



EURO-MED PARTNERSHIP

EGYPT

COUNTRY STRATEGY PAPER

2002 - 2006

&

NATIONAL INDICATIVE PROGRAMME

2002 – 2004



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1. Introduction and Executive Summary

With a population of 64 million Egypt is the largest country in the Arab world and one of the largest countries in the Mediterranean Region. Annual population growth between 1996 and 1999 was 1.8% and is relatively constant although higher levels in the 1980s have led to a destabilising surge of new entrants onto the labour market. Income per capita in 2000 was \$1490, which is below the regional average of \$1512. Real GDP growth between 1990 –1999 was 4.4% which is relatively favourable compared to the trend in the 1980s and the performance of other lower middle-income countries.

As provided for in the MEDA regulation (EC No 2698/2000 and EC No 1488/96), the Country Strategy Paper (CSP) provides a strategic framework for EC assistance in the period 2000-2006. It sets out EU co-operation objectives, policy responses and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The national indicative programme (NIP) attached to the Country Strategy Paper sets out the EU response in more detail, highlighting programme objectives, expected results and conditionalities in the priority fields of co-operation for the period 2002-2004.

Egypt is an active participant in the Barcelona process and has signed an Association Agreement with the EU. It is a relatively stable multiparty democracy although a strong presidency and well-entrenched government party dominate politics. Human and civil rights are guaranteed by the constitution and the rule of law is upheld by an increasingly independent judiciary but very arbitrary 'emergency powers' are still in force and have been used to restrain the activities of democracy and human rights activists.

Egypt's ambitious economic agenda has had to adjust to a serious deterioration in foreign earnings in the late 90's, and to very low growth and a weak currency in the last two years. The main challenges facing Egypt in the medium term are:

- Maintaining social and political stability and increasing employment;
- Completing the process of economic transition;
- Consolidating its external relationships with Europe and its regional neighbours.

Within that context and taking into account the objectives of the Barcelona process, the EC can most effectively assist the partner country in meeting those challenges by:

- Promoting the implementation of the EU-Egypt Association Agreement;
- Supporting the consolidation and completion of the economic reform process;
- Supporting stable, balanced and sustainable socio-economic development.

The elaboration of the Country Strategy has drawn heavily on discussions with representatives of the Egyptian government, and from contacts with EU Member States and other donors. The proposed co-operation strategy retains the key characteristic of the

existing National Indicative Programme, notably support to economic transition and balanced socio-economic development, but prioritises measures that directly assist the implementation of the Association Agreement on the one hand, and promote key aspects of social development on the other.

2. EU Policy Objectives.

The EU's co-operation objectives with Egypt are anchored in the Barcelona Process, a proximity policy which reflects the political and strategic importance of the Mediterranean region to the EU. The main goals as set out in the Barcelona Declaration and in the Common strategy adopted by the European Council in Feira in June 2000 are

- creating an area of peace and stability based on fundamental principles, including respect for human rights and democracy;
- creating an area of shared prosperity through sustainable and balanced socio-economic development; and notably through the progressive establishment of free trade between the EU and its partners and amongst the partners themselves, with a view to the creation of a wider Euro-Mediterranean free trade area by 2010;
- the improvement of mutual understanding among the peoples of the region and the development of an active civil society.

This process is underpinned by a network of bilateral relations between each partner country and the EU, embodied in Association Agreements which provide for political dialogue, free trade, between each partner and the EU to be established over a transitional period, and various forms of co-operation.

The MEDA programme provides financial support for the objectives of the Association Agreements and the Barcelona Process. Taking into account the priority areas identified for Community Development Policy, the MEDA programme concentrates on a limited number of key objectives, supporting

- the development of pluralistic democratic society based on respect for human rights and the rule of law;
- the implementation of the Association Agreements, with a particular focus on the development of the Euro-Mediterranean market;
- sustainable economic and social reform linked to the implementation of the Association Agreements;
- sub-regional co-operation, by encouraging South-South development and economic integration initiatives, helping existing Association Agreement signatories to move to free trade between themselves.

This country strategy respects the principles and objectives of Community development policy (Joint Council and Commission Declaration on Development Co-operation of November 2000). The reduction and eventual eradication of poverty through support to

sustainable development and the gradual integration of partner countries into the world economy, and the combating of inequality, are fully consistent with the goals of the Barcelona Process. Refocusing the Community's activities onto a limited number of areas, and implementing co-operation in a more effective and efficient manner are also important Barcelona objectives.

3. The Policy Agenda

The defining period of modern Egypt is still the revolutionary socialist regime under Kamal Abdel Nasser (1952-1970) which nationalised most non agricultural economic assets, introduced a one party regime closely linked to the military, and launched an ambitious social programme. Nasser's successor, President Sadat, is best remembered outside Egypt for his reorientation of Egyptian foreign policy away from its close alliance with the Soviet Union and his signature of a peace treaty with Israel. But he also began the process of economic (Open Door) and political reform which marked a timid return to a market economy and multiparty system. Given the times, this policy shift was deeply divisive and Sadat's assassination in 1981 can be linked directly to widespread opposition to the policies and to their style of implementation.

His successor, President Mubarak, has been more cautious but also more successful. The last 20 years have seen substantial progress in rebuilding internal and external security and in pressing ahead with economic reform, very slowly at first but ambitiously during the 1990's. Social reform has lagged behind although is now seen as a priority.

There is a long-term (1997-2017) National Plan and a shorter series of five-year plans but these reflect an altogether more optimistic scenario than is realistic today with very high growth targets and an increase in habitable land from 5% to 25% of Egypt's surface area. The new five-year plan will reflect the current situation more realistically but is still in preparation. Formal statements by government give an indication of its main elements.

3.1. In setting out his administration's **overall policy agenda** in September 2000 Prime Minister Obeid listed the following strategies to achieve high (7%) GDP growth:

- **Continued denationalisation of public sector interests.** Notably completing the sale of public sector enterprises targeted for privatisation under Law 203, disposing of state shares in joint ventures (including joint venture banks), selling stakes in the state owned telecommunications and energy sectors, and making legal provision for the 'corporatisation' of the 43 'economic authorities'. The privatisation of the state financial sector remains a specific policy goal although the four state banks are unlikely to be privatised in the short term. The all-important privatisation of Egypt Telecom was postponed because of the global collapse in the value of telecom companies.
- **The expansion and modernisation of infrastructure.** The government has committed itself to a major programming of infrastructure development including the building of schools and health centres, the extension of energy networks (notably natural gas) the construction of power stations, roads and airports (through private

sector BOOT and BOT schemes), the modernisation of ports and the upgrading of water and sanitation systems.

- **Savings and investments promotion.** The government proposed a legal package, some of which is already on the statute book, covering mortgages, capital markets, IPR, financial leasing and the establishment of special economic zones. The government intends to quadruple FDI inflows to \$ 3-5 billion annually.
- **Fiscal, Monetary and Financial sector reform.** The main fiscal and monetary reforms have already led to the broadly successful introduction of a sales tax and the change from a fixed £Egy/\$US rate to a shifting peg exchange rate system (this will reportedly evolve into a crawling peg against a basket of currencies, rather than against the US \$ as at present). Financial sector reform will concentrate on stimulating the stock market, reactivating the bond market, creating new financial intermediaries and addressing serious financial sector skills deficits. The legal framework for these reforms already exists.
- **Bureaucratic and Industrial Modernisation.** There is a policy commitment to civil service reform (but a reality, especially at times of rising unemployment, of using the civil service as an employer of last resort). The lack of progress in civil service reform, in terms of structure, role, skills and salaries, will ensure that other reforms will be far more difficult to achieve in any area where the government plays a key role. Industrial and Agricultural modernisation are also identified as essential priorities but the real level of commitment appears mixed, especially for industry where the relevant authorities initially frustrated the launch of the EC supported Industrial Modernisation Programme and created a complementary one.
- **Natural and Human Resource Development.** The rapid development of newly discovered natural gas reserves, both for domestic use and export, is a key element in resource development policy; and so too is **human resource development** without which Egypt's economic and social transition will be impossible. The former will depend heavily on FDI and the latter on collaboration with donors.
- **Social reforms.** Poverty data is poor although the Government of Egypt is already working with the World Bank on a comprehensive Poverty Assessment which should form the basis for a better informed and targeted social development policy when it is available. The present policy for social development is based on improving access to medical care and water and sanitation, improved public transport provision and the continuation of basic food subsidies. The need to improve social outcomes and to increase (or at least maintain) social spending will make it very difficult to reduce the current budget deficit of 4.8 % of GDP. By the same token, a continued fiscal deficit of this size will make it very difficult to maintain social spending at current levels.
- Not mentioned in the September 2000 statement, but clearly retained as policy, is continued support to **controversial 'mega-projects'** most notably the development of a second Nile Valley (Toshka) and the creation of new agricultural areas in Sinai based on Nile water. These are linked to ambitious socio-geographical objectives of resettling population from the overcrowded Nile Delta and Cairo metropolitan regions onto new land. Investment costs in the mega-projects have put considerable pressure on the budget and consequent payments delays led to serious liquidity

problems in 2000/2001 which contributed to the problems of the SME sector already suffering from the effects of the current economic downturn.

3.2. The government's short-term economic goals are set year by year, normally at the beginning of each new parliamentary session. They are linked to the long and medium term plans but increasingly reflect short-term considerations that were less significant when these plans were drawn up. President Mubarak's speech to parliament in December 2000 stressed the inseparability of economic and social development and identified three key policy objectives:

- **Job creation** to reduce rising unemployment (unofficially estimated at 12-17 %).
- **Export led growth.** (reconfirmed in Nov 2001 when the President announced cabinet changes to arrest the stagnation of the Egyptian economy).
- **Modernisation of education.**

On other occasions he also renewed his commitment to the '**mega-projects**' and stressed the need to increase domestic and foreign **investment**, and to promote **SME growth**.

Prime Minister Obeid's latest **short-term policy statements** have placed a strong emphasis on social development with ambitious targets for job creation and social infrastructure (notably schools, clinics and basic utilities), the retention of food subsidies, the control of population, and an increase in social security coverage. Such objectives were to be expected in an election year but also reflect a growing appreciation of the dangers in neglecting social issues. This, and a topical concern for the destabilising effects of international terrorism, was stressed in a Sept 2001 meeting with donors.

3.3. The government's policy agenda with respect to **the international and donor community** is carefully modulated to reflect Egypt's overall foreign policy objectives.

- On **trade issues** Egypt stresses its role as an active WTO member and a willing spokesperson for the developing world in the new trade round debate. This policy also drives Egypt's pro-active membership of regional FTA's (e.g. Comesa, Gafta).
- On **regional political** issues Egypt's position is to be seen as both a serious party and as a constructive facilitator. This has been especially true of the Middle East Peace Process, the EU-Africa summit and New Africa Initiative, the Sudan civil war, the 'war against terrorism' and the Iraq sanctions issue. Now that Egypt has signed an Association Agreement with Europe it will be true of EU-Egypt issues also (Egypt already plays an active role in Barcelona meetings and will continue to seek a key role in new initiatives, e.g. the follow-up of Agadir).
- On **development co-operation** the Egyptian government is preparing its policy line for the next Consultative Group meeting (now postponed to Feb 2002). It is highly likely that this will stress job creation, skills development, education and rural health, and the development of energy resources. Furthermore the Egyptian side will push

the Social Fund for Development as its preferred model for donor funded social programming.

3.4. President Mubarak has spoken frequently of the need for **internal political reform** and there have been some significant but nonetheless very cautious moves (e.g. in the official monitoring of elections by the judiciary and the allowing of candidates representing technically proscribed Islamic parties to stand for, and win office). The status of civil society organisations will remain unclear until a new NGO law is adopted; the government is committed to this although the new law may retain much criticised aspects of the one ruled previously to be unconstitutional. The deterioration in the external political and internal economic environment since Sept 11th 2001 will make an already cautious government even more so.

4. Country analysis.

4.1. PROGRESS IN THE ASSOCIATION PROCESS.

Negotiations for a new EU-Egypt Association Agreement began in 1994 but were only concluded in June 1999 and the initialling of the text by both parties was delayed until February 2001. These delays called into question the extent of Egypt's commitment to the Barcelona process but the formal signature of the Agreement in June 2001, and its approval by the European Parliament in November 2001 has been widely welcomed as heralding a new phase in Europe's relations with Egypt.

The potential of the new Agreement, and challenges that must be addressed to prepare for the linked FTA, are already key issues in the Egyptian internal debate on industrial modernisation and economic reform. Egypt is also a core member of the Agadir group (Morocco, Tunisia, Egypt, Jordan) that will push the dynamics of south-south free trade, and possibly other issues, between the four Arab signatories of Association Agreements with the EU.

In the context of its deeper association with the EU Egypt has called strongly for an enhanced EU role in the MEPP. It also looks strongly to the EU not only for new markets but also for FDI and technology transfer (a new investment promotion centre targeting the EU was opened in London in June 2001).

4.2. POLITICAL ANALYSIS.

4.2.1. Internal Security and the rule of law.

The maintenance of internal security and social stability is inevitably the key priority of any Egyptian government and one which provides the context for policy in all other areas. It has been clear government policy to use the full power of the state to contain any serious opposition movement, violently if necessary, and Egypt has not hesitated to do so when the security of the regime is threatened. The fundamentalist terrorist movements which were active for much of the 1990s were broken after the 1997 tourist massacre at

Luxor but there is concern that unemployment at home and frustration with the failure of the MEPP abroad could rekindle extremist violence. It is for this reason that the framework of security legislation introduced after Sadat's assassination is still in place although the ruling by the Supreme Court that the use of military law article 4 was inappropriate in a recent human rights case may herald a change in its application. The events of Sept 11th have highlighted the role played by Egyptian extremists in the Bin Laden network and underline the dangers to Egypt of any revival of extremist violence.

Egypt has a long established judicial system although justice is very slow and the political independence of the courts is questioned. However there is widespread respect for judicial process and recent indications that the judiciary is prepared to act as a genuine balance to the powers of the state. The Supreme Constitutional Court can and does act independently (as when it declared the government's new NGO law unconstitutional). Its ruling on the constitutional shortcomings of the 1995 general election led to the judicial supervision of the latest elections (previously a responsibility of the Ministry of the Interior).

Although the present regime is extremely cautious, political reform has made more progress recently than is apparent on the surface. Multiparty democracy as introduced by President Sadat was more form than substance but the reform of the political process by stealth is now clearly underway. A major cull of ineffective and time-serving ruling party candidates prior to recent assembly and upper house elections has given a new vitality to parliament and the November 2000 general election was probably the fairest in a generation. There is no obvious successor to President Mubarak although he has hinted that he might consider nominating a vice-president; a move he has strongly resisted so far.

The ruling NDP retained its overwhelming dominance in November 2000 but only because many 'independent' candidates subsequently joined the party. More significant is the block of 17 Islamic candidates representing the technically proscribed Muslim Brotherhood who were elected despite considerable official disruption of their preparations for the elections. This gives the assembly a real opposition party and suggests that at least some parts of the government are now prepared to bring the Islamic opposition into the normal political process.

The government's attitude to civil society is complex. There is an extensive structure of union and professional associations although candidates from the Islamic opposition increasingly dominate the latter. There is also a large NGO sector (estimated at around 15,000 NGOs) whose involvement in welfare issues is encouraged, although cautiously as many social NGOs have close links with fundamentalist movements. Most NGOs are very small and poorly organised but the Egyptian Social Fund for Development and the main social ministries use the more efficient NGOs as delivery agents and some receive patronage at the highest level of government. However the involvement of civil society organisations in sensitive issues like civil and political rights is a very different matter and NGOs working in these areas are viewed with considerable suspicion by the authorities.

It is not official policy to discourage civil society but the limits are firmly drawn and there is a wholly unsatisfactory legal and regulatory framework for NGOs which can effectively cripple them with restrictions on registration and on funding. The new NGO law (due to be re-presented to parliament in the next session) is a theoretical improvement on what went before but its implementation in practice could be even more restrictive, and especially for NGOs working with foreign donors. The government has also embarked on

several high profile prosecutions (or threatened prosecutions) of human rights and democracy activists to highlight the risks of going beyond what is seen as 'tolerable'.

Egypt adheres to most international agreements on human and civil rights. They are protected by the constitution and by the judicial system, and a genuine commitment to the promotion of many such rights is a proud achievement of modern Egypt's 'revolutionary' legacy. But if Egypt's human rights record is comparatively good compared to many other countries in the region, it is certainly not good enough for a country on the path to becoming a modern liberal democracy. This is not disputed (at least in private) by most commentators in Egypt but many would argue that progress must be carefully managed through what is seen as a dangerous point in the transition process.

On some issues the government has shown considerable political courage in forcing through social reform in the face of considerable conservative opposition. Notable recent examples are legislation on divorce and female genital mutilation, and reforms to amend archaic Ottoman legislation restricting the Coptic Christian community's right to build new churches (or even repair existing ones). But if the government makes progress, albeit cautiously, on issues that make a clear contribution to social stability (e.g. gender, religion and workers' rights), it gives a very low priority to the rights of vulnerable social groups (child labourers, prisoners, homosexuals etc.) whose cause elicits little popular support. Egypt retains and actively implements the death penalty and the President has never used his right to commute the death penalty on appeal.

4.2.2. External Stability

Egypt is a major regional power, and one that sees itself as the pivot of three main areas; the African, the Arab, and the Euro-Mediterranean. It is also in some senses a global player, notably as a founder member of what used to be called the non-aligned bloc which still exists in residual form on trade and globalisation issues. President Mubarak is now the undeniable elder statesman of the region.

Egypt, as an **Arab country** has had to rebuild its position as the natural leader and spokesman of the Arab world that it totally lost immediately after Camp David and Egypt's peace treaty with Israel. President Mubarak's achievement in successfully restoring Egypt's leadership is a remarkable one, and all the more so since the Arab World no longer needs a 'spokesman' in the way it did in the immediate post-war era. Much of Egypt's credibility is built on the back of the Middle East Peace Process because Egypt is the only Arab country that is strong enough and close enough to all sides to play a facilitating role when other efforts falter, notably those sponsored by the U.S. Egypt also gives clear Arab world leadership to bringing marginalised Arab states like Libya and Iraq back into the World Community and in defining the 'Arab position' on the US led war against terrorism. Egyptian policy on the MEPP and the Iraq sanctions issue is conditioned not only by concerns of conflict on its doorstep but also by the danger of civil unrest in Egypt itself. The MEPP may also give the Arab League (headquartered in Cairo) a potential new lease of life under its new and highly respected Egyptian Secretary General (Amr Moussa) but any autonomous role is unlikely.

Egypt's policy as an **African power** is determined by two main concerns. The first is dependence on the Nile and a fierce determination to maintain its current share of the Nile water, through agreements where possible but supported always by an active foreign policy with upstream states. In concrete terms this has meant better relations with the

Khartoum government, the continued promotion of the Egypt-Libya peace initiative in Sudan, and full involvement in the recent launch of the Nile Basin Initiative. The second determinant is Egypt's conviction that its natural export markets lie in Africa, at least for those products which may prove difficult to sell in Europe and the USA where consumer standards and competition are very high. Egyptian economic interests are already active in Africa and Egypt is a member of COMESA which it will chair this year. Egypt has also taken an active role in assisting SADCC and COMESA members to evolve a common position on world trade issues (joint talks were held in Cairo in July 2001). Some African states may have mixed feelings about just how 'African' Egypt is but its credibility was enhanced by the choice of Cairo for the first EU-Africa summit in April 2000 and by its association with the launch of the New Africa Initiative.

Egypt's **Euro-Mediterranean** position is inextricably linked to progress on Barcelona and the Association Agreement (see 4.1) but it also reflects Egypt's long and complex relationship with Europe which was temporarily overshadowed under Nasser and Sadat by new relationships with the USSR and the USA respectively. There is no doubt that the USA remains Egypt's main strategic and donor partner but Egypt sees increasing political risk in being seen to be too closely associated with US positions on Israel and terrorism'. However the relationship is changing, in part because the EU is now seen in Cairo as potentially more globally influential than the sum of its parts, and this at a time when there are real questions in Egypt on the US's long term commitment to its current interest in the Near and Middle East. Such considerations have always weighed heavily in the region.

4.3. ECONOMIC AND SOCIAL ANALYSIS:

The co-existence of increasing wealth and extreme poverty in Egypt is endemic and only pro-active and focussed government policies can break the vicious circle linking poverty to poor housing, health, education, and employment. With a per capita GDP of over US\$ 1400 Egypt is now technically a lower-middle income country and life expectancy, fertility, and infant mortality indicators have improved considerably over the last decade. However infant and maternal mortality rates compare unfavourably with countries at similar income levels and illiteracy rates (33% for men and 57% for women) are still very high. Statistics on poverty and deprivation are poor and likely to remain so until the results of a new poverty assessment survey by the WB are available but studies by the Institute of National Planning estimated the poor and the ultra poor, as a percentage of the population as being 23% and 7% respectively in 1995/6. It is known that income differentials have significantly widened in recent years and that poverty is markedly worse in Upper Egypt where up to 60% of the population are poor, and in female-headed households (15-20% of the total).

With over a third of the population either close to, or under the poverty threshold, Egyptians are very vulnerable to economic shocks and highly dependent on employment. Unemployment varies from 7.4% (official) to 17% (unofficial) but the best estimate is around 8% with extensive additional underemployment, especially in the public sector which has been traditionally used to absorb unemployed graduates. Egypt has an impressive record on job creation but cannot easily cope with the demographically created surge on the labour market. The position of women is especially difficult because of low

literacy and poor skills. Egypt has basic social security coverage but there are real problems at the social margin.

Access to basic education and basic health is a government priority but both the health and education systems are under-funded and inefficient and poor basic education is an important factor in explaining high illiteracy rates. The problems of managing the system are compounded by very poor statistics but those that exist suggest that the basic education reforms have still to make a significant impact on achievement levels although access has improved. Access to clean water and sanitation is also a critical issue for poor Egyptians, and notably in the poor rural areas of Upper Egypt.

The other side of the coin has been the rapid rise in the size and wealth of the Egyptian middle class. They are an important force for both economic and social change and can be expected to become increasingly influential as the Nasserite generation leaves the political scene.

Egypt entered the 1990s with severe fiscal imbalance, high inflation and declining productivity, an unmanageable external debt and an unsustainable current account deficit. Confidence in the currency was so low that almost half of domestic liquidity in 1991 was dollarised. Following the 1990/91 Gulf War crisis, a generous agreement with the Paris Club led to the stabilisation of Egypt's external debt. A concerted Economic Reform and Structural Adjustment Programme dramatically reduced the fiscal deficit, and laid the basis for monetary and industrial reform. Macro-economic stabilisation allowed for structural reform through private sector development, the liberalisation and deregulation of protected sectors, and the privatisation (still incomplete) of the once dominant public industrial sector.

The financial sector reforms of the 1990's assigned a central role to market forces in the mobilisation of savings, the allocation of credit and conduct of monetary policy but much remains to be done in practice. Although the reform framework is largely in place the future role and status of the public commercial banks and insurance companies remains to be addressed, there are too few financial intermediaries offering venture capital or long-term credit, and the sector's regulatory, supervisory and monetary policy capacity need improvement.

Successive Egyptian governments have stressed the importance of promoting export led growth and between the mid 1980's and the mid 1990's Egypt undertook a series of trade reforms to reduce tariff and non-tariff barriers and to enhance the transparency of the trade regime. However significant internal resistance from some industrial sectors to these reforms significantly delayed the signature of the EU-Egypt Association Agreement. Although import tariff peaks and dispersion were reduced and most quantitative restrictions, non-tariff barriers and direct export taxes were eliminated, Egypt's trade system remains significantly more restrictive than those of other emerging markets. Customs procedures are cumbersome and the import of intermediate goods is still discouraged. Moreover, and despite reasserting its commitment to WTO rules, Egypt remains lax on a number of its multilateral trade obligations; notably with respect to transparency bound tariff rates, mandatory standards, intellectual property, and customs valuation. As a result, Egypt's share of world exports and imports actually fell over the period, as did the share of exports and imports in GDP. The share of Egypt's merchandise exports in the EU market fell from 1% in 1985 to 0.5 % in 1995. Egypt's main exports to the EU are oil (40%), textiles (19%), agricultural products (9%) and engineering products.

Its major imports from the EU are transport equipment and machinery (40%), chemicals (13%), and food and agricultural products (11%). In the late 90's, Egypt is reinvigorating its external trade reform through:

- multilateral liberalisation on the basis of commitments made in the Uruguay Round;
- bilateral trade liberalisation through the negotiation of Free Trade Areas (e.g. with the EU through the AA and with African states through COMESA);
- the comprehensive unilateral reform of the trade regime (which is still underway).

On balance the 1991 stabilisation and reform package resulted in solid fundamentals and reasonable growth in the late 1990's. But there was insufficient poverty reduction and job creation, insufficient savings and non-residential investment ratios, a structural weakness in the merchandise export sector, and an over-dependence on foreign resources (8 % of GDP is funded by large net transfers from abroad). In addition the economic downturn of 2001, and the heavy economic impact on Egypt of the 11th September events has severely eroded confidence in Egypt's short-term economic future.

4.3.1. Economic growth and job creation

Egypt's most pressing short-term internal economic problem, and one that increasingly disturbs Egypt's leadership, is a major shortfall in new job opportunities for the 600,000 new job entrants to the labour market every year.

Only GDP growth of around 7 % can both increase employment and average incomes but the immediate prospects of achieving such growth rates are not good. The government has launched short-term employment initiatives through the Social Fund, and supports infrastructural and irrigation schemes to create employment on 'new' land. It has also, controversially, reversed its commitment to tackle over-manning in the civil service by increasing the public sector labour intake. But none of these measures will be as effective as healthy private sector growth which is still sluggish. It has been estimated that the private sector would have to increase its annual labour intake by up to 50 % to hold the employment rate constant.

The present government has taken important steps to promote export led growth and to reduce the current account deficit. This reached 2.5 % of GDP in the period 1998-1999 due to low energy prices, a collapse in tourism and remittances, and an import boom fuelled by an overvalued currency. The strict currency link with the US dollar has now been modified and is being managed more flexibly. Further moves towards a more realistic and flexible exchange rate policy, possibly less tied to the US dollar, are essential. Remittances and tourism revenues have recovered well and the rapid development of new natural gas finds should give a major boost to energy exports in the near future. The infrastructure for liquefied gas exports to Europe has already been contracted and plans to extend the Sinai gas pipeline network into the Mashrak via Jordan are at an advanced stage. However the events of Sept 11th have put this recovery in question, at least in the short term.

The government is committed to the improvement of port facilities; to tackling the remaining fiscal and administrative hurdles faced by exporters internally; and to promoting the external conditions for increased trade through active Egyptian

membership of free trade areas. The Association Agreement linked Euro-Med F.T.A. is potentially the most significant and Egypt is one of four Arab states in the Agadir agreement to promote free trade between the Arab signatories of Association Agreements with the EU. Egypt is also a prime mover in Comesa (which it currently chairs) and the Arab League sponsored GAFTA,

Steps have been taken to significantly increase the flow of productive investment into the Egyptian economy. **Domestic savings and investment** rates are low by regional and international standards and high levels of speculative investment, mainly in property, has led to a serious shortage of investment funds to finance private productive sector growth. Egypt already has in place a financial sector reform framework to allow denationalisation and the creation of new financial intermediaries and instruments **but much remains to be done before the Egyptian economy has the financial sector it needs to promote growth.**

Direct foreign investment will not be enough to meet the savings/investment gap but has a critical role to play and Egypt has launched a strong international campaign to attract foreign investors. It expects much from the EU now that the Association Agreement is signed (Egypt opened an investment promotion office in London in May 2001 to cover the EU). International investors are attracted by the energy and tourism sectors but experience elsewhere is mixed and recent high profile cases (e.g. Sainsbury's) indicate that much still needs to be done to create a more attractive business environment.

The government remains committed to the privatisation of much of the remaining public sector although fears of unemployment and a lack of potential buyers for the unsold state companies makes the process difficult. Emphasis has now moved from the initial batch of public companies identified under Law 203 to state financial institutions and utilities, but this in the context of a privatisation programme that is perceived as losing its momentum.

Despite the present economic downturn Egypt has the medium term potential to achieve and maintain growth rates high enough to improve the standard of living across all sectors of Egyptian society. There is a large domestic market with rising purchasing power, relatively cheap and abundant labour, important cultural and tourist assets, and large natural gas reserves. But exploiting these comparative advantages and tackling the overriding problems of increasing unemployment and widespread poverty will require Egypt to:

- effectively address the unfinished agenda of structural reforms, covering in particular the public industrial, the financial and the external trade sectors;
- encourage FDI and enhance the domestic savings and investment environment.
- meet the enterprise skills gap through extensive human resources development.
- adopt more pro-active and socially responsible policies to address poverty.

4.3.2. Social development

The economic reforms of the 1990s also saw the creation of the Egyptian Social Fund for Development to cover the social effects of structural reform. However there is widespread recognition in government that social reform has lagged badly behind economic reform. Indeed the economic reform itself has led to increased social stress, notably through a widening of income differentials and increased structural unemployment.

Egypt is already launched on a major reform of the primary health care system and of basic education. The National Conference on Social Development (September 2000) and the proposed national social development strategy in its final report have put social development firmly back on the policy agenda. However the Government of Egypt has still to translate this political concern into a fully worked out social development strategy that will tackle issues of poverty and social reform in a more integrated and coherent way. In education the revival of the Supreme Council for Human Resource Development could lead to the reform of the secondary and post secondary technical education system given sufficient funding and political will. This will complement the existing programme (with donors) to reform basic education; and proposed programmes to upgrade post secondary TEVT.

There are important poverty reduction programmes in place to reduce population growth and to resettle population from crowded cities (notably Cairo) into newly developed regions, notably Sinai and the Toshka Valley (heavy investment in the irrigation infrastructure of the Toshka 'mega project' has started but there are still doubts on whether its ambitious resettlement targets can be met). The government has also indicated that it will pay increased attention to the issue of economically and socially vulnerable groups (notably women and the unemployed) and to those regions, notably in Upper Egypt, where high levels of poverty and illiteracy persist

The government is concerned to engage NGOs in social development sector although their present ability to do so is undermined by a lack of capacity and of a proper legal framework that allows them to work closely also with donors. The Government has also made clear its wish to involve the donor community more closely in social development programming. Education and health reform already benefit from considerable donor assistance and the government is now positioning the Social Fund for Development (already overwhelmingly donor funded) as the most effective instrument to articulate donor assistance and civil society delivery mechanisms. Prime Minister Obeid stressed this when he spoke to all donors in September 2001. He has also written to the Commission in similar terms.

5. Overview of the Existing Co-operation Programme.

5.1. CO-OPERATION WITH THE EU.

Between 1977 – 1996 co-operation with Egypt was governed by a series of four bilateral protocols concluded on the basis of the 1977 EEC-Egypt Co-operation Agreement. After 1996 all wholly new commitments have been funded from the MEDA budget (although commitments were also made against unspent protocol funds). Egypt is also a major

European Investment Bank beneficiary and exceptionally benefited from a further € 450 million in Gulf war related **food aid** and € 175 million as special **Gulf crisis** assistance. Egypt benefits also from global and regional funds (e.g. the EIDHR) but these are very small in comparison. The current programme dossier under management covers commitments of €855 million of which €615 million are MEDA funded sector programmes.

5.1.1. Financial Protocols.

A total of € 661 million was committed to projects in Egypt under the four four-year financial protocols. They concentrated on promoting market economy approaches in agriculture and investing in socio-environmental infrastructure although actions in economic co-operation, energy, industry, scientific co-operation and health were also included. However the Fourth Protocol gave increased priority to economic modernisation and support to the private sector with more than € 100 million committed for this purpose. Protocols 3 & 4 introduced an EIB-managed risk capital facility (over € 27 million) while most EIB loans with EC funded interest subsidies were made to oil and gas distribution, the environmental and agricultural sectors, and to SME industrial development. During this period, but with Gulf war related funds, the EC helped launch the multi-donor Social Fund for Development.

5.1.2. MEDA

The creation of new **Euro-Mediterranean Partnership** policy (Barcelona) and an associated budget line (MEDA) placed EU technical and financial assistance to Egypt in a new and challenging context. MEDA funds typically support **policy-led** national programmes of structural reform and liberalisation through integrated sector-wide programming. MEDA represents a significant increase in the financial resources available under the bilateral Protocols. The bilateral implementation of financial and technical co-operation with Egypt under the MEDA programme is covered by a **Framework Convention** signed in February 1998.

All MEDA funded actions are subject to environmental and gender screening and appropriate measures are built into the project structure when necessary. It is expected the IMP will generate a considerable demand for technical assistance (TA) to assist Egyptian SMEs in complying with new environmental legislation. Environmental protection is also an explicit priority criterion for MEDA interest subsidy support to EIB own resources loans (MEDA supports EIB operations through **interest subsidies** to loans and through fully funded **risk capital** operations managed by the EIB).

The first MEDA commitments were made on the basis of the EU/Egypt bilateral **indicative programme** (1997-1999) which envisaged a package of actions grouped in the following main categories:

Support to Economic Transition

MEDA support to economic transition and SME development is centred on the **Industrial Modernisation Programme (IMP € 250 million)**. This is the largest EC project funded outside the EU and is designed to help the private sector compete in the domestic and international markets and to exploit the new economic opportunities in the EU-Egypt Association Agreement. IMP policy will be defined by a Council of key

representatives from government, private business, finance, and academia and will be managed by a newly created Industrial Modernisation Centre. The IMP will provide:

- Assistance to the Ministry of Industry to support private sector growth through the development of a more business-friendly policy environment.
- Assistance at the sector level to business associations and clusters.
- Direct technical assistance to 5,000 SMEs at the individual enterprise level to improve their competitiveness.
- The IMC should have been established and operational by early 2000. The programme has suffered from very serious delays which called its future into question although the appointment of a new Minister of Industry (Nov 2001) signals a renewed Egyptian commitment to launch activities under the programme as soon as possible and the work plan for 2001 is already approved by Commission.

Socio-economic Balancing

Current EU support to social development in Egypt focuses directly on support to basic education, basic health, and poverty alleviation.

The **Education Enhancement Programme (EEP € 100 million)** targets educationally under-privileged governorates but contributes to the goal of universal Elementary Education. The programme emphasises local responsiveness; increased access to compulsory education, particularly for girls and under-privileged children; and improvements in quality and system efficiency. The EEP is a multi-donor programme close co-ordinated with the World Bank and European and other bilateral donors.

The **Health Sector Reform Programme (HSRP € 110 million)** covers the phased rationalisation of Egypt's health care delivery system, starting in the governorates of Alexandria, Menufiyya and Sohag but with the aim of universal coverage. The programme prioritises access, equity, quality and efficiency and will initially focus on the provision of a cost-effective basic health care package. EC funding provides for institutional strengthening at central, governorate and district levels to support comprehensive and integrated district and governorate health plans

Substantial support to the multi-donor funded **Social Fund for Development (SFD II € 155 million)** has been the EC's main contribution to alleviating the adverse effects of economic transition. As with SFD I, the objectives of SFD II are poverty alleviation, job creation, and infrastructure creation in partnerships with NGOs and other local groups. The specific priority for EU funding is the promotion of these objectives through support to small and micro enterprises. Donors and government see the Social Fund as a considerable success although some government agencies resent its prominence. An SFD III is currently under preparation by the Government of Egypt.

5.1.3. The implications of MEDA programme performance on programming.

The four large MEDA funded programmes committed for Egypt in 1998 represented a very different and innovative response by the EU to co-operation with Egypt. None of

the programmes have been given a final evaluation but there are already some clear implications for future programming.

The basic health and basic education programmes are both sector wide and reform oriented. And both are multi donor (almost inevitably in large social development programmes in countries like Egypt). They include strong TA support although some of the funding is tied to tranche release mechanisms based on reaching key project stages. Early progress was slow, in part because of problems in articulating with components funded by other donors but also because managing genuine reform in social sectors is very complicated. Donor collaboration is clearly critical but so too has been flexibility in redefining aspects of both programmes in the light of progress, and this has been done. The role of technical assistance and programme management units has been essential to programme management but it will be important to ensure that their competencies are internalised by the social ministries concerned.

The multi-donor basket funding mechanism for the Social Fund is a very different approach. The EU is the major donor (and led the mid term evaluation) but the Social Fund itself has been almost entirely responsible for planning and executing its activities. It has established itself as a highly effective agent for social development and as a rapid disbursing of donor funds. Its success indicates that much can be achieved, even in difficult sectors, given appropriate funding, good managers, and an innovative mandate. But the transition of the Social Fund from a temporary and fully donor funded facility to a fully integrated Egyptian institution (politically and financially) with clear medium term responsibilities is not yet achieved. Donors, including the Commission, have a high regard for the capacity of the SFD to deliver but most have reservations in repeating the relatively open funding model used in the SFD I and SFD II programmes. The Government of Egypt will clarify its plans for a revised Social Fund at a meeting with donors in early 2002. Donors have made clear that a new status for the SFD, involving a clearer relationship with line social ministries, a revised mandate and a proper state funding base will be essential for the SFD if it is to continue. This, and much else with respect to the SFD's future orientation, was foreseen in the Multi-donor mid term review. If the future of the Social Fund as an effective manager of local and donor funds can be properly assured it will continue to be an attractive delivery mechanism for the donor supported social development actions, but not necessarily the only one.

The successful Private Sector Development Programme piloted many of the 'demand driven' concepts used in the design of the considerably more ambitious Industrial Modernisation Programme but the relatively optimistic administrative and economic climate in which the programme was designed changed radically. In theory the flexibility built into the programme should have been sufficient but the total impasse with the Ministry of Industry in creating the essential management structures led to serious and nearly terminal delays. The size and visibility of the IMP meant this had a serious impact on the rhythm of the whole EU-Egypt co-operation programme. Because the IMP has not yet started operationally (the key TA team arrived in Cairo in Sept 2001 and the new minister was appointed November 2001) it is impossible to say yet whether the IMP will ever achieve its potential. But the problems encountered in launching IMP have significantly changed perceptions on the limits to achieving significant economic reform in the face of resistance from individual ministers, and the

risks in Egypt associated with very high budget programmes with extensive technical assistance.

5.2. EIB 'OWN RESOURCES'.

Initially the EIB concentrated on loans to transport and energy infrastructures. In the late seventies to mid eighties priority was given to energy and cement although concessional risk capital was also allocated to the EDIB (Egyptian Development Industrial Bank) in 1984 to finance private sector SME's. In the late eighties to early nineties (third Protocol) the EIB diversified its activities in Egypt with loans to the agri-industrial, industrial, water and sanitation, gas and energy, and tourism sectors. Further financial assistance was extended to private sector SMEs via public and private sector commercial Banks.

Between 1991-1996 EIB loans in Egypt of over € 700 million financed investment in sanitation, air transport, steel and aluminium production, highways and energy, pollution abatement, cement and ceramic production, tyres, compressors and industrial gases, gas pipelines, oil refining, printing, irrigation and SMEs. These operations were principally covered by the 4th EU-Egypt Bilateral Financial Protocol and by the Horizontal Facility for Mediterranean regional or environmental projects.

Under the € 2.3 billion global envelope available for non-EU Mediterranean Countries under the new Euro-Mediterranean Mandate (which mirrors MEDA), the EIB has set aside up to € 531 million for public and private sector projects in Egypt. An additional € 31.5 million has been allocated to Egypt from the € 200 million risk capital earmarked for Mediterranean countries. Priorities are still strongly environmentally related (waste/waste water/water supply and energy).

5.3. THE PRIORITIES OF MEMBER STATE AND OTHER DONORS

In preparation for the forthcoming Egypt Consultative Group meeting donors are currently working on a detailed analysis of donor activity but the broad patterns are already available.

5.3.1. Member States.

On the basis of a July 2001 stocktaking of **Member State** intentions the following sectoral pattern emerges of activity in Egypt:

- Support to SME's and Industrial Modernisation. (EC, Germany, Italy, Denmark, Spain, Netherlands) Approx. €360 million committed.
- Water Supply and Sanitation (Germany, Denmark, France, Netherlands, Italy, UK, Finland). Approx. €350 million committed or planned.
- Energy, alternative energy (Germany, Denmark, France, Sweden, Spain). Approx. €350 million committed or planned.

- Environment (EC, Germany, Denmark, Finland, UK, Netherlands, Italy) Approx. €250 million committed or planned.
- Human Resource Development (EC, Germany, France, UK, P) Approx. €200 million committed or planned.
- Health (EC, Italy, Netherlands, Finland,). Approx. €140 million committed or planned.

5.3.2 Other Donors.

For 25 years the US has been by far the largest single donor to Egypt with some \$2 billion annually (of which \$1.3 billion is military assistance). This makes Egypt the second largest recipient of US funds after Israel and this support is set to continue although the non-military aid programme is being scaled down. Recent events may possibly reverse this trend and the Government of Egypt has already opened discussions with the USA on possible new measures, including bringing forward disbursements on existing programmes, to help meet the short term economic crisis USAID's current aid programming is strongly targeted on economic reform, notably:

- Private sector middle management skills
- A strengthened environment for trade and investment
- Training in information technology.

The World Bank is traditionally very active in Egypt on social programming and in recent years has concentrated its activities on Basic Education and Health Reform, and support to the Social Fund for Development (all in collaboration with the EC). Take-up of WB funds is conditioned in part by an Egyptian policy of only taking out development loans for sectors that have also received grant funding. The Bank's present priorities are to support new programmes in:

- Agriculture and Rural development
- Water Management and Distribution
- Macro-Economic Support and Export Promotion
- Skills Development and Higher Education Reform

The Arab funds, Canada, Japan, and Norway are also active donors in Egypt.

6. EU Response Strategy

6.1. PRINCIPLES AND GENERAL OBJECTIVES:

Egypt is a pivotal Arab, African, and a Euro-Med power. The EU has major policy objectives in all these regions and supports Egypt's role as a reliable and constructive regional partner in these areas. The EU's response strategy must reflect this broad scope

of common interest but Egypt's position as a key player in the Euro-Med Partnership is the main determinant in MEDA programming. Meda funded co-operation with Egypt will accordingly target Barcelona objectives and will reflect EU concerns that Egypt completes its ambitious programme of economic, political and social transition which is the only credible guarantor of Egypt's position as a stable and prosperous democratic Euro-Med partner.

Egypt's economic and social transition requires a combination of competent policy implementation, clear and credible political will, and substantial national and donor resource inputs. The concentration of substantial donor funds on a limited number of key sectors is essential if real change is to be leveraged but the results of this new approach under MEDA have been mixed so far. Progress in the innovative health and education sector programmes has been slow and no substantive activities have yet begun under the Industrial Modernisation Programme.

The response strategy for the period 2002-2006 retains many of the previous priorities but programme take-up must be substantially improved if EU co-operation with Egypt is to escape from the present trap of too few new commitments and low disbursement on existing ones. The NIP 2002-2004 will prioritise actions that are already being identified (TEVT and TEP) or can be identified and committed reasonably quickly. The very large single sector programme budgets under Meda I correctly reflected the scale of the challenges to be addressed in EU-Egypt co-operation. But in practice they appear to have over-taxed the absorptive capacity in the ministries concerned. The proposed individual programme budgets for 2002-4 are therefore more modest.

Egypt has a very mixed record on absorption capacity. Weak institutional capacity and poor policy implementation have been important factors in the slow commitment and take-up of funds during MEDA I although the Social Fund for Development Programme indicates that large budgets can be used effectively if the delivery structure and commitment exists. Commission procedures (now under radical reform) can also be cumbersome and there are important lessons to be learned from the implementation of MEDA I. in Egypt. One immediate result has been the priority given by the present Commission to the overhaul of procedures and the early 'deconcentration' of staff and responsibilities to the Commission's Delegation in Cairo.

EU co-operation is considered especially relevant to Egypt because of Europe's recent experience of radically reforming key sectors (technical education and vocational training/TEVT, industrial restructuring, financial sector reform, etc). Egyptian decision makers see the 'European approach' to economic and social reform as more appropriate for Egypt than the strictly market approach adopted by some other donors. The choice and nature of interventions should explicitly build on appropriate European 'value-added' where possible.

The priorities developed for co-operation with Egypt (support to the Association Agreement, to the process of economic transition, and to balanced development) are consistent with the concept of "policy mix". Policy coherence already lies at the heart of the Barcelona Process and much of the EU response strategy for Egypt is common to the EU's co-operation and response strategy with other major transition countries. The existing MEDA programmes in basic education and health, and the support to the Social Fund, already ensure that co-operation in Egypt conforms to Commission policy on poverty reduction; and this element is developed in the current programming of support to

n.g.o's and officials working at the lower margins of the social security system. The recently signed Association Agreement, and complementary measures adopted to establish the Euro-Med Free Trade Area will ensure that the development of compatible policies and strategies is integrated into the management of the EU-Egypt relationship.

This strategy will be implemented in compliance with the general policy objectives of the Barcelona Process and taking into account the general and specific guidelines in the Joint Council and Commission Declaration on Development Co-operation (November 2000); and the Communications on Conflict Prevention (April 2001), Human Rights (May 2001)), Mainstreaming Gender Issues (June 2001), and the Strategy for the Integration of Environmental Considerations into Development Policy (May 2001).

In order to mainstream efforts at all levels in a more effective way, the response strategy in this CSP should be coherent with any Egyptian national strategy for sustainable development prepared in other international contexts, such as the UN Commission for Sustainable Development and the Mediterranean Action Plan.

Particular attention will be paid to opportunities for mainstreaming environmental benefits in all development sectors and activities proposed in the NIP 2002-2004. Environmental Impact Assessments (EIA) should be provided prior to the funding of any large infrastructure projects and projects in ecologically sensitive areas.

6.2. SPECIFIC OBJECTIVES AND PRIORITIES FOR EU-EGYPTIAN CO-OPERATION

The **specific objectives** of EU-Egyptian co-operation for the period 2002-2006 will be:

Promoting the effective implementation of the EU-Egypt Association Agreement, primarily by assisting Egyptian enterprises and institutions to meet the challenge of increasingly competitive internal and external markets.

Supporting the process of economic transition from an inefficient command economy to an efficient and liberalised free market economy able to support sustainable growth and create employment.

Supporting stability and sustainable and balanced socio-economic development to match economic liberalisation with social and political reform, good governance, the rule of law, the constructive involvement of civil society, and the protection of Egypt's fragile environment.

In order to contribute to these objectives over the period covered by this Country Strategy Paper (2002-2006) the following priorities for action are proposed:

- **Promoting the implementation of the EU-Egypt Association Agreement.**
 - **Support to Trade Enhancement.** There are serious Egyptian structural and institutional impediments to international trade. They are, by definition, impediments to the effective implementation of the trade and trade-related measures in the EU-Egypt Association Agreement and they undermine Egypt's policy of encouraging inward investment and export led growth. **There is now a requirement to support trade policy and customs reform, and for technical**

assistance for institution building, legislative and customs reform and the development of trade promotion instruments. A central objective of the TEP is to simplify essential import/export and customs procedures and improve government services to exporters. This should complement Industrial Modernisation Programme actions which will assist the SME sector in competing more effectively on international markets and help upgrade Egyptian standards and accreditation systems.

- **Support to the Comprehensive Restructuring** of critical sectors that are especially vulnerable to the impact of global competition and technological change. European experience in restructuring its own heavy industry and textile sectors indicates that temporary support strategies and funding are required to ensure that the inevitable economic and social costs of restructuring and closedown are not borne disproportionately by those who can least afford it. The EU already supports the privatisation of public companies (PERPP) and the modernisation of SMEs (IMP) but neither programme is appropriate to sectors like spinning/weaving. This is dominated by large vertically integrated soviet style combines which are especially vulnerable in terms of over-manning (200 000 employees) and an inability to adjust to changing market conditions. A programme will be designed to help Egypt meet its obligations under the Association Agreement which will entail the restructuring of this sector.
- **Supporting the process of economic transition.**
 - **Human Resource Development:** The EU has already invested heavily in supporting long term basic education reform under MEDA I (EEP, €100 million) because of its impact on social development and because weaknesses at that level prejudice the success of interventions elsewhere in the education and training system. But Egypt must rapidly reform its system of post-secondary technical and vocational training if it is to close the skills gap which is already crippling Egypt's ambition to develop genuinely competitive industrial and service industries. The present system fails employers and the 600,000 new entrants to the labour market every year, and deters foreign investors who might otherwise be attracted by Egypt's low labour costs and growing domestic market. Support to Human Resource Development is a key programme priority in its own right as well as a horizontal tool in addressing other priorities. There is also a strong case for promoting the development of tertiary education through international co-operation between the EU and Egyptian higher education systems. It is therefore planned to support this by extending access to the Tempus programme to non-candidate Mediterranean partners.
 - **Financial and Investment Sector Reform.** The deficiencies of the existing public and private financial sector, and the lack of financial intermediaries offering a range of appropriate credit and savings instruments, seriously impedes private sector growth prospects and contributes to a significant and serious shortfall in domestic savings and investment. Much of the legislative structure for reform exists or is in the pipeline but the widespread implementation of reform is overdue. The state banks and insurance companies have yet to be privatised, state shares in joint ventures have yet to be fully liquidated, new intermediaries require new supervisory systems, and there is a serious gap in modern banking skills. There is a special problem for small businesses and

farmers. Innovative instruments to assist such small investors exist (e.g. the credit funds operated by the Social Fund or by the EC supported FSDP and MSSP programmes) but their effectiveness is limited by under-capitalisation.

- **The adoption of an ‘Innovation Culture’** is essential for the development of competitive products and services by Egyptian enterprises. A regional programme in this field is under consideration and additional bilateral co-operation might be appropriate later if the existing shortcomings of technology transfer policy and state sponsored industrial research centres are convincingly addressed by Egypt at a policy level. There are also opportunities for Egyptian researchers and enterprises to participate in the RTD Framework programmes.
- **Supporting stability, and balanced and sustainable socio-economic development.**

Decentralised and Integrated Local Development Instruments. Egypt is concentrated heavily on Greater Cairo and the Nile Delta and this economic, political and population heartland defines Egypt’s highly centralised system of government. Such over-centralisation works against the objective of balanced socio-economic development and although the Government of Egypt already has a policy in place to encourage administrative decentralisation, implementation is far from achieved. In order to address regional disparities particular attention should be given to two regions, Upper Egypt and South Sinai, which are sufficiently different in geographical and socio-economic terms to merit special attention. Both areas are important in terms of regional development.

In **South Sinai** the challenge is not so much poverty but managing rapid and unbalanced economic and population growth in an area of acute environmental sensitivity. The recent linkage of the Egyptian and Jordanian electricity grids and the planned northward extension of the Egyptian natural gas pipeline to Jordan, Syria and beyond, already links South Sinai and southern Jordan and suggests a natural complementarity between the development of the Aqaba special economic zone and an equivalent initiative in South Sinai’s Taba region. The EC has already funded (under the protocols) several environmental actions in South Sinai which would provide a momentum and critical mass of competencies for further environmentally linked interventions. It has also provided a clear understanding of the gaps in the existing development strategy for the region. It should be relatively easy to design because it will complement and build on the achievements of previous EU projects, and will develop policy objectives already discussed with local authorities.

The severe underdevelopment of **Upper Egypt** and the consequent concentration in that region of much of Egypt’s large socially and economically deprived population poses a serious threat to social and political stability and is a challenge to the EU’s commitment to poverty reduction and social justice. It is likely that preparatory work for a decentralised programme in Upper Egypt will take time because of the political sensitivity and social complexity of the area.

In view of the limitations on the available budget and the indications that the preparation of a programme in South Sinai can move relatively rapidly, the Commission intends to concentrate on the South Sinai programme in the NIP for 2002-4. However, during this period the Commission will explore with the

Government of Egypt and other donors the potential for a Community contribution to a multi-donor integrated programme in Upper Egypt. Several possible components within such an Upper Egypt initiative could be designed to be complementary to regional programmes proposed under the **Nile Basin Initiative** which may be supported from Member State and EDF regional funds.

- **Support to Social Development and the Development of Civil Society Structures.** Despite the current economic recession Egypt has made sufficient economic progress to lift average GDP per head (\$1300- 1400) above the poverty threshold. But this average is misleading and some 25% of the population still live in real or abject poverty (and some estimates put the levels of poverty even higher). The pace of economic reform has moved faster and further than political and social reform and the persistence of this reform gap has implications both for the vitality of economic reform and for social stability. The EC's existing programmes in basic and reproductive health and in basic education reform already address important aspects of the problem and so too will the proposed integrated development programmes in South Sinai and Upper Egypt. However there is a clear need to address the problem of highly vulnerable but relatively invisible groups who are too marginalised to benefit from such measures (for example street children and ultra-poor single parent households). EU support cannot compensate for the lack of sufficient national core funding for the social security system but it can support institution building measures for those structures that already exist to protect the interests of the most economically and socially deprived (notably the NGOs and the relevant parts of the social security and judicial system).
- **Support to measures to protect Egypt's fragile marine and land environment** through a comprehensive legislative, institutional and compliance system. This is a cross-cutting priority but also one that is closely linked to the issue of **integrated regional programmes** in Upper Egypt and South Sinai (see above). Support to environmentally positive investment is also a key priority in the provision of MEDA funded interest rate subsidies to EIB loans to Egypt.

6.3. COMPLEMENTARITY WITH MEMBER STATES AND OTHER DONORS ACTIVITIES

Systematic co-ordination of co-operation activities with Member States has been significantly enhanced under the revised MEDA regulation and on the spot co-ordination is being implemented in line with recent guidelines issued to EC Delegations and Member States. This takes place in the context of close programming and operational dialogue between the Commission and the Egyptian government, and with other Egyptian stakeholders (notably the public and private sectors, and civil society). In addition to regular meetings between EC and MS development and economic counsellors, systematic consultation with Member States is built into the process of programming and there is a systematic exchange of information on project preparation and programme priorities.

Complementarity with programmes supported by Member States and other Donors is already a strong feature of existing programmes funded under MEDA and such complementarity and close collaboration will continue to be encouraged with respect to the proposed actions in the NIP. Some Member States, for reasons of national

development policy, explicitly give more stress to poverty alleviation and less to the Euro-Med partnership and the effective implementation of the Association Agreement than does the EC. However both support a balance between economic liberalisation and social development. Joint sector funding is common in Egypt; the Social Fund II Programme is multi-donor funded and the EU both initiated and led the SFD multi-donor evaluation. With respect to non-MS donors, the EU is partnered by the WB in the EEP Programme and by the WB and USAID in the Health Sector Reform Programme. All main donors collaborate closely within the active Donor Action Group (DAG) based in Cairo and in the biannual meetings of the Consultative Group organised jointly by the WB and the Government of Egypt. The Commission fully supports the development of a greater sense of Egyptian ownership in its elaboration of sector strategies with the donor community.

6.4. RISKS:

The principal risks for EU programme implementation are **political, operational and circumstantial**.

- **The main political risk** is any significant erosion of Government of Egypt commitment to economic and social reform, or to the support of Barcelona and full Egyptian participation in the Euro-Med Partnership. There are certainly political forces and economic interests represented in the cabinet and parliament that still question reform and the relationship with Europe, but overall commitment, with certain notable exceptions, appears solid.
- **Operational risks** centre on problems of absorptive and institutional capacity in the management of large reform-based sector programmes. Egypt has a proven capacity to plan and manage large programmes successfully but with respect to EU-Egyptian co-operation much depends on the specific Egyptian counterpart authority concerned, and its competence and commitment to the reform objectives in question. The recent decision to transfer responsibility for international co-operation into the Ministry of Foreign Affairs is a positive step. There is also a systemic problem in all highly centralised administrations in properly involving all key stakeholders, including civil society, in the planning and delivery of programmes.
- **Circumstantial risks.** There are three; economic, social and external. All are by nature unpredictable and all could trigger disturbing changes that would make the implementation of reform oriented co-operation extremely difficult in the short term.

The main **economic risk** would be a significant deterioration in Egypt's macro-economic fundamentals. This was a real and legitimate fear in the late 1990s when domestic and global factors brought a sharp halt to any prospect of an 'Asian tiger' style rush for growth. The situation looked less threatening until Sept 11th even though much of the economy was already very sluggish and saving and investment levels were far too low. The situation post Sept 11th is still unpredictable but could deteriorate seriously in the short term.

The **main social risk** is of civil unrest linked to increasing youth unemployment and widening income differentials, or a revival of serious extremist violence. The danger of the latter is probably low for the medium-term even though limited sectarian

violence is never far from the surface in some regions. But social unrest by the increasingly large numbers of unemployed, unemployable and politically disillusioned young Egyptians will be a real possibility as long as job creation continues to fall far short of the 500,000 - 600,000 new jobs required annually to absorb new job seekers with higher expectations than their parents.

The **main external risk** is regional instability and the risk of conflict. Egypt lives in a very dangerous neighbourhood with an unresolved Middle East Peace Process to the north and endemic conflict in the upstream Nile with a seemingly intractable civil war in the Sudan and the potential of new violence in Ethiopia/Eritrea. Egypt is also very susceptible to tension in the Gulf because of its dramatic impact on remittances from Egyptian expatriate workers, a major factor in Egypt's balance of payments. The international response to international terrorism following the recent attacks on New York and Washington clearly involves Egypt. Egypt is an essential partner in any anti-terrorism initiative but recent events have also directly implicated Egyptian terrorists associated with international networks

7. PROPOSED NATIONAL INDICATIVE PROGRAMME for 2002 – 2004.

7.1. INTRODUCTION.

The main objectives (see section 6.2 of the CSP) of the EU response strategy are to:

- **Promote the effective implementation of the EU-Egypt Association Agreement,**
- **Support the process of economic reform and transition,**
- **Support stability through balanced and sustainable socio-economic development.**

The priority areas for co-operation for the period 2002-2004 are drawn directly from those set out in the CSP (specific objectives and priorities for EU-Egyptian co-operation, section 6.2) and reflect both the Egyptian development agenda and the EU's country analysis and response strategy. The inclusion and the phasing of possible commitments for the period 2002-4 is proposed on the basis of priority and on progress already made in identifying options for possible programmes.

A total of seven programme areas are proposed. This is an ambitious target but is consistent with the pattern of MEDA I when four programmes (totalling €615 million) were committed as soon as the Framework Agreement came into force. The preparation of programme concepts in two areas (Technical and Vocational Training and Trade Enhancement) is already well advanced. Egypt also benefits from non MEDA funding (i.e. from the EIDHR and LIFE budgets) but these are small in overall budgetary terms. Egypt is not currently a priority country for EIDHR funding.

The seven programme concepts are outlined in sections 7.2 to 7.8 and will provide the basis for subsequent programme identification and commitment. The overall indicative MEDA budget for 2002-4 is €351 million and commitments are expected to be distributed as follows:

Proposed action	Phasing of indicative commitments (€ millions)		
	2002	2003	2004.
• EIB interest subsidy (2001 carryover).	31		
• Tech and Vocational Training Reform.	33		
Trade Enhancement Programme.	20	40	
• Integrated Local Dev Prog (S-Sinai).		24	40
• Support to Social Dev and Civil Society.		20	
• Financial and Investment Sector Co-op.		27	25
• Spinning and Weaving Restructuring.			80
• Higher Education : Tempus Participation.		5.5	5.5

7.2. TECHNICAL AND VOCATIONAL TRAINING REFORM

Background and Justification.

Successful economic transition will not happen unless the skills are there to achieve it.

The existing technical education and vocational training (TEVT) structure was developed to meet public sector needs and centrally planned human resource targets. It is not equipped to meet the needs of an estimated 600,000 young people who enter the labour market every year; and it fails to address serious market based skills deficits in the expanding (mainly private) modern sector. The lack of effective TEVT infrastructure inhibits direct foreign investments by those who could be attracted by Egypt's relatively low labour costs.

TEVT is presently supervised by 22 official bodies or ministries and is considered by students and employers alike to be inefficient and ineffective. Training curricula are outdated, training achievement is inadequately certified and accredited, employer needs are not systematically factored into the system, and there is very little provision for in-service or continuous training.

Both the Government of Egypt and the major donors agree that donor-supported TEVT reform would make a major contribution to the growth of a competitive modern Egyptian economy but there was previously no clear commitment to the radical reform of training for employment or any coherent strategy to achieve it. This is now being addressed by the Supreme Council for Human Resource Development (SCHRD) and by the Education, Training and Employment Sub-Committee which reports to the Prime Minister and which proposed elements for a National Strategy for Training and Employment in August 2000. This is a considerable improvement compared to the policy situation of 5 years ago when this sector was first studied.

These recent developments are encouraging but must be seen in the context of previous difficulties in defining reform priorities across the sector, let alone implementing it.

Specific Objective.

The objective of an EU supported TEVT programme is to assist government efforts to provide Egypt's modernising economy with appropriate human resources by supporting the reform of key components in the TEVT system in the context of a co-ordinated and radical reform and rationalisation of the whole sector. Its primary target is post-secondary technical and vocational training whose reform and upgrading will most effectively address the immediate deficit in high level skills required by Egypt's modernising enterprise sector.

Expected Results.

- Better initial and continuing TEVT leading to a more employable and effective workforce.
- A revised legal, policy and administrative framework for TEVT including a revised status for TEVT institutes to make them more autonomous and market responsive.

- The involvement of private sector employers and the development of a private/public partnership approach to the reform, development, and delivery of post secondary/non-university TEVT.
- A revised TEVT financing model.
- A national certification and accreditation body
- Provision for the training and retraining of TEVT staff.
- The piloting of radical reforms in a limited number of ‘clustered’ MTIs.

Performance Indicators.

Performance indicators will focus on policy (changes in legal, management and financial instruments) and output (institutions accredited, take up of new graduates by the productive sector, instructors retrained).

Programme description.

A possible EC funded TEVT programme is already under identification. It will be further defined within the context of the Government’s evolving TEVT and Employment strategy, and in relation to the proposed inputs of other donors (notably the World Bank) who are also contributing to TEVT reform. The overall strategy anticipates balanced development of the qualification system. The EC will prioritise the rationalisation and reform of the post secondary vocational and professional training system and notably that part which is identified as being capable of rapidly providing adequately trained labour for high growth and technology rich sectors. The Commission has already launched identification missions for the finalisation of a project proposal and the European Training Foundation is involved.

A possible candidate for targeted reform is the Ministry of Higher Education’s network of Middle Technical Institutes (MTIs) that constitutes the main post secondary TEVT sector. The Ministry is committed to their radical restructuring and clustering into more viable units. MTI reform would complement the work in TEVT by the Kohl-Mubarak programme (secondary level TEVT training of skilled workers for the new industrial cities), of the World Bank whose proposed Higher Education Enhancement Programme (HEEP) will target both the university and non-university sector, and of DfID who have provided technical assistance on the legal aspects of reform.

Conditionalities. Any EC funded TEVT programme should explicitly encourage the development of a private-public partnership approach to the reform and delivery of TEVT to ensure that the changing skills needs of employers, and especially those of the private sector, are met. Any resulting institutional framework would need to include representatives of the employment sector. Effective TEVT reform must be explicitly gender inclusive.

The **primary beneficiaries** will be students and staff in the post secondary TEVT sector, and industrial and service sectors where skills shortages are a constraint to growth and modernisation.

The **principal counterparts** will be the Supreme Council for Human Resource Development or the appropriate ministries, or the Ministry of Finance if a sector adjustment model is retained. The **proposed budget** will be € 33 million.

7.3. TRADE ENHANCEMENT PROGRAMME.

Background and Justification.

Measures to enhance trade between Egypt and its partners will underpin the successful implementation of the trade related chapters of the Association Agreement.

Egypt, as a WTO member and recent signatory of an Association Agreement with the EU, is fully committed to economic liberalisation and free trade. Egypt is the Arab world's largest non-oil economy and a key member not only of the planned Euro-Med Free Trade Area but also of the COMESA and GAFTA free trade areas and of the Agadir grouping. This commitment to free trade is both a reform issue and a reflection of Egypt's intention to follow a policy of export driven economic growth.

Given Egypt's resources and location this is a viable strategy but only if Egyptian enterprises rise to the challenge of international competition on both their home and export markets **and** if there are wide-ranging reforms of the trade related institutional infrastructure. The potential trade opportunities resulting from the Association Agreement will only be realised by Egypt if progress in the enterprise sector (which will be supported by the IMP) is matched by equivalent progress in upgrading and reforming the government's trade policy mechanisms.

Trade Enhancement programme concepts have already been discussed with the Ministries of External Trade and of Finance. Trade Enhancement involves the need to upgrade government services to exporters and importers, reduce the number of cumbersome administrative, financial, and customs hurdles faced by traders, and to meet the broader objectives of promoting reform (including customs reform) and supporting Egypt's emergence as a solid regional trade partner as the building blocks of the Euro-Med Free Trade Area fall into place.

Specific Objectives.

- To upgrade the capacity of Egypt's Ministry of External Trade to support the Egyptian export sector in the liberalised trade environment introduced by the Association Agreement and by other regional trade agreements.
- to upgrade the efficiency of critical activities (for instance import and export testing and customs administration) whose present performance constitutes a serious impediment to the expansion of trade between Egypt and the outside world.
- To assist Egypt in introducing, implementing, and promoting the necessary reforms and instruments linked to its international and bilateral trade obligations.

Expected Results.

- A clear understanding by officials and enterprises of the measures required to implement the trade and trade-related chapters of the Association Agreement.
- An enhanced Egyptian capacity to execute bilateral and multilateral trade agreements and to efficiently manage their international trade commitments.
- An enhanced institutional capacity to support export promotion and improve trade information through the reform, rationalisation and upgrading of existing systems.
- Improved, streamlined and more reliable import/export testing procedures (which should complement actions under the IMP on standards, testing and certification).

- Progress in the reform and implementation of improved customs procedures.
- high level training and policy support for key personnel involved in trade issues.

Performance indicators.

- Numbers of key officials benefiting from high level training and policy support;
- Decreases in delays and complaints linked to product testing or customs procedures.
- Effective implementation of agreed trade reforms.
- Availability of up to date trade documentation (including tariff lists).
- Availability of useful foreign market guides for Egyptian exporters;

Short Description of the Programme.

The programme will comprise integrated technical assistance components covering a range of technical assistance, training, and (limited) equipment inputs; and a sector adjustment facility linked to customs reform and the achievement of agreed trade policy measures and the promotion of trade related aspects of the Association Agreement.

The TEP will not directly assist Egyptian enterprises to exploit new trade opportunities arising from the Association Agreement and the Euro-Med Free Trade Area but it will reform and upgrade official support structures that work to this end and assist Egypt in effectively integrating into the global economy. It should also be complementary to the regional **EuroMed Market** programme.

The **primary beneficiaries** will be:

- state trade-related support structures which benefit from technical and other assistance under the Programme (principally but not exclusively services linked to the MEFT);
- Egyptian exporters who expect but do not presently benefit from the same levels of support and information as their main competitors;
- and foreign exporters and investors who whose interest in the Egyptian market is conditioned by their perception of Egypt as being a difficult trading environment.

The **main counterparts** will be the Ministry of Foreign Trade and the Ministry of Finance. The indicative budget is €20 million for technical assistance and €40 million for sector adjustment funding.

7.4. INTEGRATED LOCAL DEVELOPMENT OF SOUTH SINAI.

Background and Justification

Measures to address the unbalanced pattern of economic and social development will contribute to socio-economic stability and will address important environmental concerns.

The Egyptian Government's socio-economic development strategy has traditionally targeted the core Cairo-Nile Delta region where Egypt's population and resources are concentrated. By contrast the development of the peripheral regions of Upper Egypt and South Sinai has been neglected until recently and there is a substantial risk of social and environmental degradation in both areas, albeit for different reasons. Although the problems of both areas are very different they lend themselves to integrated local development strategies which can draw on the experience, where appropriate, of those developed in the EU to address problems of acute regional imbalance.

There are solid operational reasons to develop the concept of integrated and decentralised development initially in South Sinai. The EU has already funded a series of small but highly effective environmental protection programmes in the South Sinai area under the protocols and together with its Egyptian counterparts can identify quickly the key environmental issues to be addressed. The mismatch between heavy private investment in tourism and inadequate public investment in social and transport infrastructure is clear, and the Commission has already collaborated with the appropriate central and governorate authorities in defining decentralised administrative concepts that will be essential to the success of any decentralised integrated local development model.

Sinai was almost uninhabited until its recent demilitarisation and the development of mass tourism. Mass tourism has led to considerable wealth generation but also to a planned and unplanned urban growth and an internal immigration boom that threatens the area's fragile natural environment and the interests of the small indigenous population. Sinai is also greatly affected by the development of Egypt's gas reserves. The planned extension of the Sinai gas pipelines into the Mashrak via Aqaba could provide a real impetus to industrial and service activity in the region.

Specific objectives

The specific objective is to develop a new Government-governorate enabling framework for South Sinai to cover region-specific local development strategies. This would integrate a range of appropriate actions and inputs that are locally defined and locally delivered to the greatest extent possible.

- the promotion of sustainable, diversified and environmentally sensitive economic activities in South Sinai;
- social development to meet the very diverse needs of the indigenous population and the rapidly expanding non local population attracted by the tourist industry;
- the continued development of appropriate environmental management systems to protect the fragile land and maritime environment which is the region's main exploitable asset.

Expected Results

- the consolidation of existing (environmentally) protected areas and the extension of the concept to other areas on the basis of improved environmental management and compliance;
- economic diversification to lessen dependence on the tourism ‘monoculture’ and to develop synergy with other planned developments (e.g. the extension of regional energy networks and the development of the special economic zone in Aqaba);
- the development of appropriate urban and social development strategies to cater for the needs of the increasingly large non indigenous community of internal migrants (up to 800 000 are expected);
- the development of a social development strategy and support programme to protect the interests and culture of the small indigenous Bedouin population;
- institution-building for governorate and other local structures.

Performance indicators

- rates of non-tourist industry employment;
- the extension of environmentally protected areas, and the respect of existing ones;
- levels of social service provision to new workers and to their families;
- household expenditure and employment levels of the indigenous Bedouin population;
- land use patterns and urban development plans.

Short Description of the Programme

An initial programme concept for an integrated programme in South Sinai has already been developed by an Egyptian “task force” led by the South Sinai governorate and included representatives of the Ministries of Tourism and Environment, and the Social Fund for Development. An expert mission to assess and further refine the programme concepts to allow for the possible commitment of MEDA funds in early 2002 is already planned. The nature of such an integrated programme lend itself to complementary activity by others, including possibly the EIB.

The **primary beneficiaries** of the South Sinai programme will be the fragile local desert and maritime environment, the local indigenous population, and the increasingly large number of internal migrants and their families who service the tourist industry.

The **principal counterparts** will be South Sinai governorate authorities and civil society NGOs (possibly via the Social Fund for Development which already has activities and a programme delivery infrastructure in the region); and the EEAA which is responsible for environmental compliance issues.

Conditionality

The full commitment of both central government and Governorate authorities to a decentralised integrated development strategy approach, together with enabling legislation, will be essential.

The **indicative budget** for the South Sinai programme is €64 million.

7.5. SOCIAL DEVELOPMENT AND CIVIL SOCIETY

Background and Justification:

With a current GDP per capita of \$1400, Egypt is now classified as a middle income country, a remarkable achievement, but the average picture is misleading. At least 25% of the population live in real poverty and of these, over a third are abjectly poor. Persistent poverty is exacerbated by deteriorating income distribution and by the failure of the economy to generate enough new employment to absorb the mass of new job entrants (600 000) every year; many of these are graduates with poor skills but high ambitions;

The roots of deprivation go far beyond parts of society failing to benefit from trickle down improvements in the economy. Social and political reform has lagged behind economic reform and this is now recognised by government and donors alike as a major weakness in the overall reform package. There are programmes of basic health and education reform; ambitious (albeit controversial) measures to reduce population pressure on existing settled areas by creating new ones, and important reforms in social legislation and in the democratic process.

However, these measures have failed to significantly help the most vulnerable groups, notably poor female-headed households (up to 20% of all households), children at risk (the disabled, street children, child labour), and the elderly poor. There are rudimentary social security provisions available and these are supplemented by the non-governmental sector. However the coverage and value of the former is wholly inadequate and the activities of the latter are often ineffective due to institutional weaknesses and the lack of a modern and appropriate legal framework to govern the activities of NGOs.

Social development is a key issue on the Government's reform agenda, "not just as an issue on its own merit but also to sustain and reinforce the economic reform programme" (Mme Mubarak, Cairo May 1999). The Government's commitment to social development was highlighted at the Egyptian National Conference on Social Development (Sept 2000) which elaborated the key objectives of a national development strategy.

Specific Objectives

The specific objectives of a programme in this area would be to:

- Extend better legal and social protection to the most economically vulnerable and socially marginalised groups in Egyptian society.
- Enhance the capacity of the non-governmental sector to contribute effectively to social development.

Expected Results

- A clear overall strategy to address the needs of the most economically and socially vulnerable groups.
- Better targeting of existing state social-security and judicial resources (institutional and financial) on the most vulnerable social groups.
- Better legal protection for the most vulnerable social groups both in terms of legislation and better access to accountable and efficient legal remedy.
- The more effective involvement of civil society in promoting social development.

Performance Indicators

- Improvements to the legislative instruments covering the rights of vulnerable groups and the operations of the NGO sector.
- Reliable data over time on the situation of the ultra poor and the highly vulnerable.
- Efficiency increases in the value and coverage of official and NGO social security payments to the ultra poor and highly vulnerable.
- Decreases in the numbers of street children and of under age children in the work place and increases in their reintegration into care and education.
- Increases in the number of effective NGOs working for social development registered under a modernised NGO legislative framework
- Improvements in health, literacy and employment rates amongst the most highly vulnerable.

Short Description of the Programme

- Capacity building programme for Egyptian NGOs. This would combine management and sectoral training with the promotion of NGO cluster organisations to disseminate good practice, facilitate networking, and co-ordinate policy and activities.
- A social development funding facility to co-fund projects by NGOs and organisations working on the social development of marginalised and vulnerable groups. This would not be used for direct social security payments.
- A structured social development policy dialogue between the state and NGO sectors to establish clear sector guidelines and to research the extent of the problem, to monitor the overall effectiveness of social security measures at the social margin, and to propose measures to better address the problem.
- A programme component to improve the capacity of the legal judicial system to protect the rights of the most vulnerable. This could include training programmes for judges and court officials in such areas as rights of the child, together with measures to translate relevant obligations under international agreements into operational law.

The **primary beneficiaries** will be the ultra poor and the most socially vulnerable on the one hand, and official bodies and NGO organisations working on their behalf on the other.

The **principal counterparts** will be civil society organisations; those parts of the administration responsible for extending social security coverage to the ultra poor (notably the Ministry of Social Affairs) ; and those parts of the judicial system responsible for upholding the rights of the most vulnerable.

Conditionality. Conditions should exist for civil society organisations to operate without undue restriction under a reasonable regulatory and legal framework. This will require the prior adoption of new and appropriate NGO legislation together with operational regulations that allow for EC support to NGO activities. The social development funding facility will be restricted to civil society organisations that either meet institutional effectiveness criteria or are prepared to accept capacity building support under the programme.

Indicative budget. €20 million.

7.6. FINANCIAL AND INVESTMENT SECTOR CO-OPERATION

Background and Justification

Egypt's financial and investment sector is in transition and it needs to be if the economic reform process is to be sustained. The legislative framework for financial sector reform is in place or in the pipeline but implementation is slow and the present system remains wholly inadequate for sustained private sector growth. The financial sector is dominated by four main state banks and state insurance companies. The latter are being prepared for privatisation but state bank privatisation is unlikely unless a solution is found for state industry bad debt in their loan portfolios. State dominance is being steadily eroded by the growth of private and joint ventures banks but other financial intermediary institutions such as leasing or mortgage companies are either absent or underdeveloped. Financial regulation in the banking and insurance sectors does not meet international benchmarks and will need to be extended to cover other financial intermediaries. The EU's programme with the Central Bank has been limited in scope and will soon terminate. It cannot be readily adapted to the wider objectives of this proposal. Other donors, notably USAID, have assisted in financial reform (principally in the development of the stock exchange). The IMF is assisting Egypt with strategic advice on financial risk assessment.

The underdevelopment of the financial sector and the limited range of financial instruments inhibit the growth of domestic saving and of productive investment. This is low by international standards and combined with lower than expected inflows of FDI puts Egypt's ambitious GDP growth targets seriously at risk. To support groups with little access to normal credit through the existing bank system the EU has funded innovative credit instruments for small business (through the Social Fund) and to small farmers and food producers. These have been very successful but are undercapitalised to meet potential demand.

Specific objectives

The **specific objective** is to promote a more effective and relevant financial system by:

- improving financial sector supervision, notably through Central Bank reform;
- improving financial sector responsiveness to the needs of savers and borrowers in a modernising economy.

Expected results

- substantial progress in the further reform of the Central Bank leading to the improved conception, implementation and monitoring of monetary and exchange rate policy;
- improved supervision of the whole financial system through assistance to the supervisory authorities and to the judicial system; progress in FATF compliance
- consolidation and increasing the capital base of existing innovative credit instruments targeted at farmers, small food producers and small businesses;
- successful full or partial privatisation of state financial institutions and the divestiture of public holdings in joint-venture banks and other financial intermediaries;
- substantially improved financial, banking and credit skills through a coherent programme of initial and in-service training;
- the emergence of new financial intermediaries and financial instruments leading to better savings and investment ratios;
- the adoption of a modern inter-bank clearing system.

Performance indicators

- rate of introduction and take up of new financial instruments;
- through-put of financial sector employees within a modernised training system;
- numbers of cost covering loans to small enterprises, farmers and farmer groups, and small food producers by EU supported revolving credit instruments;
- number of financial sector privatisations and state sector divestitures from financial sector intermediaries.

Short Description of the Programme

Technical assistance to the Central Bank to enhance its capacity to manage monetary and exchange rate policy; and institution-building support to other supervisory authorities (especially those covering new intermediary institutions).

Support to human resource reform associated with the development of training in core banking skills and high level training for senior bank and financial sector staff.

Support to financial sector restructuring, notably through public sector bank and insurance company privatisation; the sale of state shareholdings in public/private institutions; and the consolidation of the proliferating private bank sector into fewer but more viable units.

Increasing the capital base of the main EU-supported revolving credit lines which provide start-up and modernisation loans to small entrepreneurs, farmers and food producers. These groups are badly served by the normal financial system but the funds have proved to be highly cost effective at job creation and (in the agricultural sector) sector upgrading.

Conditionality. Support to the Central Bank and to other supervisory/regulatory bodies should be linked to the adoption of appropriate monetary and exchange rate policies and to the introduction/implementation of existing legal provisions to allow for the development of new financial intermediaries. Support to financial sector restructuring should be conditional on the adoption of a viable sector restructuring strategy.

Increases to the capital of EC –supported credit lines should be linked to extending the range of investment projects eligible for loans. The funds covered are SEDO (a component of the Social Fund), and the two funds operated by the MSSP and FSDP programmes. These should be consolidated and managed by a consortium of Egyptian banks on the basis of realistic interest rates. Reorganisation and consolidation of the MSSP/FSDP is underway.

The primary beneficiaries will be financial sector regulatory authorities; domestic savers and investors (through the availability of an appropriate range of financial instruments); and modernising small farmers/food producers and small/micro entrepreneurs with limited access to the normal financial system.

The **counterparts** for technical assistance and policy support will be the Central Bank (for the banking sector) and the Ministry of Economy (for the insurance sector). The counterpart of re-capitalisation of the revolving funds would be the Social Fund for Development (for SEDO) and Ministry of Agriculture.

An **indicative budget** would be € 52-million to cover re-capitalisation (70%) and technical assistance and policy support to the financial sector (30%). The conditions for disbursing funds for increasing the capital base of the existing credit lines could be met quickly and this component would lend itself to a separate commitment.

7.7. SPINNING AND WEAVING INDUSTRY RESTRUCTURING

Background and Justification

Free trade and changing markets offer enormous opportunities to Egyptian enterprises but not to all. Much of Egypt's large industrial sector is a legacy of industrialisation under a now abandoned command-economy model. State enterprises that have been fully or partially privatised often continue to display the fundamental weaknesses of enterprises that still remain in the public sector. This is especially true in sectors that are, for market and technological reasons, deeply un-competitive. Nowhere is this more apparent than in the large and often vertically integrated Egyptian spinning and weaving sector. It is over-manned, technologically obsolete and unable to compete in a liberalised and post Multi-Fibre Agreement (MFA) world market

The Government of Egypt has achieved a critical mass of privatisation and aims to complete the privatisation of viable companies identified under Law 203 by 2002. But little progress has been made in the spinning and weaving sectors. Although newly privatised textile enterprises qualify for support from such programmes as the Industrial Modernisation Programme, most will not because they are either too big (IMP is targeted at the SME sector) or their structural problems are so acute and sector-related that support offered by the IMP and other similar initiatives is simply not appropriate or sufficient.

The result is a spinning and weaving sector comprising unsaleable public-sector companies together with private sector companies (many recently privatised) which are almost equally uncompetitive. Such sectors cannot and will not survive in their present form and many companies will inevitably go out of business under the impact of global competition and free trade. The potential benefits of the EU-Egyptian Association Agreement are considerable for those sectors which can modernise and restructure but change will be especially difficult to manage in the spinning and weaving sector because it is so large and manpower-intensive. A package of special support measures to ensure orderly change is justified because the impact of restructuring and closure on such a critically vulnerable sector will have profound economic and social effects. Similar programmes have been used to considerable effect in Europe and sectoral adjustment support to such a programme in Egypt is consistent with supporting the implementation of the Association Agreement.

Specific Objectives

To assist the Egyptian government to prepare and launch a substantial but strictly time-limited programme to restructure the critically vulnerable and socially sensitive spinning and weaving sector. A very strong commitment to radical restructuring will be essential.

Expected Results

- The preparation of a sector wide strategy together with the necessary legal and institutional instruments to implement it,
- The survival of a viable and competitive sector through orderly restructuring on the basis of a public and private sector-wide strategy.

- The minimisation of the social costs of change and closures through retraining, labour mobility, early retirement, the promotion of alternative employment opportunities.
- The closure of economically non-viable activities, the reduction of systemic over-manning, and the effective management of structurally related redeployment and unemployment.
- The ‘spinning off’ from unviable enterprises of potentially competitive activities capable of sustained growth and employment creation; and their insertion into existing programmes (e.g. IMP) offering management and critical skills support.
- The development of institutional mechanisms, strategies, and credit and re-equipment instruments that can be used in the restructuring of other non-competitive sectors.

Performance Indicators

- Policy initiatives linked to a sector restructuring strategy.
- The emergence of viable and competitive enterprises from within the sector and the closure of non-viable activities.
- The take-up of early retirement or retraining by those whose jobs are changed or lost through restructuring.
- Creation of new employment opportunities and the reduction of over-manning.
- The meeting of privatisation targets and the attraction of foreign investment.

Short Description of the Programme

Although there may be a need for technical assistance, the key issues to be addressed are essentially policy related and the successful restructuring of spinning and weaving will require a strong political will to act rapidly and decisively. The nature and objectives of such a programme make it a natural candidate for **sector facility funding**.

The availability of sector facility funding **will be conditional** on the definition of a clear, credible and time limited sector restructuring strategy for spinning and weaving and the creation of an institutional framework to co-ordinate the management of the instruments that will be required. Many of these instruments already exist; for instance the **Social Fund for Development** has the mandate, experience and capacity to manage retraining, early retirement and job creation schemes. The Government of Egypt also has considerable experience in the management of privatisation. Other instruments will need to be created or radically adapted.

The **primary beneficiaries** will be the viable enterprises that emerge from sector restructuring. And the labour force from within the sector which will either remain within it on a more secure and satisfactory basis or will be re-deployed through early retirement or through the provision of new skills and alternative employment opportunities.

The **financial counterpart** will be the Ministry of Finance and funding will be transferred on the basis of programme specific conditionalities which reflect the programme requirements outlined above.

- An **indicative budget** to facilitate the restructuring of a major vulnerable sector like textiles/spinning and weaving would be €80 million.

7.8. HIGHER EDUCATION CO-OPERATION : TEMPUS PARTICIPATION.

Background and Justification.

In recognition of the important role for higher education in human resource development, and of educational exchange in promoting understanding between cultures, the Commission intends to propose the extension of the Tempus programme to non-candidate countries of the Mediterranean region in 2002. Tempus already operates in the Western Balkans and Newly Independent States (NIS) and is funded from the national envelopes of the CARDS and TACIS programmes. It has already made a significant contribute to social and political stability in the regions it covers and encourages an ever-greater mutual understanding of the common goals of the education sector.

Specific Objective.

The extension of the TEMPUS programme aims to strengthen and deepen the whole fabric of relations between eligible countries through its emphasis on co-operation in higher education. This will contribute significantly to the achievement of the social and cultural goals of Barcelona and to assisting the Egyptian higher education system, and their staff and students, to profit from the globalisation of higher education.

Expected Results.

- The integration of Egyptian higher education institutions into TEMPUS inter-university networks.
- The reform of higher education and higher education management through collaborative projects.
- The joint development of common curricula and qualifications in priority areas.
- improvement in the links between the higher educational system and industry.
- Enhancing collaboration between the EU-Egyptian academic communities and between the higher education sector and the wider world.

Programme Description.

The extension of TEMPUS will allow for Egyptian access to the Tempus III programme. This covers participation in Joint European Projects (joint education and training actions; measures for the reform and development of higher education; the promotion of co-operation between universities, industry and institutions; higher education staff and student mobility).

Teachers, researchers, trainers, university administrators, senior ministerial officials, educational planners and other experts may use study grants to finance visits that promote the quality, development and restructuring of higher education and training.

There is also provision for structural and complementary measures,

The indicative cost to cover Egypt's participation in the TEMPUS Programme is estimated at € 5.5 annually, starting in 2003.

Background economic and social data (12/10)

1. General

	Unit	Year / Period	
Population	mln	2000	63.8
Average annual population growth	%	1996-2000	1.8
Average labour force growth	%	1990-1999	2.9
Female economic activity as percentage of male rate	%	1999	34
Unemployment rate	%	1999	15

2. Living standards

	Unit	Year / Period		
GDP	Bln US\$	2000	98	
GDP per capita	US\$	2000	1,490	
MEDA beneficiaries population-weighted GDP per capita	US\$	2000	1,512	
Real GDP growth per annum	%	1996-2000	5.4	
Real GDP growth	%	1990-1999	4.4	
Human development index rank among 174 countries	Rank	1999	105	
			male	female
Life expectancy at birth	Number of years	1999	65	68
Expected schooling	Number of years	1998	12	10
Adult illiteracy	% of population age 15+	1999	33	57

3. Macro-economic trends

	Unit	1990	2000
GDP structure			
Share agriculture	%	19	17
Share industry	%	29	33
Share services	%	52	50
Domestic savings / GDP	%	16	17
Of which : central gvt.	%	0	2
Domestic investment / GDP	%	29	24
Of which : central gvt.	%	5	7.5
Exports of goods and services	%	20	16
Imports of goods and services	%	33	23
External resource balance / GDP	%	-13	-7

	Unit	1990	2000
PM: External resource balance / GDP lower middle income developing countries	%	- 1	3
Inflation (average annual increase in consumer price index)	%	1996 – 2000	
		4.7	

4. Balance of payments

		1990	1999
Merchandise exports	Bn US\$	2.6	3.6
of which : to EU	%		31
of which : manufactured exports	%	42	37
Merchandise imports	Bn US\$	9.2	16
of which : from EU	%		43
Net current transfers	Bn US\$	4.8	4.9
Current account balance	Bn US\$	-0.6	-1.7
Share foreign direct investment in domestic investment	%	1.5	4
External debt	Bn US\$	33	30
External debt/GDP	%	77	31
External debt service : interest plus principal / exports goods and non-factor services	%	--	10

5. Government finance

		1990	1998
Current revenues / GDP	%	23	22
International trade taxes / current revenue	%	--	16
International trade taxes / imports of goods	%	--	21
Current expenditure / GDP	%	23	20
of which: social expenditure	%	32	24
Capital expenditures / GDP	%	4.8	8.2
Overall budget balance / GDP	%	-4.8	-6.2
PM: overall budget balance Middle East and North Africa region	%	-7.5	-4.8

EU PROGRAMMES BY INTERVENTION SECTORS

Budget line	Programme by areas of intervention	Amount (M €)	Status & Implementation period	Observations / co- ordination
II. Sector :	<i>External Trade Sector</i>			
III. Sector :	<i>Public Sector Modernisation: privatisation</i>			
SEM/04/220/004A 20/09/1994	Public enterprise reform and privatisation programme	43	ongoing 1995-2002	Protocol-funded project Will end by March 2002
IV. Sector :	<i>Private Sector Development: SMEs, economic cooperation</i>			
B7-4051 04/08/1999	Private sector development programme II	20	ongoing	Precursor to the Industrial Modernisation Programme
B7-4100 01/12/1998	Industrial Modernisation Programme	250	ongoing 4.5 years duration	Project Director already arrived
V. Sector :	<i>Financial Sector</i>			
SEM/04/220/015A 21/05/1995	Banking Sector Support Programme	11.7	ongoing	Protocol-funded project Will end by Dec 2001
VII. Sector :	<i>Social Development: education, health, social policy/social safety net, community development</i>			
B7-4100 29/03/1998 31/12/2002	Social Fund for Development (SFD) - Phase II (EGY/B7-4100/IB/97/0361)	155	Ongoing December 1998 - 29/03/2003	
B7-4100 14/04/1998 14/04/2003	Support for Education Enhancement Programme (EGY/B7-4100/IB/97/0011)	100	Ongoing December 1999 - 14/04/2003	Mid term review May 2001.
B7-4051 07/12/1995 31/12/2004	Support to Population Programme in Upper Egypt (SEM/04/220/020/A)	10	Ongoing March 1997 - 30/06/2003	

Budget line	Programme by areas of intervention	Amount (M €)	Status & Implementation period	Observations / co- ordination
B7-4100 01/12/1998 30/06/2004	EC Support to the Health Sector Reform Programme (HSRP) (EGY/B7-4100/IB/98/1050)	110	Ongoing 05/11/1999 - 30/06/2004	
X. Sector :	Environment/Natural Resources			
B7-4050 22/03/84 31/12/2001	Egyptian Renewable Energy Development Organisation (EREDO) Environment; Technical Assistance; Research	7.7	Technically completed	
B7-4051 May 1992 31/12/2002	Oil Pollution Combating Centre at the Entrance of the Gulf of Aqaba Environment; Civil Works; Technical Assistance; Training	4.3	Ongoing	
B7-4051 11/05/95 31/12/2002	St Katherine Protectorate Development Programme Natural Resources Management; Training; Technical Assistance; Infrastructure Support	6	Ongoing	
B7-4051 02/12/95 31/12/2002	Gulf of Aqaba Protectorate Development Programme Natural Resources Management; Institutional Capacity Building; Training; Technical Assistance	10	Ongoing	
XI. Sector	Rural Development			
B7-4051 B7-4050 25/12/96 31/12/2002	Bustan Agricultural Development Programme Agriculture (production); Irrigation; Extension; Training; Technical Assistance	15	Ongoing (mid-term)	
B7-4051 18/05/94 31/12/2000	Nile Valley Regional Programme Phase II Agriculture (production); Applied Research; Extension	5	Technically completed	To be closed in 2002
B7-4051 07/05/95 31/12/2002	Veterinary Service Programme Animal Health; Institutional Reform of veterinary sector; Credit Line; Training	20	Ongoing (mid-term)	
B7-4050 B7-4051 06/09/96 31/12/2001	Agricultural Sector Development Programme (ASDP) Agriculture; Technical Assistance; Credit; Training; Institutional Support	75	Ongoing	

Budget line	Programme by areas of intervention	Amount (M €)	Status & Implementation period	Observations / co- ordination
MEDA June 2001 31/12/2005	Potato Brown Rot Disease Phase II Research; Technical Assistance; Training	2	Ongoing	
TOTAL		844.7		

EXISTING AND PROPOSED DONOR COMMITMENTS IN EGYPT (1995 – 2000)
EC MEMBER STATES AND OTHER DONORS. PROGRAMMES LISTED BY SECTOR

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
1. Social Infrastructure and Services	1.1 Education						
		Canada	- Canadian Partnership Branch Programmes in Egypt	n.a.		-	-
			The Educational Institutions Programmes (EIP)				
			- Girl Child Community Education	n.a.		-	-
		Japan	- Project for the High Institute of Nursing , Cairo University	n.a.		-	-
		Switzerland	- Shruq Programme-Low Cost Community Owned Schools - ORDEV	n.a.		-	-
		ESDF	- Critical Intervention of the Enhancement of Primary Education -AAE	n.a.		-	-
			- Educational, Social & Economic Enhancement for School Students- ASM	n.a.		-	-
		UNICEF	- Basic Education	n.a.		-	-
		USAID	- Girls' Education	13.500.000		0,89	0,24
			- Development Training II	53.100.000		3,50	0,95
			- University Linkages II	14.400.000		0,95	0,26
			- Girls' Scholarship Programme	256.500		0,02	0,00
					81.256.500	5,36	1,45
	1.2 Health						
		Arab Fund for Development	- Centre for Liver diseases (1998)	8.910.000		0,59	0,16
						-	0,00
		Japan	- Cairo University Pediatric Hospital (Grant)	n.a.		-	-
			- Pediatric Emergency Care Project	n.a.		-	-
		Norway	- Post Graduate Nurse Training For African Nurses (Alexandria)	414.000		0,03	0,01
		UNICEF	- Health and Nutrition Programmes	n.a.		-	-

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
		USAID	- Population/Family planning III	54.540.000		3,60	0,98
			- Combating Endemic and Emerging Diseases (CEED)	3.600.000		0,24	0,06
			- Technical Support for health policy	4.500.000		0,30	0,08
			- Healthy Mother/Healthy Child (HM/HC)	31.500.000		2,08	0,56
			- Schistosomiasis Research	35.690.000		2,36	0,64
		Total			139.154.000	9,18	2,49

	1.3 Water, Sanitation & Water resources	AFDB	- Water Supply & Sanitation	n.a.		-	-
		Japan	- Water Supply and Sewage Upgrading in Giza City (Grant)	n.a.		-	-
			- Waste Disposal System I Alexandria (Grant)	n.a.		-	-
		Kuwait	- Greater Cairo Sanitary Drainage (Maadi tunnel)	54.750.000		3,61	0,98
		UNICEF	- Water Environment and Sanitation	n.a.		-	-
		USAID	- Secondary Cities Development	73.800.000		4,87	1,32
			- Cairo Water Supply II	130.500.000		8,61	2,34
			- Canal City Water and Waste Water II	342.000.000		22,57	6,12
			- Cairo Sewage II	694.000.000		45,79	12,42
		Total			1.295.050.000	85,46	23,18
Sub-total Social Infrastructure and Services					1.515.460.500	100,00	27,12

2. Economic Infrastructure and Services	2.1 Energy						
		Arab Fund for Development	- Electrical Generation Station in Eyoum Moussa (Sinai) (1995)	115.830.000		3,86	2,07
		Canada	- Egyptian Electrical Authority-Institutional Support	13.000.000		0,43	0,23
		AFDB	- Energy	1.072.265		0,04	0,02

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
			- Alexandria Electrical Network Modernisation	54.000.000		1,80	0,97
		Total			183.902.265	6,12	3,29
	2.2 Transport & Communication						
		Arab Fund For Development	- Rehabilitation & Modernisation of Tractors & Workshops of Egyptian National Railway Authority (1992)	47.500.000,00		1,58	0,85
		AFDB	- Transport and Communication	1.930.500		0,06	0,03
		Japan	- Suez Canal Bridge (Under Construction) (Grant)	n.a.		-	-
		Norway	- Training Courses in International Transport and Logistics (Alexandria)	481.328		0,02	0,01
		Total			49.911.828	1,65	0,88
	2.3 Economic development						
		Abou Dhabi	- SFD (2nd Stage) (1997)	45.000.000		1,50	0,81
			- Developments in South of the Valley (1998)	90.000		0,00	0,00
			- Developments in Mansheyat Nasser Province (2000)	162.000		0,01	0,00
		AFDB	- Finacial Intermediaries	104.800.000		3,49	1,88
		Arab Fund For Development	- SFD (2nd stage) (1998)	62.400.000		2,08	1,12
		Canada	- Canadian Partnership Programmes in Egypt	n.a.		-	-
			- The Industrial Co-operation Division Programmes	2.520.000		0,08	0,05
			- Franconet Canada	n.a.		-	-
			- Privatisation of Egyptian Public Sector Enterprises	n.a.		-	-
			- Small and Medium Business Support Project	10.800.000		0,36	0,19
			- Small Enterprise Development in Upper Egypt (SMEDUP)	8.100.000		0,27	0,14
		AFDB	- Finical Intermediaries	105.000		0,00	0,00
		Japan	- Training Improvement Project	n.a.			

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
						-	-
		Kuwait	- SFD (2nd Stage) (1997)	45.000.000		1,50	0,81
		Switzerland	- Supporting Self Help Development of the Poor (CEOSS)	n.a.		-	-
		ESDF					
			- Improving the Economic & Health Conditions of Street vendors in Minia (SFV)	n.a.		-	-
			- Gamalia Sustainable Development Demonstration (FEDA)	n.a.		-	-
		UNDP	-Capacity Building of the Ministry of Economy	270.000		0,01	0,00
			- Sustainable Growth and Development in the Governorate of Ismailia	942.750		0,03	0,02
			- Information System Infrastructure Development for the Egyptian Local Administration System	225.000		0,01	0,00
			- Human Development profile and Strategy for Egypt	1.080.000		0,04	0,02
			-Economic Research Forum for the Arab Countries, Turkey and Iran	72.000		0,00	0,00
			- The Strategic Plan for Development of Human Settlements in the new Valley				
			South Of Egypt	1.000.000		0,03	0,02
			- SFD (Phase II)	26.600.000		0,89	0,48
			- Comprehensive development for the City of Luxor	895.000		0,03	0,02
		USAID	- Sector Policy Reform III	180.000.000		5,99	3,22
			-Sector Policy Reform II	360.000.000		11,99	6,44
			- Technical Support for Sector Policy Reform	31.500.000		1,05	0,56
			- Private Sector Commodity Import programme (PRCIP) (1995 - 2001)	1.080.000.000		35,96	19,33
			(200 US \$ per year)				
			- Public Sector Commodity Import Programme	808.000.000		26,90	14,46
		Total			2.769.561.750	92,21	49,57
Sub-total Economic Infrastructure and Services					3.003.375.843	99,98	53,74

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
3. Production Sectors	3.1 Agricultural Forestry & Fisheries						
		AFDB	- Agriculture and Rural Development	131.800.000		24,19	2,36
		IFAD	- The West Behiera project	n.a.		-	-
			- The Minya Agricultural Development Project	n.a.		-	-
			- The Newlands Agricultural Services Project	n.a.			
			- The Agricultural Production Intensification Project	n.a.		-	-
		Kuwait	- Completion of Land Reclamation - North Sinai (1999)	79.020.000		14,50	1,41
		Saudi Fund for Development	- Sugar Factory	50.310.000		9,23	0,90
			- Irrigation Canal in Sinai	22.860.000		4,20	0,41
		USAID	- Agricultural Policy Reform Programme	54.000.000		9,91	0,97
			- Technical Assistance for Agricultural Policy Reform	27.000.000		4,95	0,48
			- Agricultural Technology Utilisation and Transfer (ATUT)	22.500.000		4,13	0,40
		WFP	- Settlement on Newly Developed Land	12.600.000		2,31	0,23
			- Resources Support to Natural Management in Marsa Matrouh	2.880.000		0,53	0,05
			- Land Development and Settlement in the High Dam Lake Area	5.220.000		0,96	0,09
			- Settlement on Newly Developed Land in Upper Egypt (Wadi El Saida)	7.200.000		1,32	0,13
			- Development of the Sinai	4.000.000		0,73	0,07
		Total			419.390.000	76,96	7,51
	3.2 Industry & Mining						
		Arab Fund for Development	- Construction of Steel Factory (1997)	44.550.000		8,18	0,80
			- Construction of Steel Factory (1999)	50.500.000		9,27	0,90
		AFDB	- Industry Mining & Quarrying	25.000.000		4,59	0,45

CURRENT SITUATION								
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total	
		UNDP	- Capacity Building of the Egyptian Geological Survey & Mining Authority					
			(EGSMA) and the National Authority of Remote Sensing and Space Sciences	675.000		0,12	0,01	
		Total			120.725.000	22,15	2,16	
	3.3 Trade & Touristic							
		USAID	- Promotion of Environmentally Sustainable Tourism	4.800.000		0,88	0,09	
		Total			4.800.000	0,88	0,09	
Sub-total Production Sectors					544.915.000	100,00	9,75	
4. Programme Assistance	4.1 Food Aid							
		Total						
	4.2 Programme Assistance							
		Norway	- Assistance in Forms of Grants mainly in the Form of Technical Assistance, Project Assistance, Mortgage and Commodity Assistance, etc.		385.000		0,07	0,01
		Total			385.000	0,07	0,01	
5. Environment		Canada	- Egyptian Environmental Information System Project	n.a.		-	-	
			- Egyptian Environmental Initiatives Funds	19.800.000		3,78	0,35	
		Switzerland						
		ESDF	- Environmental Urban Development & Garbage Collection (OIK)	n.a.		-	-	
		UNDP	- Capacity Building for the Ministry of State for Environment Affairs	342.000		0,07	0,01	
			- Genetic Engineering : A Technology for Sustainable Agriculture and a Safe Environment	1.520.000		0,29	0,03	
	- Advocacy and Capacity Building in Environmental	280.000		0,05	0,01			

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
			Aspects of Energy				
			- Egyptian Red Sea Coastal and Marine Resource	5.100.000		0,97	0,09
		USAID	- Cairo Air Improvement Project (CAIP)	31.500.000		6,01	0,56
		Total			58.542.000	11,17	1,05

6. Cultural Heritage							
		Norway	Commodity assistance/ import support for furniture to Alexandria Library	385.062		0,07	0,01
		USAID	Reservation and Restoration of Egyptian Antiquities	13.500.000		2,58	0,24
		Total			13.885.062	2,65	0,25

7. Others							
		Canada	- Canada Fund for local initiatives	337.500		0,06	0,01
			- Canada-Middle East Human Rights Linkage Project	n.a.		-	-
			- Civil Society Fund	450.000		0,09	0,01
			- Egyptian Labour Adjustment Services (ELAS)	3.400.000		0,65	0,06
			- Institutional Strengthening of Development Support Communications	1.260.000		0,24	0,02
			- Women Initiative Fund project	n.a.		-	-
		AFDB	- Social	144.345.000		27,55	2,58
			- Multi -Broad Sector	126.000.000		24,05	2,25
		Japan	- National Cultural Centre (Cairo Opera House) (Grant)	n.a.		-	-
		Kuwait	- Printing Paper (for newspapers) (1996)	90.000		0,02	0,00
		Switzerland	- Bouait Loan Fund (EACD)	n.a.		-	-
		ESDF	- Raising the Standard of Living of Women in Dakahilia (GAWW)	n.a.		-	-
			- Capability Enhancement Through Citizen Action (CARE)	n.a.		-	-
			- NGO in country Internship Pilot (ICA)	n.a.		-	-
		UNDP	- Civil Service Reform				

CURRENT SITUATION							
Sector	Sub-sector	Donor States	Name of project	Amount in Million Euro	Total amount in Million Euro	In % per sector	In % of total
				2.580.000		0,49	0,05
		UNICEF	- Gender and Development	n.a.		-	-
			- Child Protection	n.a.		-	-
			- Information /Communication	n.a.		-	-
		USAID	- Telecommunications Sector Support	161.000.000		30,73	2,88
		WFP	- Assistance to Working Children in Cairo (Pilot Phase)	11.700.000		2,23	0,21
		Total			451.162.500	86,10	8,07
Sub-total Programme Assistance, Environment, Cultural Inheritance and Others					523.974.562	100,00	9,38
			GRAND-TOTAL		5.587.725.905	- -	99,99

FUTURE SITUATION					
Sector	Sub-sector	EC/EC Member State	Name of project	Amount in EURO	
1. Social Infrastructure and Services	1.1 Education				
		USAID	- Girls' Education	45.000.000	
			- Development Training II	109.000.000	
			- University Linkages II	1.800.000	
	1.2 Health	USAID	- Combatting Endemic and Emerging Diseases (CEED)	5.850.000	
			- Technical Support for Health Policy	13.500.000	
			- Healthy Mother/Healthy Child (HM/HC)	31.500.000	
	1.3 Water, Sanitation & Water Resources	Canada	- National Water Quality and Availability Management (NAWQAM)	n.a.	
		USAID	- Secondary Cities Development	120.000.000	
Sub-total Social Infrastructure and Services				334.300.000	
2. Economic Infrastructure and Services	2.1 Energy				
	2.2 Transport & Communication	USAID	- Telecommunications Sector Support	19.000.000	
	2.3 Economic Development	IFAD	- Sohag Rural Development Project	n.a.	
Sub-total Social Infrastructure and Services				19.000.000	
3. Production Sectors	3.1 Agricultural Forestry & Fisheries	Canada	- The Nile Basin Initiative	n.a.	
		USAID	- Agricultural Policy Reform Programme (APRP)	175.500.000	
			- Technical Assistance for Agricultural Policy Reform	13.500.000	
			- Agricultural Technology Utilisation and Transfer (ATUT)	31.500.000	
		WFP	- Settlement Support for Awlad Touk, East Assiyut, Kibli Karon and Wady El Rayan	11.700.000	
	3.2 Industry & Mining				
	3.3 Trade & Touristic				
Sub-total Production Sectors				232.200.000	

FUTURE SITUATION				
Sector	Sub-sector	EC/EC Member State	Name of project	Amount in EURO
4. Programme Assistance	4.1 Food Aid			
	4.2 Programme Assistance			
5. Environment				
		USAID	- Cairo Air Improvement Project (CAIP)	22.500.000
6. Cultural Heritage				
7. Others		UNDP	- Egypt 2020: Alternative Future Scenarios	1.400.000
Sub-total Programme Assistance, Environment, Cultural Heritage and Others				23.900.000
TOTAL				609.400.000
WB CONTRIBUTION FOR THE PERIOD 2002 - 2004				450.000.000
GRAND-TOTAL				1.059.400.000