

**Country Assistance Program  
for  
the Arab Republic of Egypt**

**Government of Japan**

**June 2008**

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## **1. Significance of Assistance to Egypt**

As the Middle East being the world's major energy supplying region, ensuring peace and stability of this region is a crucial issue that is directly related to the security and prosperity of the international community as a whole, including Japan. Under such recognition, Japan is actively working toward peace and stability of the region.

Egypt is positioned at a place where the continents of Asia, Africa, and Europe meet; it possesses the Suez Canal and is a major power in the regions of the Middle East and Africa, situated in a geopolitically strategic location. The country holds significant influence in the Arab and Islamic world. Egypt's social stability, economic expansion, and constructive role within the region is important to peace and stability of the Middle East and Africa.

In this context, Japan regards Egypt, as a country of special importance in its diplomacy toward the Middle East and play a constructive and important role concerning the peace and stability of the region.

At the 2004 G8 Sea Island Summit there was joint recognition of the importance of the G8 supporting the voluntary reform efforts of each country within the region across political, economic, and social aspects for the stabilization of the Middle East. In the midst of such developments, Egypt amended its constitution by a national referendum in May 2005, reforming its presidential election process to direct elections among multiple candidates. Besides advancing political reforms such as the holding of presidential elections in September of the same year based upon this reform, Egypt is also proceeding with reforms on economic and social fronts.

Also in recent years Egypt has begun to export liquefied natural gas (LNG) to Jordan and Western countries. The country's economic status is rising within the region even when concerned with the energy sector. Japanese petroleum and natural gas development companies are venturing into Egypt as well. In the advancement of the economic globalization, it is essential for peace and stability of the Middle East and Africa regions that Egypt continues to be an influential, stabilizing force within these regions by bolstering its economic power amid as well as its political influence.

Regardless of all these mentioned factors, social and economic development in Egypt has to pass several more phases. While per capita gross national income (GNI) became

as high as US\$1,390 in 2003, the situation is still such that 40% or more of the population lives on US\$2 or less per day. Alleviating the income disparity, regional disparities, and the gender gap are also challenges for Egypt. Given the fact that Egypt's financial circumstances are structurally fragile against external factors such as the fluctuation of international economy and regional conflicts, assistance from the international community is essential for Egypt to continue its stable economic growth and to succeed in achieving the MDGs and poverty reduction.

Based on the above, in order for Egypt to continue to play a constructive role for the peace and stability of the Middle East and Africa regions, it is highly meaningful for Japan from its perspective of diplomatic strategy to support Egypt's self-help efforts for further development and reform through effective and efficient use of the official development assistance (ODA) and also in a manner which contributes to the stable supply of energy to Japan.

## **2. Japan's Assistance to Date (as of 2005)**

Japan has supported the development efforts of Egypt since 1973 through grant aid and yen loans, and additionally with technical cooperation since 1983. Japan has provided yen loans for projects, beginning with a project to expand the Suez Canal from the 1970s, such as thermal power plants and transformer substations, cement factories, and iron foundries and so on. Provision of these yen loans, along with technical cooperation in areas such as vocational training, have contributed to Egypt's economic expansion. Moreover, grant aid projects such as the Cairo University Pediatric Hospital, the Cairo Opera House, and the Suez Canal Bridge have contributed greatly to enhancing the friendly relations between Japan and Egypt, in addition to the benefits from themselves. New provisions of yen loans were put off following the debt reduction measures by the Paris Club and international financial institutions in 1991. After realization of macro-economic stabilization and improvement of financial situation resulting from economic reform, an agreement with the IMF for financial facility was concluded in 1996. With these developments, provision of yen loans was resumed and continued from 2001 onward.

According to Development Assistance Committee (DAC) statistics, the total annual bilateral aid to Egypt for 2004 (net disbursements) was approximately US\$1.5 billion. Out of this figure the US comprises about US\$900 million. Japan provided approximately US\$115 million making it the fourth largest donor country behind the United States, France, and Germany. While Japan is not the top donor, it does contribute

to the economic development of Egypt as a major donor.

In Japan's previous Country Assistance Program for Egypt, formulated in 2000, priority areas and challenges were set out as: (1) developing economic and social infrastructure and promoting industry; (2) measures to combat poverty (agriculture, health and medical care); (3) developing human resources and enhancing education; (4) conserving the environment and improving the living environment; and (5) promoting tripartite cooperation (South-South Cooperation). Up till now, following types of cooperation have been implemented and have produced remarkable results.

For the development of economic and social infrastructure, Japan supported the development of infrastructure in sectors like transportation and electricity through yen loans. In addition, Japan also contributed to raising the level of priority for policies related to the issue of urban transportation through the implementation of development studies regarding urban transportation in Cairo. For the promotion of industry, Japan has supported small and medium-sized enterprises through the Social Fund for Development (SDF) by means of yen loans. On top of which it also contributed to promoting industry and trade through technical cooperation for metallurgical and trade sectors.

In the agricultural sector, through grant aid for the Project for the Improvement of Mazola Regulator on Bahr Yusef Canal, timely operations coping with demand were made possible and ineffective discharge was reduced. This enabled the regulation of irrigation water and its efficient distribution over a beneficiary area of approximately 52,000 feddans (roughly 24,000 ha). Moreover, the procurement of 648 pieces of agricultural machinery through grant aid for the increase of food production (FY1999 – 2003) contributed to improving agricultural productivity, saving labor, and enlarging the area under cultivation. Counterpart funds of the grant aid for the increase of food production are being effectively utilized to support the agricultural mechanization policies which the Egyptian Government is promoting. Examples of this include funds for enhancing an agricultural mechanization center and the establishment of a training center for developing human resources.

In the health and medical care sector Japan has provided cooperation for the eradication of Polio, and in 2005 Egypt accomplished the feat of having zero outbreaks of the disease. Moreover, technical cooperation aimed at enhancing emergency medical care

for children has made results by providing it as subsequent phases of the previous grant aid program for the construction of a pediatric hospital.

In terms of developing human resources and enhancing education, Japan has implemented technical cooperation for vocational training and technical education, as well as for elementary school science and mathematics education, that receives high evaluations from the concerned parties.

For the conservation of the environment and the improvement of the living environment, environmental monitoring equipment and analytical equipment were procured through grant aid for the Project for Supply of Equipment for the Regional Environmental Monitoring Network (Phase II). The environmental monitoring systems for promoting environment preservation and pollution prevention measures have been strengthened. In addition, water supply infrastructure was improved in the city of Giza and the Al-Sharkia Governorate through grant aid. Japan made it possible for a total of 91,000 residents (as of 2010) to secure safe drinking water and contributed to raising Egypt's water supply coverage. Through its yen loans, Japan also supports the utilization of new and renewable energies which have a low environmental impact, such as the construction of electrical generation plants which use wind power and solar heat.

Trilateral cooperation for Africa has been carried out for about 20 years starting in FY1985 primarily on areas such as agriculture, medical care, and the development of infrastructure. This cooperation has garnered high evaluations from African countries. Tripartite cooperation for the Middle East has been implemented in the form of training in the areas of construction machinery practice, telecommunications, welding techniques, and electricity for Palestine; and as training for medical care and electricity by way of support for the reconstruction of Iraq. Japan has previously accepted approximately 190 trainees from Palestine and about 500 from Iraq. The training for Iraq in particular has received high evaluations from both the Iraqi and Egyptian governments.

### **3. Future Direction of Assistance for Japan to Pursue**

For the span of the next five years or so, based on Egypt's aforementioned development challenges and the significance of Japan's assistance to Egypt, Japan will support Egypt in its "Transformation into a Competitive and Stable Economy and Society", in this occasion of revisions of Japan's Country Assistance Program for

Egypt. Japan will continue to promote strategic efforts through ODA around the posts (three main pillars); “Realization of Sustainable Growth and Employment Creation”; “Poverty Reduction and Improvement of Living Standard”; and “Promotion of Regional Stabilization”. Such direction is in accordance with the political, economic, and social reforms which the current government under President Mubarak is carrying out. (Conceptual Diagram of Program Goals on page 30)

A “competitive” economy and society, is a economy and society, which is furnished with efficient economic and industrial structures which depends upon the market mechanism, makes optimum use of resources and gives due consideration to preservation of environment, in the midst of development of international economic systems under the globalization. At the same time, a “stable” economy and society, has a democratic and stable political system, in which sustainable economic growth is realized, employment opportunities are created to absorb the increasing workforce, poverty is alleviated, and regional and gender disparities are also redressed. In the process of transitioning into a market economy, the Egyptian economy, which was previously under strong intervention from the government, has been successful to a certain degree so far in increasing its efficiency. This has been accomplished through efforts including liberalization of investment, trade, and finance, as well as the privatization of state-run enterprises. At present, however, when economic globalization is proceeding rapidly, the greatest challenges facing Egypt are securing international competitiveness through enhancement and modernization of industry and export promotion. Moreover, greater deregulations and liberalizations are imperative for service sectors such as finance, transportation, and communication.

The creation of employment opportunities is necessary for poverty reduction. To that end, high and sustainable economic growth is indispensable. Sustainable economic growth may contribute to poverty reduction and equitable income distribution in the long term. But in the short term, it does not necessarily correct economic and social inequalities, represented by the issue of poverty. Accordingly, in tandem with economic growth, it is necessary to enhance social safety nets and to redress the income disparities, regional disparities, and the gender gap. By implementing the proper policies, the anxiety of the populace will be alleviated and the stability of Egyptian society will be strengthened. In recent years, the Egyptian Government is pursuing the participation of the private sector and NGOs in the policy making process. Japan will support these efforts of the Egyptian government for the “realization of sustainable growth and employment creation” and “poverty reduction and improvement of the living standard.”

In addition, regional stability is another important external factor for Egypt to succeed

in transitioning into a competitive and stable economy and society. Supporting efforts of Egypt toward “Promotion of Regional Stabilization”, Japan will tackle the development of the human resources which contribute to economic and social development in Arab states and Sub-Saharan African countries in collaboration with Egyptian initiatives.

#### **4. Assistance Policies for Respective Priority Areas**

Based on the aforementioned “Future Direction of Assistance for Japan to Pursue (three main pillars)” and from a standpoint of “selection and concentration” and “result-based approach”, assistance policies for respective areas have been set out as follows:

##### **A) Realization of Sustainable Growth and Employment Creation**

For “realizing sustainable growth and employment creation”, efforts will be carried out such as: (i) improving investment and business environment, (ii) promoting exports and enhancing industry, and furthermore, efforts for (iii) improving environmental measures are acknowledged as necessary in aiming for sustainable development compatible with the environment. Utilizing Japan’s experience, technology, and knowledge in such areas, Japan will effectively and efficiently support the efforts of the Egyptian Government. In this regard it is imperative to pay due consideration to strengthening and deepening private economic relations, namely investment and trade, between the two countries.

##### **(i) Improvement of Investment and Business Environments**

Developing economic infrastructures and legal systems is absolutely indispensable for the improvement of investment and business environments. As for economic infrastructure, while progress has been observed in sectors like electricity and transportation with Japan’s assistance, further development is needed. Although participation of the private sector has been initiated for the development of economic infrastructures in some sectors, yet Japan will continue to provide support centered on the electricity and transportation sectors in which role played by the government remains significant owing to the scale of operation. In this regard, Japan will pursue realization of sustainable effect of such financial support alongside technical cooperation for the improvement of management including system architecture and maintenance and operation of infrastructures.

Regarding the electricity sector, the Egyptian Government attaches a high value to the effect of new and renewable energies in minimizing environment impact of development and pours its efforts into the utilization of such energies, setting out the policy of generating approximately 3% of electricity with these energies by the year



2011. Japan, in view of this policy, will consider proactively the possibilities to provide assistance for the promotion of such energies. It is also expected that such assistance will contribute to environment issues at the global level and that use of the Clean Development Mechanism (CDM) can be explored.

In the transportation sector, based upon the results of development study, Japan will consider supporting improvement of road network as a measure to fundamentally address aggravated urban transportation and environmental issues.

Although the Egyptian Government is endeavoring the development of the legal system, problems surrounding Egyptian institutions, such as delays in administrative procedures, problems related to custom duties and other tax systems and overabundance of restrictions remain to be settled. Japan will also consider technical cooperation that can help to resolve these institution-related problems from the viewpoint of supporting the operation of Japanese enterprises in Egypt.

#### **(ii) Export Promotion and Enhancement of Industry**

Although efforts for the export promotion and enhancement of domestic industry were implemented in the past, they could not occupy a central concern compared to present rigorous efforts. New efforts, distinct from those of the past, are being exerted, emphasizing the interests of the private sector under Public-Private Partnerships (PPP) and acknowledging the enhancement of international competitiveness. At the moment, the Government is placing major emphasis on labor-intensive industries such as textiles, food processing, construction materials, furniture, and leather. According to the Industrial Development Strategy announced in the middle of November 2005, Egypt is planning to shift the emphasis to capital and technologically-intensive industries over the next 10 to 20 years. Japan will provide support for strengthening the competitiveness of the industries and for improving their productivity.

As for the promotion of exports, in addition to strengthening the competitiveness of domestic industry, vigorous export promotion activities abroad are needed.. Egypt is willing to learn lessons from the experience of Japan which succeeded in a broad spectrum of export promotion activities while achieving post-World War II reconstruction and high-level economic growth driven by exports, backed by its highly competitive industry. In response Japan has already begun cooperation in the area of

export promotion activities, including the establishment of the Egyptian Export Promotion Center (EEPC) (also referred to as the Egyptian version of JETRO) through the dispatch of experts to the Ministry of Foreign Trade and Industry. While looking at the results yielding, Japan will expand its cooperation including policy formulation and institution building.

While small and medium-sized enterprises play a central role in economic activities and employment creation, yet they face constraints in terms of their funding, facilities, management, and other aspects. Japan has, hitherto, provided a certain degree of contributions via two-step loans through the SFD. Hereafter, Japan will consider supporting the policy formulation for the promotion of small and medium-sized enterprises in addition to the financial cooperation.

The tourism sector is the largest source of foreign currencies, and its comparative advantage is high in terms of creating employment as well. For this reason, the Egyptian Government is placing emphasis on developing this sector, and is working to raise its attractiveness and to enhance the ability of the tourism industry to accommodate increased tourists through developing and preserving tourism resources. Utilizing its knowledge/experiences and technology, Japan will actively support such efforts from both “hard” and “soft” aspects. The central axis of this support is the provision of yen loans for the Grand Egyptian Museum Construction Project, for which the exchange of notes was signed in April 2006. Furthermore, as a derived effect of the support, the Japan-Egypt relation is expected to grow as a result of an increase in the number of Japanese tourists to Egypt.

In order to raise the international competitiveness of industries, including the tourism industry, it is crucial to foster industry-specific human resources who have sophisticated expertise and technology required to engage in research and development (R&D) in addition to highly capable skilled workers.. For this reason Japan will consider to provide support in areas of technical and vocational education and training (TVET) and higher education for science and technology.

### **(iii) Environmental Measurement contributing to Sustainable Development**

In Egypt serious environmental pollution is already becoming an serious issue. In order to achieve development compatible with environment, urgent efforts are needed for the purpose of protecting the health of the people and preserving the

natural environment while achieving sustainable economic growth. Japan has already supported the establishment of environmental monitoring system and will continue to provide support for consolidating this system. In addition, Japan will also support environmental measures at factories from the perspective of supporting industrial development which gives due consideration to the environment mainly through the provision of yen loans to the Environmental Pollution Abatement Project, for which the exchange of notes was signed in April 2006.

### **B) Poverty Reduction and Improvement of Living Standard**

Poverty Reduction and improvement of living standard of the impoverished are important development challenges for Egypt as much as are economic growth and employment creation. It is reported that more than 40 % of the population in Egypt live on US\$2 or less per day (United Nations Development Programme (UNDP) Human Development Report 2006) and its absolute number comes near 30 million people. Alleviating the income disparity, regional disparities, and the gender gap, as well as elevating the living standards of the impoverished in particular, are becoming priority challenges for the achievement of the MDGs. With a central emphasis on the development of various living infrastructures in localities, Japan has extended cooperation for different purposes, such as upgrading health and medical care services, improving basic education, and developing water supply and sewage. Japan will continue its cooperation with a particular emphasis on: (i) enhancement and improvement of public services, (ii) development of agriculture and rural communities, and (3) improvement of social welfare. For the formation of individual projects, Japan will, from the perspective of human security, formulate the contents of its cooperation to respond to the true needs of the poor and also work with a view to making cooperation more effective through adopting a cross-sector approach where necessary.

#### **(i) Enhancement and Improving Public Services**

To date Japan has provided cooperation for development of living infrastructure, including development of water supply and sewage mainly in the major urban areas of Cairo and Giza. The extension and development of water supply and sewage are lagging behind in the poor southern rural areas and in the Nile Delta areas where environmental pollution is a serious concern. In these regions waste treatment is becoming a social problem. Japan will support, particularly in these regions, the development of living infrastructure like water supply, sewage, and waste treatment in combination with the

strengthening of their operation and maintenance systems.

In the area of health and medical care, Japan will continue its support for improving the access of the impoverished to medical care services. There are problems, such as access to primary health care (PHC) services, measures to combat infectious diseases like tuberculosis, hepatitis C, and polio, and the lack of nurses, particularly in regions with many people living in poverty. Japan will, therefore, support developments of the relevant infrastructure and capacity.

In the area of education, Japan has provided support in the form of technical cooperation for improving the quality of elementary-level science and mathematics education, in the form of grassroots grant aid for education of girls and infant children operated by Egyptian NGOs, and also through volunteer works. Since the enhancement and improvement of basic education form the foundation for development of human resources which will contribute to national economic growth, Japan will continue its support for this area and aims to strengthen human resources.

#### **(ii) Development of Agriculture and Rural Communities**

Agriculture, which accounts for roughly 30% of the employed population, is polarized into large-scale managed farms and small farmers. Small farmers make up 90% or more of all farmers. Therefore the development of rural communities targeting small farmers can be the most effective measure to reduce poverty. In addition, as Egyptian agriculture depends upon irrigation, it is vital to promote the effective use of water resources in consideration of overall water demand and to diffuse agricultural technology for effective utilization of the limited cultivated lands.

Japan has been providing assistance for the effective use of agricultural water through the promotion of agricultural mechanization, the development of irrigation facilities, and other related activities. Contemplating the reducing poverty through the development of rural communities, Japan will support the increase of the income of small farmers and the improvement of their living standards through the production of high value added crops and the creation of non-agricultural jobs, in the development of the basic infrastructure of the regions, in addition to above mentioned existing projects. Japan will investigate the possibility of formulating comprehensive support programs and endeavor to formulate and implement individual projects, combining these policies and measures.

### **(iii) Improvement of Social Welfare**

The deficiencies in welfare for the socially vulnerable, such as the handicapped and street children are becoming a social issue, primarily in urban areas. Based on the perspective that the formation of an equitable society promotes social stability, Japan will keep support in promoting self-reliance of the socially vulnerable such as persons with disabilities, in collaboration with local NGOs and other organizations. This will be implemented through the provision of Grassroots Human Security Grant Aid and dispatches of Japan Overseas Cooperation Volunteers (JOCV), in parallel with the current technical cooperation support for the handicapped.

### **C) Promotion of Regional Stabilization**

Egypt has been playing a constructive role toward the stabilization of the Middle East and African regions. Therefore, supporting the south-south cooperation provided by the Egyptian Government is of significance from the viewpoint of promoting regional stabilization. Geographically Egypt is located in the center of the Arab world and in a corner of the African continent, thus it has an advantage in extending regional cooperation in these regions. The Egyptian Government is actively advancing the south-south cooperation, including technical cooperation through the Egyptian Fund for Technical Cooperation with Africa (EFTCA) established in 1981 within its Ministry of Foreign Affairs. At the same time, Japan has been implementing trilateral projects like third-country training and the dispatch of third-country experts in collaboration with Egypt utilizing the advanced human resources and knowledge. Such cooperation is appropriate and efficient both economically and socially, and the effect of encouraging autonomous development of Egyptian organizations which receive trainees. Japan will further strengthen this method of cooperation, regarding Egypt as the base for such cooperation for the Middle East and Africa. To this end, Japan will formulate an assistance plan that is based upon the intention of the Egyptian Government, implementing country, the needs of the recipient countries, and Egypt's comparative advantages in the field.

### **(i) Support for peace and development of the Middle East**

The reconstruction of Iraq and advancement of the Middle East peace are essential for promoting the stabilization of the Middle East region, upon which Japan depends for its petroleum and natural gas resources. Japan has to date, in cooperation with the Egyptian Government, implemented third-country training as a part of support for

human resource development to contribute to the reconstruction of Iraq and Palestinian state-building. Japan will continue to provide support of the cooperation. In doing so, Japan will attach importance to cooperation, which is expected to achieve synergy with on-going financial cooperation extended to Iraq and Palestine. Moreover, Japan will, from the perspective of contributing to peace and development of the Middle East through the promotion of intra-regional cooperation, consider formulating and implementing projects that are conducive to facilitating economic cooperative relations between Egypt and its neighboring countries including Israel.

#### **(ii) Development assistance for Sub-Saharan countries**

Japan's trilateral cooperation in Egypt for African countries has a history spanning 20 years. At the time of hosting the Second Tokyo International Conference on African Development (TICAD II) in 1998, Japan and Egypt entered into an agreement related to trilateral cooperation for the promotion of the South-South Cooperation. A basic policy has been affirmed between the two countries of expanding assistance to Africa with the respective executing agencies of the Japan International Cooperation Agency (JICA) and the EFTCA. While taking note of Egypt's role in the NEPAD process, Japan will implement the south-south cooperation, including programs like third-country training for Sub-Saharan countries, as a part of its support for Africa. In doing so, Japan will pay heed to promoting cooperative relations among the countries in the Nile Basin and to contributing to the achievement of the MDGs by Sub-Saharan countries. Moreover, Japan will actively consider and implement third-country training to support the consolidation of peace in Sudan within fields for which Egypt possesses a comparative advantage.

### **5. Ways and Means of Implementing Effective and Efficient Assistance**

#### **A) Creating Systems to Verify the Development Impact of the Country Assistance Program**

It is important to develop systems to verify the development impact of assistance programs in order to implement assistance effectively and efficiently based on this Country Assistance Program within the planned period. The country-based ODA Task Force plays key role to accurately and promptly grasp the changes in Egypt's development needs through different means, including policy consultations held annually with the Egyptian authorities. It will also review the status of the project formulation and implementation in the respective priority areas and the situations surrounding the following points and report them to the headquarters. The results of

these reviews will constitute important input for country-specific evaluation of assistance to Egypt, which will be conducted when reviewing this Country Assistance Program.

#### **B) Creating and Revising a Rolling Plan**

The country-based ODA Task Force will create a rolling plan based upon this Country Assistance Program. The plan will be created through conducting close dialogues with Egyptian ministries and agencies and local donor community and detailed reviews of assistance strategies for respective priority areas. This plan will be reviewed through the aforementioned system to verify the development impact at the time of the survey of proposals for technical cooperation or grant aid. In so doing the possibilities of effective coordination between different assistance schemes, including yen loans, and of cooperation with other donors and international organizations will be duly considered. Moreover, the general interests of Japanese enterprises operating in Egypt will also be taken into account as much as possible from the perspective of promoting bilateral trade and investment.

#### **C) Ascertaining the Management Capabilities of the Egyptian Side**

For the formulation of assistance projects, Japan will thoroughly verify the adequacy of the management capabilities of the executing agencies on the Egyptian side, which include the proper operation, maintenance, and management of the equipment provided and the facilities constructed through Japan's cooperation. Japan will also actively provide support for improving their management capabilities as needed.

#### **D) Consideration for the Bearers of Development as well as Society and the Environment**

For the formulation of assistance projects Japan will pay attention to perspectives such as gender to ensure the participation of a wide spectrum of people who will constitute the owners of development. Due attention will also be paid to strengthening ownership on the part of the beneficiaries. Furthermore, the formulation and implementation of projects such as developing economic infrastructures are prone to affecting the environment and society. Therefore, Japan will appropriately apply regulations on the society and environment of the Egyptian Government and the Japanese executing agencies. Due consideration will be given to the environment and society from an early stage of the planning.

### **E) Disseminating the Results of Technical Cooperation**

Japanese technical cooperation receives high appreciation from various parties including the executing agencies on the Egyptian side. Given the population of 70 million people in Egypt, however, the impact of technical cooperation is undeniably limited. It is important to make efforts for educating and disseminating its results in order to enhance the significance of this technical cooperation as a pilot project and to make a wider impact, potentially nationwide. As part of these efforts Japan will actively consider and implement activities like holding seminars with the participation of experts from Japan, Egypt, and other donors related to certain areas of technical cooperation. Japan should also aim to produce synergy effects through the implementation of technical cooperation combined with projects of a large magnitude which are funded through yen loans.

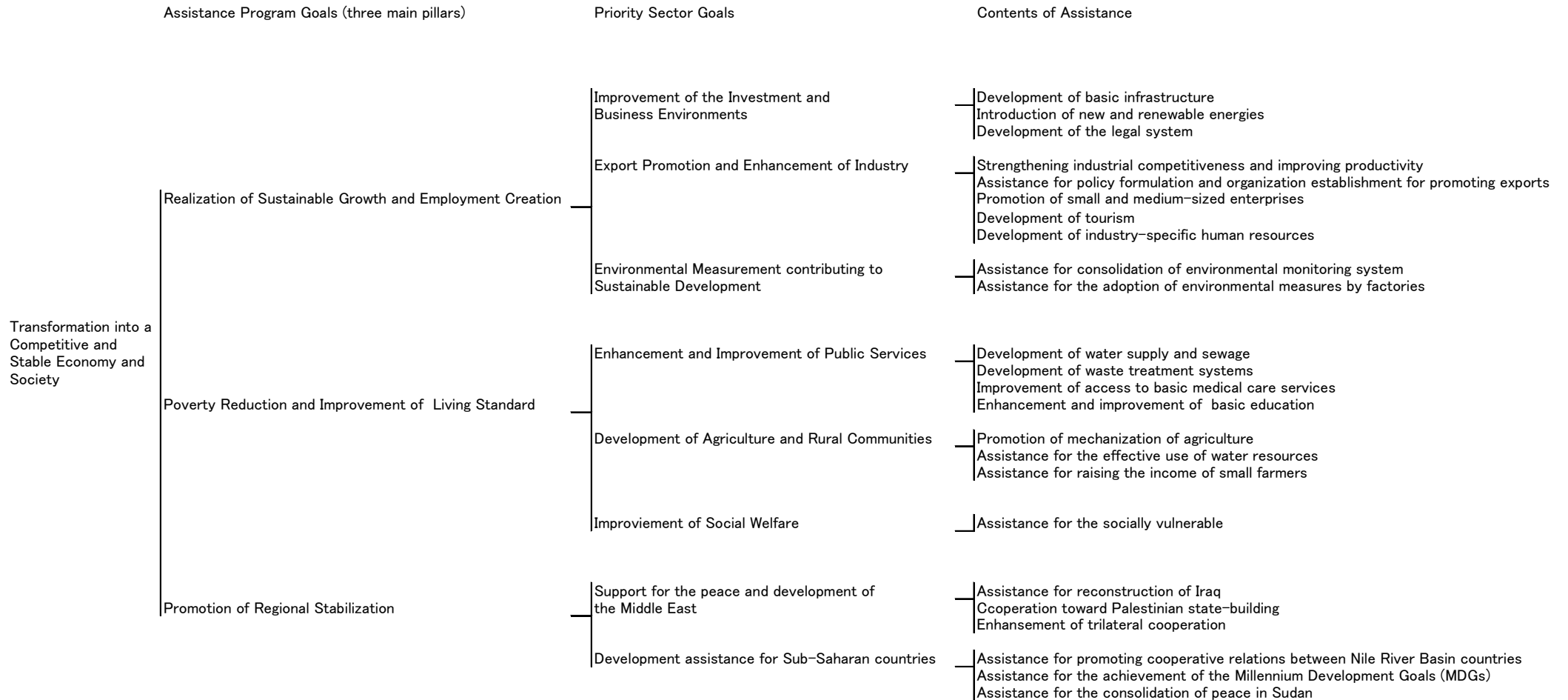
### **F) Conducting Effective Public Relations**

Japan should proactively carry out public relations activities in order to broaden and deepen the awareness of the people of Egypt regarding the results of Japan's economic cooperation. When doing this it is necessary to make the contents interesting to the recipient by presenting the outcomes of cooperation projects, introducing the opinions of beneficiaries and so on.

(END)



## Conceptual Diagram of Program Goals for Japan's Country Assistance Program for Egypt (FY2006 Revisions)



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## Reference

### 1. Recent Political, Economic, and Social Situations

#### 1) Political Situation

President Muhammad Hosni Mubarak has launched his fifth term with a six-year term of office as a result of his victory in the presidential election of 2005. Egypt's constitution vests the president, who presides over the executive branch, with extensive authority and with the supremacy to the legislative and judicial authorities.

Since the shift from a single party system to a multi-party system in the latter half of the 1970s, the roles in Egyptian politics played by the Parliament and party politics have been expanding. In recent years, voices seeking political and civil freedoms, such as the abolition of the Emergency Law (which has been in place since 1981), have been rising. In addition to such internal demands, since the events of September 11, requests from outside the country for political reform and democratization have been increasing. With these sorts of developments as a background, upon entering the year 2005, when elections for the presidency and the People's Assembly (Majlis al-Sha'b) were approaching, demonstrations by opposition parties, students, and others were held frequently. In February 2005, President Mubarak proposed constitutional amendments that would change the presidential electoral system from a referendum to a multi-candidate system (constitution amended in May). In addition, he announced political reforms of 10 items, such as respect for citizenship, respect for basic rights and supremacy of law. As a result, in September, Egypt conducted the presidential election under the multi-candidate system for the first time in its history. President Mubarak defeated the nine other candidates and won his fifth term with an 88.6% share of the votes. For the People's Assembly election, which was held in November, December 2005, the ruling National Democratic Party secured more than 70% of the elected seats (444) in the parliament while the members of the Muslim Brotherhood, an Islamic group illegal as political party, made major gains, winning roughly 20% of the seats at the expense of existing opposing parties.

The subsequent political, economic, and social reforms in Egypt are implemented according to President Mubarak's election campaign program. Particular emphases are being placed on: (1) democratization, (2) employment, (3) improving the living standard, (4) improving the income and pension system for the social classes, which deserve top priority for care, and (5) measures for the middle class, among others.

In terms of foreign affairs, in 1979 Egypt became the first Arab country to conclude a peace treaty with Israel. Since then, Egypt has been making efforts toward the realization of peace in the Middle East. In addition, Egypt is exercising leadership as a major country in the region which faces challenges that are also important internationally, such as the reconstruction of Iraq and the consolidation of peace in Sudan. Thus, the country is contributing to the stability of the Middle East and Africa.

## **2) Economic Situation**

### **A) Background**

The Open Door Policy (a policy package of economic liberalization) which was initiated in the 1970s by former President Anwar Al-Sadat has been passed down to President Mubarak. However, at the end of the 1980s, the external debt issue was aggravated as a result of the previous policy of excessive overseas borrowing. Responding to the situation, the Economic Reform and Structural Adjustment Programme (ERSAP: fiscal and financial reforms, liberalization of trade and capital and deregulation, privatization, etc. accompanied by debt relief), was comprehensively implemented under the auspice of the International Monetary Fund (IMF) and the World Bank from 1991. In the latter half of the 1990s macro-economy was stabilized, as was economic growth in the range of 5%. An important point is that in parallel with the start of ERSAP, the Social Fund for Development (SFD) was established as a safety net measure in consideration of the social segments that suffer negative impacts.

However, the system of pegging the Egyptian pound against the US dollar, which had been adopted since the beginning of the 1990s, led to an overvaluation of the Egyptian pound and made exporting difficult. The Egyptian pound depreciated substantially (a foreign currency crisis) upon entering the 2000s. In January 2003, a shift to a managed float system was implemented, which caused the Egyptian pound to further depreciate (a sharp drop against the dollar) for the span of a subsequent year and a half. As a result the prices of imported goods rose sharply and the inflation worsened.

At the same time, there are problems such as uncompetitive domestic industries, rising interest rates due to accumulated domestic debts, credit crunch by banks, and the lagging investment environment. The number of tourist decreased as a result of the terrorist attacks on the United States (US) and the Iraqi War. Under such circumstances, the economic growth rate hovered at a low level of 3%, and the problem of unemployment grew even more serious, primarily for young people. The steep inflation caused a rapid increase in the burden of livelihood,

particularly for low-income populations.

### **B) Recent Economic Conditions and Issues**

Under a slogan of “creating employment through promoting investment,” the Cabinet of Prime Minister Ahmed Nazif, which was inaugurated in July 2004, accelerated economic liberalization policy through measures, including tariff reduction and improvement of the environment for trade and investment. At the same time, it also implemented support measures for small and medium-sized companies and the export promotion, as well as reduction of income and corporate taxes. Under the difficult economic situation described above, the Government of Egypt is making efforts to realize “economic growth and employment creation” through the move toward a market economy while protecting the vulnerable.

The second annual convention of the ruling National Democratic Party (NDP) was held in September 2004 under the theme of “New Thinking and the Priorities of Reform” and strongly supported the reform policies of the new administration. In 2005, President Mubarak set out his campaign program in preparation for his own presidential election. Listed among these are creating employment for 750,000 people annually (4.5 million people over a six year period); increasing the basic salary for civil servants (raising the level by 75 - 100% over a six- year period); protecting low income earners through continuing to provide subsidies; and upgrading education, health, transportation, and housing services.

A real gross domestic product (GDP) growth rate was estimated at 5.7% for Egypt for the first half of FY2005/06 (July – December 2005), and the economy is on a recovery trend from the low growth of 3% prior to FY2002/03. In the meantime the inflation rate, which used to be in the double-digit range in 2004, is currently stabilized (3.7% in March 2006 compared to the same month the previous year).

The increase in revenues from different sources, such as tourism, Suez Canal tolls, and the repatriation of foreign currency by emigrant workers, produced a current account surplus of US\$2.9 billion for the FY2004/05. And the Central Bank of Egypt’s foreign currency reserves increased to US\$22.86 billion in May 2006, compared to US\$14.2 billion in June 2001.

The exchange rate against the dollar continued to drop to the level of 7 Egyptian pounds per US\$1 in the parallel market following the introduction of a floating exchange rate system in the beginning of 2003, but turned upward in late December 2004. Upon entering 2005 the pound started to show a appreciation to 5.75 Egyptian pounds per

US\$1. Following such improvements in its macro-economic indicators the IMF recognized Egypt as meeting the qualifications in IMF Article VIII as of January 2005.

As a reflection of President Mubarak's campaign program, in FY2006/07 priorities are placed on the improvement of the living standards of the people (raising compensation and wages for civil servants and maintaining the subsidy system), creating employment, and upgrading public services, such as education, health, transportation, and housing. With regard to the national budget total expenditure and revenues are planned at 228.1 billion pounds and 192.3 billion pounds, respectively, leaving deficits estimated to be approximately 45.6 billion pounds. The ratio of fiscal deficit to GDP (665.1 billion pounds) is estimated at 6.9% compared to 7.2% for the previous fiscal year.

As stated above, the Egyptian economy is on track for recovery, but over the course of the next several years, it will be important to address the following structural problems.

First, in terms of industry and trade structures, although the tourism sector and the petroleum and natural gas sector are acting as vehicles of development, the former is prone to be affected by terrorism and regional conflict while the latter is capital intensive and its impact is therefore limited in creating employment and raising the level of the living standards for low income earners. Viewing it from the objective of realizing dynamic and sustainable growth, fundamental issues are present such as the manufacturing sector lacking in international competitiveness and the sluggish growth of merchandise exports. It is essential to attract foreign direct investment (FDI) to Egypt to strengthen the competitiveness of domestic industry. Yet improvements in the investment and business environment, including the administrative and legal frameworks and development of infrastructure, are lagging behind.

Second, in the aspect of domestic equilibrium, fiscal deficits tend to grow because fiscal expenditures are expansive while the ability to collect taxes is limited. In particular, from the latter half of the 1990s, investment toward a mega-project (a large-scale program to develop desert regions) became a substantial burden on the national budget. The development of fundamental economic infrastructure costs enormously, in addition to which there are other expenses like direct and indirect subsidies for low-income population and interest costs for the accumulating domestic debts. Restoring fiscal balancing is not an easy task and being implemented by tax reform.

Third, in the long-term, owing to a high rate of increase in the population, 2% annually, the current population of 70 million people will rise to 100 million people in 2020. This rapid increase in population will enlarge the potential of the domestic markets. However, in the event that productivity does not improve it could aggravate issues like unemployment and shortages of food and resources such as energy and water, further increase the burden on impoverished and vulnerable groups, and threatening the social stability.

### **C) External Economic Affairs**

The Egypt Government is promoting economic integration with major markets. The Association Agreement with EU entered into force on 1 June 2004. The agreement incorporates free trade arrangements for industrial goods, concessionary arrangements for trade in agricultural products, and further liberalization of trade in services. Also the government signed an agreements with the US and Israel in December 2004 to establish Qualifying Industrial Zones (QIZ) for duty-free exports to the US, followed by its pursuing the initiation of Free Trade Agreement (FTA) negotiations. Moreover, intra-regionally Egypt is assuming a leading role through the League of Arab States and the New Partnership for Africa's Development (NEPAD). Egypt has concluded the Greater Arab Free Trade Area (GAFTA) with member countries of the Arab League and also strives to strengthen its relations with other East African countries through participating in the Common Market for Eastern and Southern Africa (COMESA) and other initiatives. Recently, interest in strengthening relations between Egypt and Asia (especially China) has been rising on both sides, and exchanges have been increasing at various levels. Asia's share of Egypt's external trade is on an increasing trend. Imports from China have been increasing, particularly in recent years, and is becoming the fourth largest importing partner behind the US, Germany, and Italy.

### **3) Social Situation**

In Egypt, poverty and unemployment remain important social issues. It is reported that 40% or more of the total population lives on US\$2 or less per day. Looking at the poverty incidence by region, calculated based on calories consumed, reveals that in urban areas like Cairo and Alexandria the ratio is roughly 6%, whereas in Upper Egypt the figure climbs to 34%. A comparison between urban and rural areas shows that it is 11% in urban areas and 27% in rural areas.

The Government has been making efforts in areas such as education, health and sanitation, and water supply and sewage. The literacy rate (15 years old and older)

climbed from 25.8% in 1960 up to 65.7% in 2004, and the average life expectancy has grown from 55.0 years in 1976 to 70.6 years in 2004. The infant mortality rate for 1960 was 108.0 (per 1,000 births), which dropped to 22.4 in 2004.

However, Egypt faces a many challenges that necessitate improving public services, such as improving the literacy rate for women in rural areas, health and sanitation, and the supply of safe drinking water.

As the economic growth rate dropped from 2000 to 2004, the unemployment rate rose from 8.1% in 1998 to 9.5% in FY2004/05. There are concerns that this unemployment issue would be aggravated by the annual rate of population increase of 1.9%. Moreover, inflation in the range of 15% to 16% from 2003 to 2004 has further squeezed the livelihoods of low-income populations. As a result, although the people's living standard and quality of life have improved as a whole, for the majority such benefits are overwhelmed by the social issues described above.

In light of such a social situation, the Government of Egypt is presently moving toward enacting policies that aim to reduce poverty through promoting investment and creating employment, as well as protecting the vulnerable such as low-income earners. Egypt is attaching importance to the immediate tasks of raising the wages of civil servants, maintaining subsidies for basic commodities (wheat, rice, sugar, cooking oil, tea, beans, etc.), and enhancing social security (increasing pensions and provision of education allowances for children, etc.). It is also heading in the direction of improving public services such as electricity, water, education, medical care and health.

In terms of the domestic security situation, since the Luxor incident of 1997 there have been no observable incidents due in part to the strict clampdown. But in October 2004 in Taba, adjacent to the Israel border, a series of bombing incidents occurred which are believed to have been targeting tourists. Moreover, in April 2005 a series of three incidents of bombing occurred in Cairo. In addition, a series of the incidents occurred in July 2005 in Sharm El Sheikh, and in April 2006 in Dahab and Gora on the Sinai Peninsula. However, recently, there is a tendency for tourism to recover immediately following terrorist attacks though it is necessary to exert cautions on security.

## **2. Challenges for Development**

### **1) Egypt's Development Plan**



### **A) The Current Medium and Long-Term Development Plans**

The current long-term plan (a 20-year plan) is the Long-Term Vision for Social and Economic Development (FY2002/03 – 2021/22) which was formulated by the Atef Ebeid Cabinet (1999 – 2004). Previously, the Egypt and the 21st Century (FY1997/98 – 2016/17) plan formulated by the previous Kamal Ganzouri Cabinet set as a goal expanding the residential areas where the population is concentrated and overcrowded in the delta region and Nile River Valley from 5.5% to 25% of the national territory. It contained mega-investment projects (including development of the Sinai Peninsula and southern parts of the Nile Valley). But in light of the expansion of fiscal deficit and slacking of growth (3.2% in FY2000/03), the current Long-Term Vision for Social and Economic Development was formulated to revise the target of residential area downward to 10 – 12%. Furthermore, a policy framework was adopted in line with economic realities, emphasizing macro-economic equilibrium and stable, sustainable growth, as well as poverty reduction and improvement of living standards.

### **B) The Current Five Year Plan**

The current Fifth Five Year Plan (FY2002/03 – 2006/07) covers the initial five year period of the aforementioned long-term vision. It aims for “modernization and integration of Egypt in the global economy.” In particular, it attempts to overcome the slowdown in growth of recent years and to revitalize the Egyptian economy. It also confirms that the Egyptian economy is facing an uncertain global economy like globalization, trade liberalization, international movements of capital, and the formation of regional economic blocs, and emphasizes the role of the private sector. In addition, it clearly defines the roles of public investment schemes and private initiatives.

The Fifth Five Year Plan set major objectives of all efforts to be completed by FY2006/07 compared to FY2001/02, as follows:

- (1) Creating employment for 750,000 people annually
- (2) An average annual growth rate of 6.2%
- (3) Increasing budgetary appropriation for improving the livelihood and for social services (education, health, housing, water, sanitation, etc.) with special consideration given to low-income populations
- (4) Raising the investment ratio (from 16.9% to 19.8% of GDP)
- (5) Raising the savings ratio (from 10.4% to 17.3% of GDP)
- (6) Reducing the resource gap (from 6.5% to 2.5% of GDP)
- (7) Reducing the trade deficit (from US\$8.9 billion to US\$8 billion)

- (8) Converting the current-account deficit to a surplus (from a deficit of US\$1.8 billion to a surplus of US\$980 million)

The strategies for achieving these goals are as follows:

- (1) Promoting exports to reduce the deficit in the balance of payments and facilitate employment
- (2) Promoting the industrialization process with a focus on capital goods and high value added goods which have comparative advantages
- (3) Reducing unemployment through employment-oriented measures (focusing on labor-intensive activities and technology, as well as small and medium-sized enterprises)
- (4) Strengthening the competitiveness of Egyptian companies by promoting productivity, reducing costs, improving quality, cultivating markets, and developing technology
- (5) Optimizing investment incentives to maximize the net economic benefit (linking to performance of business exports and of employment creation)
- (6) Correcting regional imbalance (developing desert areas and sparsely populated regions)
- (7) Reducing poverty through conducting regional development, expanding the social security system, improving basic social services (particularly in rural areas), promoting the activities of micro and small-scale enterprises, and giving consideration to equality
- (8) Expanding the participation of women in development process

※Since July 2007, the Sixth Five-Year Plan (FY 2007/08-2011/12) has been implemented. This Plan aims at achieving acceleration of economic growth, improvement of social, educational and health services, and development of basic infrastructure based on the following targets: ①Raising average annual economic growth rate to 8%, ②Creating employment for 3.8 million over the five-year period, ③Lowering the unemployment rate to 5.5%, ④Increasing the amount of direct abroad investment to 14 billion US\$ in the last year of the Plan, ⑤Raising average annual salary to 13,000£E, ⑥Increasing the annual export of goods and services by 12%

### **C) Priority Challenges of Prime Minister Nazif's Cabinet**

Since its formation in July 2004, Prime Minister Nazif's Cabinet began to address pending issues such as problems of the domestic financial sector (overbanking and the non-performing loans), reducing tariff rates, and reducing income tax. Various policies are being implemented which place the items below as priority challenges. In order to address such priority challenges the 10 Programs for Development was announced in December 2004 at the Parliament according to President's direction as follows:

- (1) Realizing a high rate of economic growth (aiming to create new employment for the youth through increasing private investment and expanding exports of goods and services)
- (2) Protecting the vulnerable and promoting the provision of basic goods and necessary services
- (3) Quantitative expansion and qualitative improvement of services such as education, health, and transportation
- (4) Establishing systems based upon respecting the rights and freedom of the citizens and strengthening the independence of the judiciary

#### **D) President Mubarak's Election Campaign Program**

In August 2005 the ruling NDP released a comprehensive election campaign program which was composed of important items such as: (1) democratization, (2) employment, (3) raising the living standard, (4) improving income and pensions, (5) measures for the middle class, and (6) diplomacy. For employment, the NDP produced initiatives to create new employment of 4.5 million people over six years which involve: (1) fostering small and medium-sized enterprises and the like (1.5 million people), (2) a 1,000-factory program (1.5 million people), (3) development of deserts (420,000 people), and (4) developing tourism (1.1 million people). For improving living standards, education, housing (newly constructing 500,000 houses for the youth), transportation, water, health (to include enhancing the health insurance system), sanitation, and the environment were placed as important items. As for the betterment of income and pensions, raising the wages of civil servants, protecting those engaged in the informal sector, and enhancing social security were set as goals. After winning the election, President Mubarak announced that the Egyptian Government would make the contents of this program the guidelines for its social and economic development plan for 6 years from FY2006/07 (the final year of the current Five Year Plan) and the period covering the subsequent Five Year Plan. The budget for FY2006/07 and a single year development plan have been implemented since June 2006. In those measures, the policies of the Prim Minister Nazif's Cabinet, such as economic growth and protecting the vulnerable, and the contents of the program, continue to be reflected as basic pillars.

#### **2) Major Challenges for Development**

Based on the Egyptian Government's goals and strategies relating to long and mid-term economic and social development as well as its short-term priority, major challenges for Egypt's development for the next five years are summed up below.

Regarding the United Nation's Millennium Development Goals (MDGs), improvements are advancing sweepingly and rapidly through the Government's efforts, and there are expectations that the goals related to infant and maternal mortality rates and malaria and infectious diseases can be achieved. However, concerning reducing poverty, gender equality, empowering women, and environmental sustainability, more efforts are to be enhanced. Poverty reduction is progressing in major metropolitan areas and in Lower Egypt, but there are numerous challenges facing its realization in Upper Egypt. Therefore, the Egyptian Government has selected the most impoverished regions and is initiating focus on social development in these areas.

#### **A) Expansion of Urban and Rural Areas (Spatial Expansion)**

As can be seen in the current long-term plan, spatial expansion (enlarging residential areas) is becoming a top priority for the realization of sustainable development in Egypt. Currently the population of about 70 million people is growing at an annual rate of 2%. In order to mitigate this population pressure, Egypt is expanding the sphere of economic activities, which were limited to the region centered on the Nile Delta into desert regions such as the Sinai Peninsula and the southern Nile Valley. This plan is also encompassing emergence of new agricultural regions and raising the self-sufficiency ratio for food. It also aims to absorb the labor power of low-income agricultural employees, the unemployed, and new graduates. In the aforementioned election campaign, it was also planned that in the next six years one million feddans (about 420,000 hectares) of land would be cultivated, that 400 villages would be newly established and employment for 420,000 people be created. Industry would be fostered and new urban spaces would be constructed. For these mega-projects, the development of infrastructure for production such as transportation and communication, electricity and water, agriculture and irrigation, and social infrastructure such as schools and hospitals is necessary in the long-term. Such projects have been funded not only by the Egyptian Government but also by Arab funds, including Saudi Fund for Development (SFD), Kuwait Fund for Arab Economic Development (KFAED) and private agricultural investment companies.

#### **B) Responding to Globalization and Regional Economic Integration**

"Modernization and integration of Egypt in the global economy," the slogan of the Fifth Five Year Plan, is a very important but difficult challenge. Through its accession to the World Trade Organization (WTO) in 1995 and entering into the Association Agreement with the European Union (EU) in 2004, Egypt is advancing harmonization of domestic

legislations, such as labor law, banking law, intellectual property rights law, corporate law, and laws for competition. However, there are still many shortcomings, including delays in the capacity building of the judicial system for settling disputes and the issuance of executive rules and regulations lagging behind laws. The role of the Government is to stabilize the macro-economy and to promote the mobilization of domestic savings. In addition, it also serves to develop the investment and business environments and to make Egypt's markets more internationally attractive to bring in increased FDI. Egypt also has to execute policies which effectively integrate trade, investment and economic assistance.

### **C) Moving to a Market Economy and Fostering Competitive Industry**

After a prolonged period of inward-looking trade policies in Egypt, the Economic Reforms and Structural Adjustment Program (ERSAP) was initiated in 1991. The far-reaching program included foreign exchange and interest rate liberalization, trade liberalization, privatization, and price liberalization (abolishing and reducing various types of subsidies). However, still, there was a strong tendency toward protection of domestic enterprises by means of high tariffs and non-tariff barriers, thus export-oriented industrialization was barely moving forward.

President Mubarak strictly warned that that "export is life or death problem for Egypt, then, issue for growth and employment through export promotion became the one of the most important policies towards ends of the 1990s. The goal of the 1,000 factories program, one of President Mubarak's Election Campaign programs, is to establish new large-scale factories and create employment for 1.5 million people.

What Egypt needs is to face international competition through opening its market and depending on the market mechanism and to introduce new technologies which enable Egypt to gain ground in the international market. It must also foster skilled labor that matches the needs of the labor market, as well as fostering competitive private enterprises linked with transfers of foreign management resources of multinational enterprises and franchises. Furthermore, it must develop modern infrastructure such as ports, public transport, electricity, and communications. What is more, in addition to various types of training program for the promotion of exporting, it is also imperative to create systems so as to transfer Japan's experience related to penetrating overseas markets.

### **D) Promoting Employment**

The issue of employment is a serious one for youth and women. While a budget deficit is predicted at of 9.5% of GDP for FY2005/06, the Government is aspiring to growth of 6% and has made it a goal to lower the unemployment rate to 9.5% in FY2006/07.

Regarding employment, policies are needed that address the supply and demand of labor and intermediation. On the supply side, the greatest challenges for Egypt are technical education that matches the needs of the rapidly changing labor market and the fostering of technicians. On the demand front, considering sustainability what is most desired is employment creation in the private sector, through, for example, further expanding industry through FDI and the promotion of exporting. Moreover, creating employment through the development of desert areas as described above is also important, as are different types of programs to promote employment through the SFD, which serves as a safety net. Efforts like independent support operations through its financing facility are important from the aspects of encouraging micro, small, and medium-sized enterprises and the organization of the informal sector in addition to employment through public construction works.

#### **E) Promoting Micro, Small, and Medium-Sized Enterprises**

The vast majority of Egypt's economic units are comprised of micro, small and medium-sized companies and the informal entities which employ a very low number of people. Formalizing the economic activities of this informal sector and promoting them through initiatives such as lending loans and vocational training will serve to raise Egypt's economic level, contributing to poverty reduction, particularly in cities. There are plans to create employment for 600,000 people at micro-sized enterprises and for 900,000 people at small and medium-sized enterprises over the course of the next six years. Since there will be challenges in new financing and also in the issue of non-performing loans, the Government is also placing emphasis on enhancing the network of financial intermediaries.

#### **F) Developing Agriculture and Rural Communities and Improving the Self-Sufficiency for Food**

Agriculture absorbs roughly 30% of the working population in Egypt. However majority of those engaged in agriculture work in small-scale agricultural plots and constitute the poor class. In rural communities, the level of social services such as education, health, and sanitation is low and there are few work opportunities beside agriculture. To reduce poverty and improve the quality of life in these areas, it is

necessary to increase the provision of these social services, to endeavor to enhance investment for basic social infrastructure as well as community capacity building and governance, and also to create mechanisms for generating new sources of income.

Furthermore, it is necessary to aim to increase the productivity of the agricultural sector. Concerning agricultural productivity in particular, various efforts are required taking consideration into account the large disparities among plots and regions. These efforts include disseminating agricultural technology (especially fertilizer and pesticides, as well as measures to combat epidemics), shift to high yielding varieties (HYV) of crops, selecting products (shift to high value added produce), and improving the systems for storage and distribution. In connection with this sort of agricultural development, it is necessary to improve the irrigation system to effectively utilize the limited water resources. Moreover, for the staple food of wheat, 40% of the domestic consumption of approximately 12 million tons is imported. Therefore enhancing production of foods such as wheat and rice is an important challenge for improving the self-sufficiency for food.

#### **G) Developing the Tourism Sector which Drives the Economy**

Egypt is endowed with both tourism resources and energy resources. These sectors serve as vast sources of foreign revenue and drive the economy. According to GDP statistics, the tourism sector, defined as restaurants and hotels, only shares slightly more than 1% of GDP. But in recent years the Government has analyzed the degree of contribution of the tourism sector more closely evaluating direct, indirect, and derived effects and now estimates that it contributes several times as much as that figure. Drawing from this sort of research there are also provisional calculations to the effect that every one million tourists directly or indirectly increase employment by 300,000. To create employment and reduce poverty the Government has set out the long-term objective of increasing the current number of tourists from 8.5 million people to 14 million in six years. Egypt tourism has now become a sector with the greatest comparative advantage and the largest source of foreign revenue. Sustainable tourism development, which is accompanied by efforts to build capacity of those engaged in tourism industry and to preserve natural environment and cultural assets, is an urgent task.

#### **H) Measures for Poverty Reduction**

Egypt's social development is lagging behind, and improving such development is

becoming an extremely acute issue for the stability of Egyptian society. Despite of its economic growth, it has been said that the number of people left behind remain huge, especially in Upper Egypt, where the income disparity with other areas is vast. Therefore, it is simultaneously necessary to formulate policies that shed light on low income earners and the vulnerable while aspiring to sustainable development. For example, as part of poverty reduction measures the Egyptian Government selected more than 50 areas with the lowest Human Development Index (HDI), such as those in Upper Egypt. It is named the Municipal Initiatives for Strategic Recovery (MISR) Program in these areas, centered on developing social infrastructure with the participation of local governments, non-governmental organizations (NGOs), private enterprises, and the poor who constitute the beneficiaries. Thus, the Government is attaching importance to pro-poor policies like labor-intensive investments in order to create employment with a focus on high poverty incidence regions.

#### **I) Environmental Measures**

Environment issues are growing more serious with economic development, and the Ministry of Environment formulated the National Environmental Action Plan. Measures to combat air pollution and exhaust fumes, waste treatment, climate change (clean energy), water quality management and improvement for the Nile River as well as the Mediterranean and Red Seas, and lake purification are all of important challenges. Moreover, the continuing deterioration of the living environments in the densely populated areas and impoverished areas of urban sections should not be neglected, and initiatives such as developing water supply and sewage remain necessary. What is more, the situations of urban traffic congestion and air pollution are ever worsening, which is inflicting considerable distress on those who live in the cities. The resolution of these problems is important from the perspective of human security.

### **3) Efforts of Major International Organizations, Other Donor Countries, and NGOs**

#### **A) Efforts of Major International Organizations and Other Donor Countries**

Regarding assistance to Egypt, the US is a prominent bilateral donor country. The World Bank has traditionally supported the development of agriculture, rural development, the management of water resources, macro-economic support and export promotion, technological development and reforms of higher education. (Refer to Appendix 2 for the major challenges of recent years.)



The EU provides financial assistance through MEDA I (1995-1999) and MEDA II (2000–2006) based upon a partnership agreement. By 2003, out of the approximately 880 million euro commitment through MEDA I and II roughly 320 million euro had actually been disbursed. Egypt has signed an Association Agreement with the EU (entered into effect in 2004) and is advancing the establishment of an FTA with the EU (with 2015 as the target). Following the development of the EU's new European Neighborhood Policy (ENP), which came in the wake of its enlargement in 2004, Egypt is negotiating over an action plan.

The US, which is the largest donor country, has provided Egypt with military assistance of US\$1.3 billion as well as economic assistance of US\$800 million every year. However, Egypt's Strategic Plan Update FY2000-2009 stipulates the reduction of this economic assistance by half toward the plan's final year. Based on reviews by the US Government's Middle East Partnership Initiative (MEPI) and the USAID, the US substantially expanded its assistance to the educational sector in 2003 and also slightly increased its assistance to health and population as well as privatization and governance. The portion of "the economic growth sector" was reduced instead.

Donor Assistance Group (DAG) is composed principally of the UNDP, the World Bank and the IMF, as well as the US, the EU and its member states, and international and regional development organizations. In addition to exchanging information on a monthly basis, the DAG institutes sub-groups for areas such as health, education, private sector support, poverty reduction, improving governance, and water resource management.

There are also practical examples of co-financing between donors like the World Bank and the African Development Bank (AfDB) in the area of infrastructure projects. In addition, the World Bank and the EU are cooperating over the Central Bank of Egypt's payment system.

Together with the initiation of ERSAP in 1991, the SFD was established as a safety net with the purpose of mitigating the costs arising from structural adjustments. The SFD is operating through the financial contributions of entities like the Egyptian Government and various donor countries, as well as the World Bank, the EU, and others. Japan has also begun to cooperate in recent years through yen loans. Major donors and international organizations in general put matters such as economic growth,

employment creation, fostering industry, and the expansion of trade at top of their agenda. They also provide assistance to measures for poverty and the vulnerable through NGOs and the SFD (refer to Appendix 2).

### **B) Efforts of NGOs**

In June 2002, the Egyptian Government enacted a new NGO law, positioned NGOs as development partners, simplified the procedures for registering and licensing organizations and granted them corporate status. In addition, the Government abolished restrictions on the scope of activities for NGOs. This was a step forward in terms of expanding the activities of NGOs and the observance of international treaties. However, the Government still exercises control in the sense that it retains the right to decide regarding the dissolution of NGOs through the decision of the Minister of Social Solidarity.

According to recent data as of 1999 from the Ministry of Insurance and Social Affairs at that time (currently the Ministry of Social Solidarity), there were approximately 15,000 NGOs including those of a small scale. Many NGOs are active over a various fields and play a significant role in communities. Their activities are particularly vigorous in fields such as welfare (the care of orphans, persons with disabilities, etc.), health and medical care, education (literacy, vocational training, etc.), the environment (garbage collection, etc.), and human rights. Among local NGOs, those that are strongly colored by mutual aid due to their religious background, those that place the resident communities of rural villages as their basis, NGOs that are charitable institutions sponsored by the relatively affluent social classes and others are often observed. These types of NGOs have as their background religious and social customs which value charity, and they are operated through donations from individuals and businesses. On the other hand, international NGOs receive large amounts of funds from Western nations. They specifically contribute to enhancing the capacity of local NGOs.

### ■Egypt's Major Economic Indicators

	FY99/00	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05
GDP (US\$100 million)	988.7	926.9	838.3	692.4	766.4	914.9
Per capita GDP (US\$)	1561.9	1437.0	1272.0	1028.8	1117.2	1307.0
Real GDP growth rate (%)	5.9	3.4	3.2	3.0	4.3	5.0
Annual rate of increase in consumer price index (%)	2.8	2.4	2.4	7.1	9.5	11.7
Unemployment rate (%)	9.0	9.2	9.0	9.9	9.9	10.0
Current balance of payments (US\$100 million)	-11.6	-0.3	6.1	19.4	34.2	28.9
Balance of trade (US\$100 million)	-114.7	-93.6	-75.2	-66.1	-78.3	-103.8
Exports (US\$100 million)	63.9	70.8	71.2	82.1	104.5	138.2
Imports (US\$100 million)	178.6	164.4	146.4	148.2	182.9	241.9
Revenue from the Suez Canal (US\$100 million)	17.8	18.4	18.2	22.4	28.5	33.1
Revenue from tourism (US\$100 million)	43.1	43.2	34.2	38.0	54.8	64.3
Number of tourists (1,000 people)	5,311	5,347	4,341	5,239	7,511	8,608
Revenue from the foreign currency remittances (US\$100 million)	30.7	28.4	29.5	29.6	30.0	43.3
Balance of foreign currency reserves (US\$100 million)	151.0	142.0	141.0	148.0	147.0	225.4 <sup>1</sup>
Exchange rate (LE/US\$) <sup>2</sup>	3.44	3.87	4.52	6.03	6.19	5.85
Direct oversea investment (US\$100 million)	0.4	0.3	0.2	0.3	1.6	0.5
Direct inward investment (US\$100 million)	17.0	5.4	4.4	7.3	5.6	39.2 <sup>3</sup>
Fiscal deficit (as % of GDP)	3.9	5.6	5.9	6.1	5.7	8.6
Domestic outstanding debt (US\$100 million)	713.4	750.9	729.6	614.3	653.5	912.4 <sup>4</sup>
Domestic outstanding debt (as % of GDP)	72.2	81.0	87.1	89.3	88.4	91.5
Overseas outstanding debt (US\$100 million)	278.0	266.0	287.0	287.0	289.0	289.5
Overseas outstanding debt (as % of GDP)	28.2	28.5	33.7	41.5	37.8	30.0

(Notes) <sup>1</sup> Indicates the balance of foreign currency reserves from March 2006.

<sup>2</sup> LE refers to the Egyptian Pound.

<sup>3</sup> The direct investment amount for FY2004/05 includes the amount invested in the petroleum sector.

<sup>4</sup> Indicates values for December 2006.

The dollar-denominated GDP and per capita GDP were calculated using the factor price-denominated nominal GDP and the exchange rate of applicable fiscal years.

The real GDP growth rate refers to the annual rate of growth for GDP converted to real terms from nominal values for the Egyptian Pound.

Consumer prices refers to the annual rate of increase for urban consumer prices.

(Sources) Central Bank of Egypt, *Monthly Statistical Bulletin*, No.52, July 2001.

Central Bank of Egypt, *Monthly Statistical Bulletin*, Vol. No.103, October 2005.

Central Bank of Egypt, *Monthly Statistical Bulletin*, Vol. No.106, January 2006.

Ministry of Foreign Trade and Industry, *Monthly Economic Digest*, Vol.7, No.6, August 2005.

## ■ Egypt's Major Social Indicators

Human Development Index (HDI)	0.524 1992	0.700 2004
Population		
Male population (1,000 people)	30352 1996	35817 2005
Female population (1,000 people)	28961 1996	34180 2005
Birth rate (per mill)	30.0 1991	25.8 2004
Death rate (per mill)	7.2 1991	6.4 2004
Rate of population increase (%)	2.1 1960 -1986	2.2 1986 - 2003
Living standard		
Per capita GDP (Egyptian Pounds)	2176.0 FY1992/93	6142.0 FY2003/04
Per capita GDP (PPP dollars)	2010.0 1992	4151.5 FY2003/04
Caloric intake per day (calories/day)	3700.0 1992	4258.0 2003
Infant death rate (per 1,000 infants)	36.2 1991	22.4 2004
Average life expectancy (years)	65.3 1992	70.6 2004
Government's ratio of expenditures on education (%)	10.6 FY1992/93	14.7 FY2003/04
Government's ratio of expenditures on health (%)	3.3 1992	5.2 FY2003/04
Government's ratio of expenditures on social security (%)	5.1 FY1992/93	11.4 FY2003/04
Level of education		
Adult literacy rate (%)	48.8 1992	65.7 2004
Primary education enrollment rate (%)	98.0 1992	94.0 FY2003/04
Secondary and tertiary education enrolment rate (%)	49.9 1992	77.2 FY2003/04
University education enrolment rate (%)	18.2 1992	27.7 FY2003/04
Government's ratio of expenditures on primary, secondary, and higher education (%) <sup>1</sup>	61.6 1992	73.2 FY2003/04
Government's ratio of expenditures on university education (%) <sup>2</sup>	38.4 1992.0	26.8 FY2003/04
Indicators related to poverty		
Ratio of households in poverty (%) <sup>3</sup>	35.1 FY1990/91	20.7 2004
Ratio of households in extreme poverty (%) <sup>4</sup>	21.8 FY1990/91	4.7 2004
Ratio of population with daily income of US\$2 or less (%)	N.A.	43.9 1990 - 2003
Ratio of population with daily income of US\$1 or less (%)	N.A.	3.1 1990 - 2003
Gini coefficient	0.37 FY1990/91	0.35 2004.0
Unemployment statistics		
Total unemployment ratio (%)	10.9 FY1992/93	9.9 2004
Total female unemployment ratio (%)	22.1 1993	24.0 2004
Total urban unemployment ratio (%)	12.5 1993	10.1 2004
Total rural unemployment ratio (%)	9.2 1993	9.7 2004
Total unemployment ratio by level of education (%)		
Lower secondary/Upper secondary school graduates	31.7 1993	19.8 2004
University graduates (%)	14.0 1993	14.0 2004

(Notes) 1 Indicates the ratio of expenditures for primary, secondary, and tertiary education of the total government's expenditures on education.

2 Indicates the ratio of expenditures for university education of the total government's expenditures for education.

3 The ratio of household in poverty refers to the ratio of families with a per person daily caloric intake of 2,310 calories or less.

4 The ratio of households in extreme poverty refers to the ratio of families with a per person daily caloric intake of 1,540 calories or less.

(Sources) Institute of National Planning Egypt and UNDP, *Egypt Human Development Report 1995*, 1995.

Institute of National Planning Egypt and UNDP, *Egypt Human Development Report 2004*, 2004.

UNDP, *Human Development Report 2005*, 2005.

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Central Agency for Public Mobilization and Statistics, *The Statistical Year Book 1992-1998*, June 1999.

Central Agency for Public Mobilization and Statistics, *The Statistical Year Book 1995-2003*, June 2004.

Major Donors/ International Organizations	Priority Areas, Challenges, etc., for Assistance
United States (US)	<p>(1) Economic growth</p> <ul style="list-style-type: none"> <li>▪ Modernizing the financial sector</li> <li>▪ Improving the trade and investment environments</li> <li>▪ Strengthening the competitiveness of industries dependant on natural resources</li> </ul> <p>(2) Health and population</p> <ul style="list-style-type: none"> <li>▪ Increasing family planning services</li> <li>▪ Increasing maternal and child health services</li> <li>▪ Increasing surveys on diseases</li> </ul> <p>(3) Democratization and governance</p> <ul style="list-style-type: none"> <li>▪ Improving the environment for the political process</li> <li>▪ Enhancing the duties of the government toward the people</li> <li>▪ Increasing the availability of effective judicial services</li> </ul> <p>(4) Education</p> <ul style="list-style-type: none"> <li>▪ Expanding the access of female students and female adults to education</li> <li>▪ Improving educational methods</li> <li>▪ General participation in education</li> </ul> <p>(USAID/EGYPT: Strategic Plan Update FY2000-2009)</p>
European Union (EU)	<p>(1) Promote the efficient implementation of the Euro-Mediterranean Partnership (MEDA program)</p> <ul style="list-style-type: none"> <li>▪ Program to enhance trade</li> <li>▪ Program to restructure the spinning and textiles sector</li> </ul> <p>(2) Support for economic reform and transition to a market economy</p> <ul style="list-style-type: none"> <li>▪ Program for vocational and technical training</li> <li>▪ Cooperation program related to reform of the higher education system</li> <li>▪ Program to reform the financial and investment sector</li> </ul> <p>(3) Providing sustainable and balanced development and stability of the economy and society</p> <ul style="list-style-type: none"> <li>▪ Comprehensive program for regional development of South Sinai</li> <li>▪ Program to support social development and structural enhancement of civil society</li> </ul> <p>(Euro-Med Partnership, Egypt, Country Strategy Report (2002-2006) &amp; National Indicative Programme (2002-2004))</p>
France	<p>France is providing assistance primarily in the following areas through tied loans.</p> <p>(1) Water supply and sewage development, waste treatment</p> <p>(2) Development of urban transportation, particularly subway systems</p>

Germany	<p>(1) Water</p> <ul style="list-style-type: none"> <li>▪ Repairing irrigation and drainage systems for agriculture</li> <li>▪ Developing water supply and sewage treatment facilities</li> </ul> <p>(2) Environment</p> <ul style="list-style-type: none"> <li>▪ Utilization of natural resource for industries and electric power generation</li> <li>▪ Wind power generation</li> <li>▪ Establishing a private waste treatment sector</li> </ul> <p>(3) Society and the market economy</p> <ul style="list-style-type: none"> <li>▪ Mubarak-Kohl Initiative (simultaneous implementation of human resource development and private sector support)</li> </ul>
African Development Bank (AfDB)	<p>(1) Providing assistance to the private sector, particularly the financial, energy, and petrochemical sectors, as well as to small and medium-sized enterprises with the goal of fostering the private sector, modernizing the economy, and integrating into the world economy. Is also supporting the improvement of corporate governance.</p> <p>(2) Assistance for infrastructure development such as energy (generation and the transmission network) and transportation (railroads and marine transportation).</p> <p>(3) Supporting financial sector reforms carried out by the Egyptian Government.</p>
World Bank	<p><u>Superior objectives: “multifaceted growth,” “utilization of the private sector through strategic public investment,” and “promoting impartiality”</u></p> <p>(1) Improving the environment for developing the private sector</p> <ul style="list-style-type: none"> <li>▪ A competitive and efficient financial sector</li> <li>▪ Expanding international trade</li> <li>▪ Expanding private business activities</li> </ul> <p>(2) Enhancing the provision of public services</p> <ul style="list-style-type: none"> <li>▪ Macro-economic stabilization</li> <li>▪ Expansion and rationalization of infrastructure</li> <li>▪ Raising the quality of education at every stage of education</li> <li>▪ Improving water resource management and pollution-abatement measures</li> <li>▪ Enhancing the accountability of the public sector</li> <li>▪ Expanding and improving the quality of the social insurance system and maintaining financial sustainability</li> </ul> <p>(3) Promoting impartiality</p> <ul style="list-style-type: none"> <li>▪ Expanding the safety net for the impoverished</li> <li>▪ Correcting the disparity in the living standards between Upper and Lower Egypt</li> <li>▪ Enhancing health services for the poor</li> <li>▪ Enhancing the capacities of the National Council for Women (NWC)</li> </ul> <p>(Egypt: Country Assistance Strategy, IBRD &amp; IFC, 2005)</p>

<p>United Nation Development Programme (UNDP)</p>	<ul style="list-style-type: none"> <li>(1) Employment creation and capacity building <ul style="list-style-type: none"> <li>▪ Support for small and medium-sized enterprises, micro-finance</li> <li>▪ Program to reform vocational education and training</li> <li>▪ Integrated urban development</li> </ul> </li> <li>(2) Environmental management <ul style="list-style-type: none"> <li>▪ Environmental conservation of coasts, lakes and marshes, and lowlands</li> <li>▪ Creating waste treatment systems in localities</li> <li>▪ Introduction of electric and hybrid vehicles</li> </ul> </li> <li>(3) Governance for human development <ul style="list-style-type: none"> <li>▪ Program to reform public services</li> <li>▪ Support for policy formulation by central ministries and agencies (Ministry of Finance, Ministry of Planning)</li> <li>▪ Rural development support through utilization of information and technology (IT) and introduction of geographical information systems</li> </ul> </li> </ul>
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