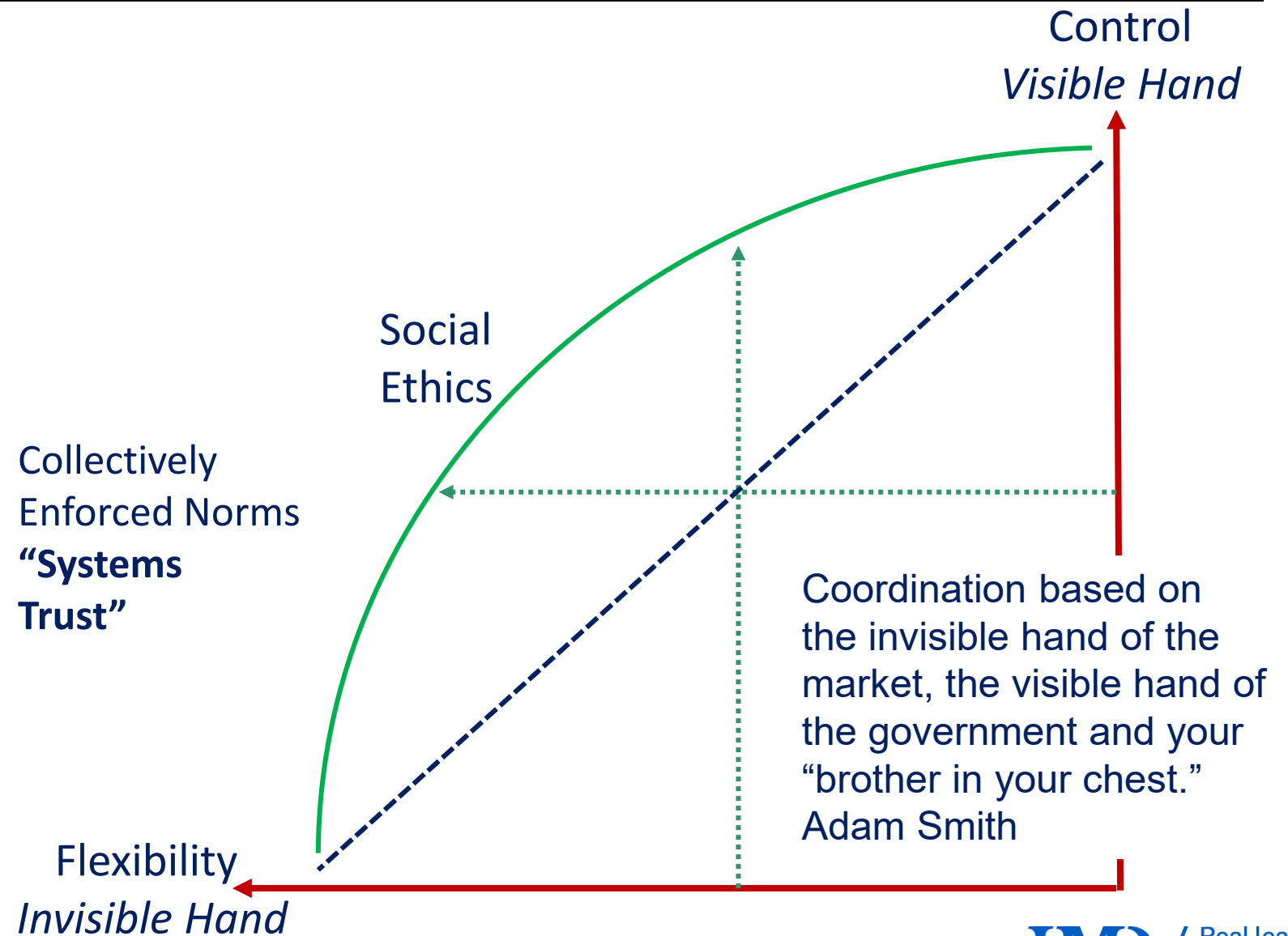
IMD / Real learning
Real impact

A Step Back – Going Forward: Economic Advance requires Collective Action Trust!

| | Coop | Defect |
|--------|------|--------|
| Coop | ++ | + - |
| Defect | - + | -- |



A Step Back – Going Forward: Economic Advance requires Collective Action Systems Trust!



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Real impact

A Step Back – Going Forward:

Societies expect business to lead the necessary changes!

Post 2015 Consultations: The World We Want

5 million people, gender-balanced,
majority below 30 years of age &
from lower HDI countries

Priorities:

Education; **health**; employment;
accountable governments;
protection against violence;
nutritional food; access to water
and sanitation; gender equality;
support of not working persons;
reliable energy supply; non-
discrimination and non-prosecution;
better transportation infrastructure;
protection of forests; rivers and the
seas; access to telephones and
internet; political freedom; **efforts
against climate change**



- More confidence in business than in government!
- 80% agree that businesses should make good profits provided they improve social conditions
- **2018, 2020, 2022 – the story holds!**

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