

Country Assistance Program (Egypt)

<1> POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(1) Political Conditions

After Egypt became a republic in 1952, President Gamel Abdel Nasser introduced a control economy based on the concept of pan-Arab socialism, nationalizing major companies, and also adopted a pro-Russia and Non-Aligned Movement and anti-Israel stance. With Nasser's death in 1970, however, his successor, Anwar Sadat, turned Egypt's foreign policy around to a pro-Western stance, and after the fourth Middle East war (the Yom Kippur War), abandoned military confrontation with Israel to launch a peace initiative. Egypt also adopted an open economy policy and began to actively solicit foreign investment. As a result, the income disparity widened between those who had acquired a new affluence through Sadat's policies and those engaged in the public sector, which had inflated disproportionately during Nasser's rule. To reduce this disparity, Nasser boosted spending on subsidies for basic living commodities, placing a heavy burden on national finances.

Nasser was replaced in 1981 by Hosni Mubarak, whose central challenge in terms of domestic politics, the terrorism issue included, has been on how to reduce the gap between the rich and poor through economic growth, with the stability of his government hanging on his success. Mubarak has therefore chosen to continue Sadat's policy of economic openness and promote market-oriented and private-sector-led economic policies, while also strengthening support for the socially vulnerable. In terms of foreign policy, Egypt has taken on an increasingly critical role in the Middle and Near East since the Gulf crisis, serving as a mediator and coordinator toward agreement between Israel and Palestine in the Middle East peace process which began in 1991. While the road to a comprehensive peace still promises to be far from smooth, Egypt's ongoing active involvement will remain vital. A prominent member of the Organization of African Unity, the Organization of the Islamic Conference and the Group of 15, Egypt carries considerable political weight in the international community.

(2) Economic Conditions

The worldwide slump in oil prices in the late 1980s reduced the amount of aid received from the Arab oil producers, while Egyptian emigrants and those working abroad were also able to send less money home. This situation exacerbated

problems such as the production slowdown, unemployment and inflation, while Egypt's external debt situation also deteriorated. Egypt consequently experienced a severe economic and currency crisis in the early 1990s. The Mubarak government was forced to undertake a drastic review of its socialist control economy and public sector dominance, and accepted IMF and World Bank conditionality*1 for economic structural adjustment, instituting a string of economic structural reforms focused on exchange liberalization, the reduction of subsidies and market economy transition. Egypt's reform program gradually improved the country's macroeconomic indicators, and for the last four years, Egypt has maintained an average economic growth rate of more than 5%, while the budget deficit, inflation rate and unemployment rate are all falling*2. At the same time, the Egyptian economy still faces numerous problems. Because foreign currency sources*3 are limited, Egypt's international payments structure remains fragile; international competitiveness is falling; the unemployment rate, while declining, is still high; the domestic savings rate*4 is low; foreign investment continues to fall away; and the population is growing*5. Further development of the capital and stock markets will also be vital in ensuring effective utilization of private sector funds. The government led by new Egyptian Prime Minister Atef Obeid, launched in October 1999, has positioned export expansion as one of its major priorities in economic policy, and is working to bring the country's basic economic structure around to a focus on export industry promotion.

(3) Social Conditions

A series of economic reforms designed to introduce a market economy have reduced subsidies for basic commodities and expanded regional and income disparities, impacting heavily on national welfare. Any further economic deterioration will increase the dissatisfaction of the poor and the middle-income bracket, the segment of the population most vulnerable to economic downturns, which could become a breeding-place for the activities of Islamic extremists. The 1990s witnessed a string of terrorist incidents striking at government officials and the tourist industry, but the general public has yet to indicate any sympathy with such actions. To address Egypt's problems, the government will need to ensure stable operation of the macroeconomy, and also pursue policies aimed at securing more stable livelihoods for its citizens, particularly in terms of boosting employment and handling the younger generation.

<2>CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Egypt's Development Plans

In March 1997, the Egyptian government created a long-term plan for social and economic development entitled Egypt and the 21st Century Vision (1997-2017), which establishes the following areas as the focus of Egypt's long-term development toward the 21st century: emphasis on the role of the private sector, application of the principle of free competition, education and medical reforms, a greater role for women, environmental protection and securing water resources. Main goals include: (1) promotion of the development of national territory, boosting the land utilization ratio from the current 5.5% to 25% by 2017; (2) progressive improvement of the economic growth rate, achieving an annual average of 6.9% under the Fourth Five-Year Plan for Social and Economic Development (1997-2002) and boosting this to 7.6% between 2003 and 2017; (3) doubling Egypt's GNP every decade to reach US\$324 billion in 2017; and (4) increasing per capita GNP to US\$4,100 by 2017. As the success of export industry promotion and large-scale development plans will hinge on effective absorption of foreign direct investment and technology transfer, the government is concentrating on development of the investment environment.

The government has positioned the Fourth Five-Year Plan for Social and Economic Development (1997-2002), currently under implementation, as the first stage of the long-term plan described above, looking in particular at market economy transition and the introduction of private sector initiative. In addition to achieving an annual average GDP growth rate of 6.8%, as noted above, the main goals of the Five-Year Plan are (1) increasing private investment to 65-75% of Egypt's total investment target over the same period, and (2) expanding employment opportunities and workers' incomes, with attention also given to social development services (housing, public works projects, education, health care, etc.).

Both the long-term social and economic development plan and the Fourth Five-Year Plan for Social and Economic Development note education and medical care reforms, improvement of the status of women and environmental protection as key development goals, which is consistent with the DAC New Development Strategy (the DAC Development Partnership Strategy) *6.

(2) Primary Challenges in Development

(A) Sustained economic growth

Where Egypt's population growth rate has held at the 2% mark in recent years, the real economic growth rate has reached around 5%, while the budget deficit is also improving. At the same time, any downturn in the Egyptian economy would swell the ranks of the poor, expand regional and income disparities and boost the

unemployment rate, particularly among the young, which could shake not only the Egyptian economy but also the stability of Egyptian society. Achieving sustained economic growth will be crucial in carrying out the above-mentioned long-term social and economic development plan and in addressing the needs of the poor and socially vulnerable. As effective foreign direct investment and technology transfer will be vital tools to this end, Egypt must improve its private investment environment.

(B) Measures for the poor and socially vulnerable

In terms of basic human needs*7 such as medical care, education and public health, Egypt evidences an enormous disparity in the level of services available to the rich and poor. Large disparities also exist between men and women, between urban and rural areas, and among regions (particularly upper Egypt and the Nile Delta). To eradicate the deep-rooted terrorist threat and maintain a stable society, Egypt urgently needs to redress such disparities and institute other measures for the poor and socially vulnerable. Other important steps in resolving the gap between rich and poor include improving education, medical care and other social services as a means of ensuring sustained poverty alleviation through social development, ensuring a supply of food for Egypt's burgeoning population by developing the rural areas which support more than half the country's population, and expansion of job opportunities.

(C) Human resources development and institutional enhancement

Currently undertaking a series of economic reforms designed to assist market economy transition, Egypt is focusing on the role of the private sector, while governorate and local authorities are also attracting growing attention in dealing with local development and environmental issues. Developing appropriate private sector personnel and enhancing related institutions not only within the central government but also at governorate and local level will be crucial in underpinning sustained growth.

(D) Environment

Egypt is beginning to see various environmental problems emerge. An urban population explosion has been inducing a number of characteristically urban issues related to housing, traffic, public health, air pollution and disaster prevention. Egypt will need to boost public awareness of environmental protection as a means of reconciling this with economic growth.

(E) Improvement of government efficiency

The Egyptian government is carrying a number of outsize government institutions, resulting in considerable administrative inefficiency. To address these issues, Egypt needs to initiate sweeping administrative reforms and overhaul the entire

government structure, creating a leaner and more efficient institution with higher quality staff. Greater efforts are also required in terms of governance.

(3) Relationship with International Development Aid Institutions, Other Donors, and NGOs

(A) Relationship with international development aid institutions

Immediately following the fourth Middle East war in 1973, the International Monetary Fund (IMF) indicated to Egypt the need for various policy reforms as a means of stabilizing the country's international payments, but received only a lukewarm response. The slump in oil prices at the close of the 80s subsequently exacerbated inflation, plunging Egypt into a debt crisis. Participation in multinational forces during the 1990 Gulf crisis garnered greater international support, with developed countries agreeing to reduce Egypt's debts. Debt reduction was, however, conditional on Egypt implementing economic reforms, inspiring the government with rather greater reform enthusiasm. As a result, Egypt concluded a stand-by arrangement*8 with the IMF in May 1991, and World Bank structural adjustment lending*9 was also launched. Further, the Paris Club*10 responded to this agreement by permitting a 50% reduction in Egypt's outstanding debt. In October 1996, Egypt again reached agreement with the IMF on an economic reform program. Egypt has since managed to stabilize its macroeconomy and successfully carry out a number of economic structural reforms, causing the IMF to report in May 1998 that Egypt's macroeconomic policy had been a success.

(B) Other donors

The United States provides the bulk of aid to Egypt, followed by Germany, France, Japan and Italy, with major DAC members occupying the top slots as aid donors. Assistance from neighboring Arab oil countries remains slight. Priority aid areas include the development of social infrastructure (education, health care, water supply systems), as well as economic infrastructure (electricity, transport, telecommunications, energy) and the production sector (agriculture, mining and manufacturing, construction), but assistance in the areas of social and economic infrastructure has shrunk to a trickle in recent years. The United States has also decided to gradually reduce its aid to Egypt (transferring part of this to Jordan), which will mean a 5% annual decline in U.S. aid for Egypt over the coming years.

(C) NGOs

Many NGOs, small-scale organizations included, are at work in Egypt in a wide range of areas, in all cases contributing greatly to the local community. Among those areas in which NGOs have been particularly active are welfare (care for orphans and

the disabled), health and medical care, education (literacy, vocational training), environment (garbage collection) and human rights. Many local NGOs working in Egypt have a strong "mutual support" nature arising from religion, while others are rooted in village communities, or are charity groups sponsored by the comparatively wealthy. These NGOs operate on donations from individuals or companies provided as a social custom or from a religious respect for charity. International NGOs receive enormous amounts of capital from the U.S. and Europe, making a particularly significant contribution in building the capacity of local NGOs. A new NGO law formulated in May 1999 positions NGOs as development partners, while also stipulating that NGOs must be registered and donations notified, monitoring NGO activities to ensure that these do not stray from the government line.

<3>JAPANESE AID POLICIES FOR EGYPT

(1) Significance of aid to Egypt

As explained below, the stability of Egypt, which has major influence in the Near and Middle East and African region, is very closely related both to regional stability and to maintaining friendly ties between Japan and other countries throughout the entire region. Thus, the maintenance and strengthening of friendly Japan-Egypt relations through aid-based assistance for the development challenges Egypt is tackling, including poverty alleviation, will serve to broaden the range of Japan's diplomatic contributions to regional stability in the region. Furthermore, regional stability will in turn contribute to securing a stable supply of oil from Middle Eastern countries.

(i) Overall relations between Japan and Egypt have traditionally been good, with particularly close ties in the areas of economic and technical cooperation.

(ii) Egypt has a population of approximately 60 million, the largest in the Arab world. The country forms a geographical intersection between Asia, Africa, and Europe, and encompasses the Suez Canal, which ranks with the Panama Canal as a key waterway in global maritime transport (13,471 ship passages in 1998; 46% of southbound freight tonnage is destined for the Far East and Southeast Asia), such that the stability of Egypt is linked to that of the entire region. Egypt also has a considerable voice as a representative of the Arab world, as well as from its standing among African countries and the non-alignment movement, and as a very prominent member of the Islamic world. As a regional leader, it has pursued regional stability, and its moderate diplomatic policy consistent with the interests of Western society has served as an indirect factor supporting the stable supply of oil to Japan from Near and

Middle Eastern countries.

(iii) Egypt was also an initiator in the Middle East peace process, the progress of which Japan actively supports, and has subsequently employed a wide variety of diplomatic channels and taken on indispensable coordinating roles at critical junctures in peace negotiations. The maintenance of dialogue and friendly relations with Egypt is pivotal to Japan's Near and Middle Eastern diplomacy. Since Egypt is of such geopolitical importance in the region and has been positioned as a strategic partner in the Near and Middle East, the United States has provided immense military and economic aid (over \$2 billion annually) over the past 20 years. Germany and France each allocate their highest amounts of aid in the region to Egypt as well, and place great emphasis on its role in the Near and Middle East.

(2) Relationship with ODA Charter principles*12

Although in effect there are no opposition parties capable of influencing national politics, Egypt is operated under a multi-party system, and impressive efforts are being made towards a market-oriented economy. While areas such as democratization, human rights, and freedom of the press deserve improvement, Egypt is moving in an overall desirable direction from the perspective of Japan's ODA Charter principles.

(3) Orientation for Japanese aid

(A) Japanese aid to date

Japan has positioned Egypt as a key aid recipient in the Middle East and African regions, and has actively provided assistance in each of the areas of ODA loans, grant aid, and technical cooperation. Such aid has not been limited to large-scale projects, such as the widening of the Suez Canal in the 1970s or the construction of the Daqahliya [CHECK] Integrated Steelworks in the 1980s, but has also included grant aid and technical cooperation in the 1990s that have made major contributions to national and human resources development centered on basic human needs (BHN). These include plans for water supply and sewer construction in the city of Giza and for the Cairo University Pediatric Hospital [CHECK]. As an example of successful South-South (trilateral) cooperation*13 in Egypt, third country training*14 programs have been actively pursued and highly evaluated. Considering the benefits to the Near and Middle East and Africa as a whole, as well as the contribution to regional peace and stability that could be achieved by Egypt as a point of aid implementation, it is significant that cooperative ties be maintained and strengthened.

With respect to ODA loans, new yen loans were suspended from July 1991

because of the adoption of debt reduction measures. However, thanks to the agreement with the IMF reached in October 1996, and the fact that debt reduction measures had moved to a final phase, Japan announced in November 1996 that it would consider the resumption of yen loans. Based on confirmation between the two countries' governments regarding the resumption of yen loans that was achieved during the April 1999 visit to Japan of President Hosni Mubarak, consultations with the Egyptian side will be needed to identify and implement worthwhile projects, closely observing Egypt's handling of outstanding yen loans.

(B) Japanese share of aid in total aid to Egypt

Bilateral aid from DAC countries comprises 87.1% of all ODA to Egypt (1993-1997; net disbursement basis). Japan's share of this is 11.2%, placing it fourth behind the United States, Germany, and France. The largest amount of Japanese ODA to the Middle Eastern region is devoted to Egypt, accounting for 24.4% in 1997 on a net disbursement basis. Cumulatively (through 1998), yen loans amounted to 655.1 billion yen including 222.511 billion yen worth of debt rescheduling; grant aid totaled 109.5 billion yen; and technical cooperation reached 40.3 billion yen. Each of these figures places first in the region.

(C) Orientation for aid over the next five years

Responding to the development issues described above, Japan will consider supporting the development of the necessary economic and social infrastructure as part of improving the private investment environment. The possibility of yen loans in this context will be examined with a view to the state of the macroeconomy, the past aid track record, and resumption of loans after debt reduction, bearing in mind progress with Egypt's outstanding yen loans. In addition, so as to break the vicious cycle in which poverty exacerbates public safety through terrorism, for instance, emphasis will also be placed on assistance for the poor and vulnerable, which will contribute to correcting various disparities, including those between the affluent and the poor. Thus, Japan will consider providing assistance in basic human needs areas such as health and medical care, education, and the improvement of the living environment. Grant aid and technical cooperation will be the primary means for responding to needs in these areas.

Human resources development is indispensable in fostering increased capacity for sustainable development by Egypt itself. Assistance is therefore needed which focuses on technical cooperation (project technical cooperation,*15 dispatch of experts, acceptance of trainees, and development studies) for such purposes as the training of technical personnel, the improvement of policy drafting and administrative

capabilities of government officials and the upgrading of basic education. Also, in the implementation of grant aid projects and ODA loan projects, organic linkage with Japanese technical cooperation is to be fostered so as to promote the effective transfer of technology from Japan.

In addition, with respect to the "Japan-Egypt Partnership for Peace and Prosperity in the 21st Century" program*16 agreed upon during President Mubarak's April 1999 visit to Japan, based upon agreement to place priority on cooperation in the areas of peace and cooperation, economic and trade investment, the environment, and education, coordination will be undertaken with Egyptian counterparts to continue to identify worthwhile projects in these areas.

(4) Aid policies for respective priority areas and challenges

(A) Economic/social infrastructure and promotion of industry

Economic and social infrastructure development efforts in areas such as transportation and communications, electrical power and energy, and water supply and sewer systems are priority issues for development planning. On the other hand, there are very high expectations for the role of the private sector in the transition to a free economy and market opening, and private sector participation is beginning in fields of economic and social infrastructure that were previously the domain of government. Examples include use of BOT schemes*17 and other methods in areas such as electrical power and communications. The role of government, however, remains crucial in social and economic infrastructure development that cannot be carried out by the private sector, as well as in projects where ancillary assistance is provided for development that is performed by the private sector.

Domestic savings are inadequate to support sustainable growth, and it would seem difficult to pursue sufficient economic and social infrastructure development employing domestic funds alone. Also, given a lack of advanced technology, including that related to environmental measures, Japan needs to assist government efforts at building up social and economic infrastructure. Consideration will also be given to assistance encouraging the involvement of the private sector in infrastructure development, emphasizing the division of labor and links with private sector capital and other official flows (OOF) aside from ODA. In addition, Japan will look at providing assistance for the expansion of trade and investment through the development of various industries, including small-and medium-sized enterprises, and through export promotion. From the perspective of increasing domestic savings and also to raise revenues from tourism, which is one of Egypt's four major sources of foreign currency, assistance will be considered to promote tourism as a major industry

in Egypt (4.5 million foreign tourists annually). Japan will also look into the possibility of using new information communications technology in developing the above infrastructure, bearing in mind the application thereof in remote areas and other communities.

(B) Poverty countermeasures

(i) Expansion of agricultural production

Agriculture plays the role of supplying a stable food supply for the people of a country. In Egypt, in particular, population growth in recent years has increased domestic demand for food, while the easing of poverty also means that there is a strong need for increased agricultural production. Egypt's agriculture accounts for about 17% of its GDP, placing behind industry. It also accounts for about 31% of all employment (government statistics for 1997/1998), and, as the leading industry in regions with few employment opportunities, agriculture plays a major role in supporting the Egyptian economy.

Accordingly, the Egyptian government has targeted expansion of agricultural production at an average annual real growth rate of about 4% in its long-term development plans, and is proceeding with two major agricultural development projects of symbolic importance: the Salaam Canal [CHECK] (between the Eastern Delta [CHECK] and the Northern Sinai Peninsula), and Toshka (New Valley). The government is also fostering more efficient utilization of water, development and dissemination of high quality crops, promotion of livestock and fisheries production, as well as the improvement of markets and distribution services.

Given the importance of Egyptian agriculture as noted above, Japan has thus far implemented cooperation centering on development surveys for the development of the Northern Sinai Peninsula, and has provided assistance relating to increased food production and agricultural infrastructure development for improved agricultural productivity. This assistance will be continued. Japan will also consider assistance in areas where its technology can be utilized and where results can be reasonably expected, such as agricultural and rural development, improvements in agricultural technology and the processing and distribution of agricultural products, as well as promotion of fisheries.

(ii) Upgrading of health and medical care, and improvement of social welfare

So that all people can enjoy equally healthy lives, long-term plans call for primary health care (PHC*18) centering on comprehensive health and medical care systems extending from prevention and primary health care to specialist medical services. Also, in response to the serious population problem, family planning is to be

more widely disseminated, and social welfare upgraded to offer relief to the poor and socially vulnerable.

Given these conditions, Japan will consider assistance to foster improvements in the quality of health and medical care, particularly in the PHC area, as well as assistance that will enable reduced mortality (especially among infants and pregnant women)*19 and improved rates of recovery. Together with additional cooperation for the continued demonstration of results from long-term past cooperation in the fields of pediatric care and nurse training, consideration will also be given to assistance with the newer issues of environmental health care, the improvement of health and medical care systems, and upgrading social welfare.

(iii) Environmental conservation and improvement of the living environment

Long-term development plans note that environmental conservation is an important challenge for economic and social development, and also call for a commitment to tackle areas such as water quality control in the Nile River, the securing of safe drinking water, air pollution prevention in large cities, and the dissemination of sewer systems. However, the reality is that efforts in environmental conservation are new, and responses to the situation difficult. Problems with household waste disposal and urban transport are becoming serious in Cairo and surrounding areas. Substantial amounts of assistance for water supply and sewer systems have been received from foreign countries including Japan, but the need is still high for foreign assistance in both urban and rural areas.

As part of the Japan-Egypt Partnership for Peace and Prosperity in the 21st Century program agreed upon during President Mubarak's April 1999 visit, close cooperation is stated in the fields of environmental monitoring, industrial waste and environmental conservation countermeasures, and clean energy such as wind and solar power. Cooperation is already being implemented in environmental monitoring and water supply systems, and, in order to enable Egypt's sustainable growth, Japan will consider comprehensive assistance aimed at environmental protection and improvement of the living environment, such as the stable supply of safe drinking water.

(iv) Human resources development, improvement of education

In addition to calling for the correction of regional, urban/rural, male/female, and other disparities in basic education (elementary and middle school education), development plans target improvement of educational methods and materials, and improvement of the quality of teachers through means such as retraining. With respect to high school and adult education, these plans also aim to foster the training of high

quality technicians and skilled workers to serve as the foundation of industry, and to modernize education/training programs and improve adult literacy.

Human resources development and enrichment of education form the basis for all fields, and, while forming the foundation for sustainable development by Egypt itself, the correction of disparities in educational opportunity is directly connected to anti-poverty efforts. Accordingly, Japan will consider utilizing its experience in basic education and human resources development to assist in areas such as teacher retraining, and will seek to raise standards in basic education and human resources development fields based on a long-term perspective. From the standpoint of increasing government efficiency, Japan has been accepting trainees in order to promote the slimming of existing organizations and the improvement of the quality of public workers. Assistance will be continued in this area.

(E) Promotion of trilateral cooperation (South-South cooperation)

Since Egypt plays a major political and economic role in structures for peace and stability in the Middle East and African regions, assistance will be given to projects that promote Japan's African diplomacy, including projects that have a wider regional context and supplement Egypt's role in Middle East peace, as well as follow-ups to TICAD II.*20

Specifically, trilateral cooperation such as third-country training and third country expert dispatch*21 will be fostered, with Egypt as a base for the promotion of South-South cooperation in the Middle East and African regions. Third country training has been highly evaluated not only by Egypt but also by participant countries. With respect to third country training for Sub-Saharan African countries, and within the framework of plans for trilateral cooperation involving Egypt and Japan, requests will be made for Egypt to bear an appropriate share of the costs, while expansion will be centered on fields related to agriculture, medicine, and infrastructure development. With respect to third-country training for Palestine, expansion is also to be pursued, including larger numbers of training courses centering on technology transfer in basic industrial areas such as communications and metal processing that can contribute to Palestine's nation building and human resources development.

(5) Matters to note in aid implementation

(i) Egypt's aid absorption capacity is quite high in areas where it has comparatively rich experience in foreign aid to date. In areas where such experience is lacking, however, particularly in the field of rural development cooperation projects, issues are posed by the project implementation and facilities maintenance capabilities of counterpart institutions, which needs to be considered in aid implementation.

(ii) As a large number of aid donor countries are implementing substantial amounts of aid in Egypt, projects should be selected and implemented so as to avoid duplication and establish organic linkages, which take into account the aid trends of other donors.

(iii) It is important to continue to work for deeper understanding by Egyptian government officials of the effective utilization of the various aid schemes. In addition to requesting greater efforts by Egypt to mobilize the mass media to promote greater awareness of Japanese aid among the Egyptian people, Japan also needs to work further to publicize those programs.

(iv) As the liaison points in the Egyptian government for receiving aid are divided between the Ministry for International Cooperation [CHECK] for financial cooperation and the Ministry of Foreign Affairs [CHECK] for technical cooperation, common understanding between both sides is not necessarily achieved in projects involving joint financial and technical cooperation. Japan needs to urge Egypt to integrate their approach to this issue.

Notes

<1> POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(2) Economic Conditions

*1 Conditionality

When the IMF provides financing, this is conditioned on implementation of the economic adjustment program which the IMF deems the borrowing country should adopt. The explicit commitment made by developing countries to implement such remedies in return for IMF support is known as conditionality.

*2 Budget deficit:

1.3% (1995/96), 0.9% (1996/97), 1.0% (1997/98), 1.0% (1998/99)

Inflation rate:

7.3% (1995/96), 6.2% (1996/97), 4.2% (1997/98), 4.0% (1998/99)

Unemployment rate:

9.2% (1995/96), 8.8% (1996/97), 8.3% (1997/98)

*3 Egypt's foreign currency sources

Egypt's four major sources of foreign currency are tourism income (approx. US\$3.2 billion, around 4.79 million tourists annually), remittance from Egyptians working abroad, oil exports and Suez Canal income.

*4 Egypt's domestic savings rate: 6.0% (1995)

*5 Egypt's population growth rate: 2.1% (1970-95)

<2>CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Egypt's Development Plans

*6 The OECD/DAC Development Partnership Strategy

In May 1996, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) adopted a document titled The Development Partnership Strategy (Shaping The Twenty-first Century : The Contribution of Development Co-operation). This development strategy sets specific goals and timeframes desired to improve the living standards of all people around the globe. Goals include: 1) reduction by half of the number of people in extreme poverty by 2015, 2) universal primary education in all countries by 2015, 3) elimination of gender disparity in primary and secondary education by 2005, 4) reduction to 1/3 of the 1990 level in the infant mortality rate by 2015, 5) reduction to 1/4 of the material mortality rate during the same period, 6) spread of health and medical access through the primary health care system to reproductive health service, 7) formulation of a national strategy for sustainable development in

every country by 2005 so as to reserve the current trends in the loss of environmental resources at both global and national levels by 2015. The strategy emphasizes the importance of a global partnership because it will be essential that developed and developing countries work together if goals are to be achieved.

(2) Primary Challenges in Development

*7 Basic human needs

An aid concept which recognizes that traditional development aid has not necessarily led to improved standards of living for the poor in developing countries, and seeks to provide aid of direct benefit to those in low income brackets, such as daily necessities and basic social services.

(3) Relationship with International Development Aid Institutions, Other Donors, and NGOs

*8 Stand-by arrangement

IMF lending system to assist countries experiencing short-term international payments difficulties.

*9 Structural Adjustment Lending (SAL)

A type of program assistance first put forward by the World Bank in March 1980. Developing countries carrying international payments deficits arising from economic structural factors are provided with the financing for structural adjustment programs.

*10 Paris Club

An informal group of credit countries which gather to consult on the public debt of specific countries.

*11 Trends in aid from major donors (1997, net disbursements)

U.S. (US\$542 million), Germany (US\$397.2 million),

France (US\$283.9 million), Japan (US\$125.4 million), in that order.

<3>Japanese Aid Policies for Egypt

(2) Relationship with ODA Charter principles

*12 ODA Charter

This is the most basic and important document in Japanese ODA policies, defining aid guidelines in light of past achievements, experiences, and lessons from ODA. It was adopted by cabinet resolution on June 30, 1992 as a means of providing a clear statement of Japanese ODA principles and rules. The document covers six areas: basic philosophy, principles, priorities, measures for effective implementation

of ODA, measures to promote understanding and support at home and abroad, and ODA implementation systems. The "basic philosophy" for ODA are defined as: 1) humanitarian considerations, 2) recognition of interdependency, 3) self-help efforts, and 4) environmental conservation. The "principles" instruct aid administrators to "take into account comprehensively each recipient country's request, its socioeconomic conditions, and Japan's bilateral relations with the recipient country." They are also instructed to consider four areas: 1) balancing environment and development, 2) avoiding use for military purposes or for aggregation of international conflicts, 3) safeguards against diversion for military expenditure, development and production of weapons of mass destruction and missiles, and exports and imports of arms, 4) promotion of democratization, efforts to introduce the market-oriented economy, and guarantees of basic human rights and freedoms.

(3) Orientation for Japanese aid

*13 South-South cooperation (trilateral cooperation)

Assistance provided by developing countries which have achieved a certain degree of economic development to other, less-developed developing countries (both of which belong to the developing world, or the "South"). Japan has seized a variety of opportunities to encourage South-South cooperation, for example sponsoring a gathering of "emerging donor countries" (countries making steady progress with economic development which, while receiving aid themselves, supply part of the development assistance extended to other developing countries) in Okinawa in May 1998 to discuss future approaches. The Second Tokyo International Conference for African Development (TICAD II) in October 1998 also decided that cooperation will be pursued between Asian and African countries as one concrete form of South-South cooperation. In FY1999, Japan contributed US\$5.5 million to the United Nations Development Programme to support more cooperation of this kind.

*14 Third-country training

Japan provides financial and technical assistance to developing countries offering training to other neighboring developing countries with similar social or cultural environments. For example, Japan supports third-country training and technology transfers provided by Egypt to African countries based on technology which Japan has transferred to Egypt.

*15 Project-type technical cooperation

A type of technical cooperation whereby the acceptance of trainees, dispatch of experts, and provision of equipment and materials are organically integrated into cooperation projects which Japan then implements from project formulation through

evaluation.

***16 Japan-Egypt Partnership for Peace and Prosperity in the 21st Century**

A program for the promotion of Japan-Egypt cooperation which was announced by President Mubarak and Prime Minister Obuchi during the President's visit to Japan in April 1999. The program comprises the five following pillars: (1) peace and cooperation, (2) economy, trade and investment, (3) environment, (4) cultural exchanges, (5) education and youth/academic exchanges.

(4) Aid guidelines for priority areas and challenges

***17 BOT (build, operate and transfer) schemes**

Schemes whereby companies from developed countries build plants and infrastructure such as highways and telecommunications networks in developing countries, operate these themselves for a certain period of time to recoup their expenses, and then transfer ownership to government organizations in the country in question.

***18 Primary health care**

Essential basic medical care, which is easier in a number of senses for local residents to accept, is extended and maintained at a level suited to local circumstances through a participatory approach.

***19 Egypt's mortality rates**

Infant mortality rate: 51/1000 (1998); Under-five mortality rate: 69/1000 (1998); maternal mortality rate: 170/100,000 (1998) (Drawn from The State of the World's Children 2000, UNICEF)

***20 TICAD II Agenda for Action**

Formally known as African Development towards the 21st Century: the Tokyo Agenda for Action, the Second Tokyo International Conference on African Development (convened in October 1998) adopted the agenda to provide a framework for concrete policies to be taken by African countries and their development partners in this context. The document was created based on long discussion between African leaders and development partners on urgent short-term issues which need to be addressed to alleviate poverty and allow the greater participation of the African economy in the rapidly globalizing world economy. Specific goals were stipulated in the following areas, with agreement reached on priority policy action: (1) social development, with attention to education, health care and population, and other measures to assist the poor; (2) economic development, including industrialization, private-sector development, agricultural development and measures to solve external debt; and (3) good governance, the

prevention of future conflicts and post-conflict efforts in development.

***21 Third-country experts**

Experts from third countries dispatched to aid recipient countries from other developing countries to provide for more effective implementation of Japanese technical cooperation. For example, Egyptian experts in welding technology have been dispatched to Tanzania as JICA third-country experts.