



Advancing the Partnership

USAID/Egypt
Strategic Plan
FY 2000 – 2009

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ADVANCING THE PARTNERSHIP

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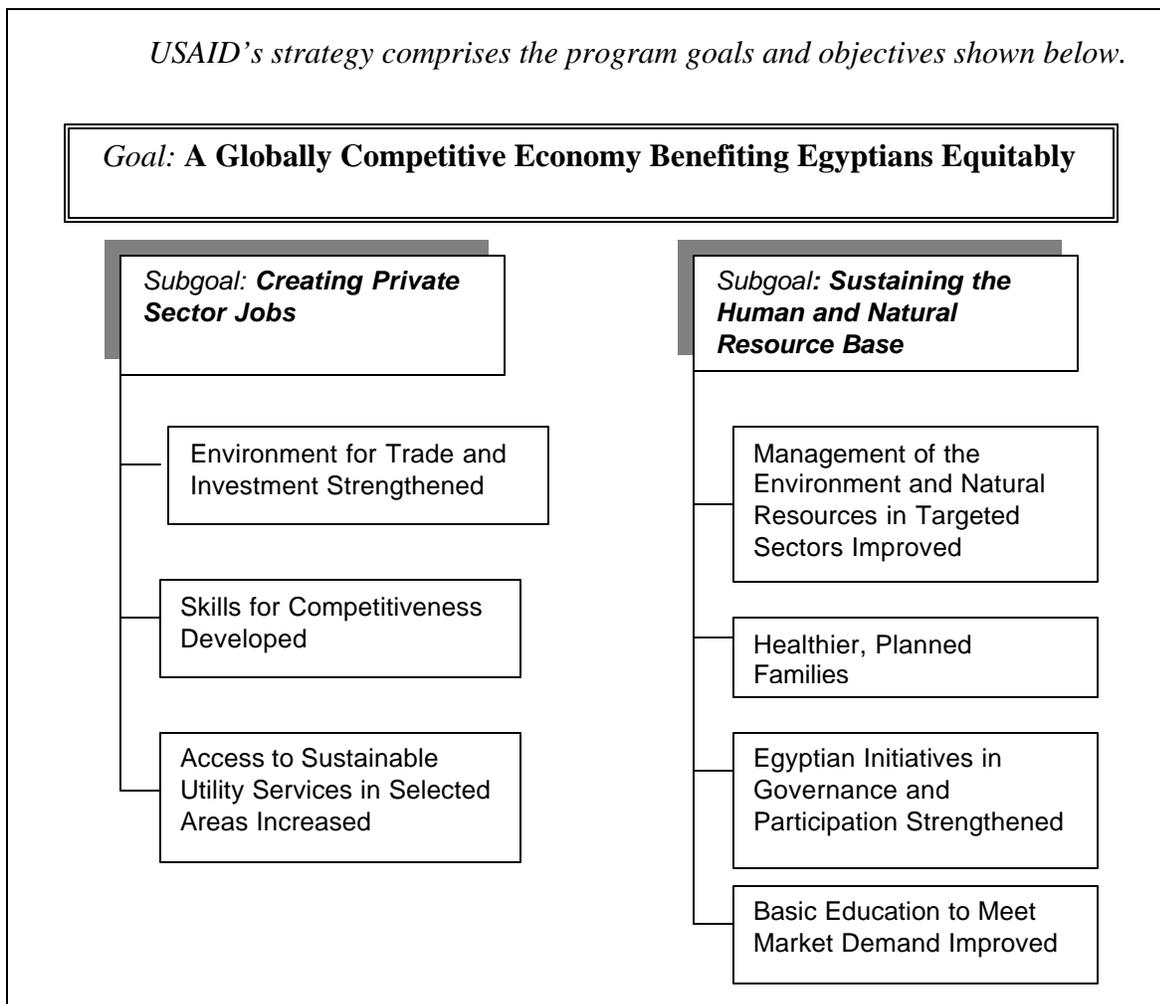
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Part I. Introduction

A. Context for USAID Strategy Development

The three key pillars of the United States government's (USG) relationship with Egypt as identified in the U.S. Mission Program Plan (MPP) are strategic cooperation, collaboration in the Middle East peace process, and the U.S.- Egypt Partnership for Economic Growth and Development. The USG's development assistance, provided in the form of economic support funds (ESF), focuses primarily on the partnership for growth and development, and is a crucial element in meeting foreign policy goals more broadly.

This new USAID strategic plan shifts the focus of USG development assistance from aid to trade and investment. It takes into account Egypt's emerging-market status and integration into the global economy, as well as a mutual interest in stronger U.S.-Egypt private sector relationships. It also supports Egypt's efforts to meet the human resource challenges posed by the global economy, to create 700,000 new jobs annually, to preserve the country's natural resource base, and to improve selected social services.



Accompanying the shift in program focus is a five percent annual reduction in assistance levels over the ten year period, a 13% average annual reduction in U.S. direct hire positions, and a 4 % average annual reduction in foreign service national positions. These resource constraints have accentuated the need to focus on fewer sectors, on sustainability of program achievements -- both past and future -- on activities promoting trade and investment, and on less management-intensive implementation approaches and mechanisms. Reductions in levels of direct assistance also highlight the need to develop legacy institutions, through a foundation, endowments and other mechanisms, that will be capable of continuing work of mutual interest to both the USG and the Government of Egypt (GOE).

B. Trends and Challenges

During the last ten years, Egypt has made tremendous progress. The country strengthened its macroeconomic discipline, privatized many public sector investments, and now has entered the ranks of emerging economies with annual GDP growth exceeding 5%, low inflation, high reserves, and per capita income of nearly \$1300 a year. Nonetheless, challenges remain to Egypt's full participation in the global economy. Despite the respectable levels of growth and good performance on a number of macro indicators, Egypt has not succeeded in reducing poverty. There may be various contributing factors, including inappropriate policies, insufficient employment opportunities, poor educational achievement, and inadequate investment in training. The government has recognized this issue, and has started to address key social development concerns. There also has been the recognition that improved service delivery of all types depends upon public-private partnerships (including those that involve NGOs) and provides opportunities for enhancing citizen participation and improving the quality of governance.

One economic challenge is to increase investment. Both foreign and domestic investment is critical to expand exports, accelerate economic growth, generate jobs, and spread the benefits of growth equitably. An underlying and increasing foreign exchange disequilibrium relative to its major trading partners makes Egypt vulnerable to future economic shocks elsewhere in the world. Additional policy and institutional reform is necessary to increase foreign investment, meet World Trade Organization (WTO) obligations, and increase chronically low domestic investment and savings levels.

Substantial infrastructure investments were made in power, telecommunications, water and wastewater sectors. Egyptians now have reliable power, dependable water and sewerage, and functioning telecommunications. The improvements benefit all social and economic levels. Addressing regulatory policy and cost recovery constraints will encourage private sector investments and promote long-term sustainability.

Egypt has become increasingly concerned about environmental issues, especially air and industrial pollution. Nonetheless, the level of air pollution in major urban areas still greatly exceeds international standards, contributing to high levels of respiratory illness and loss of productivity. Egypt also faces increasing demands on limited Nile River water resources, and must find ways to stem the flow of pollutants from industrial and agricultural sources. Fragile Red Sea coastal resources are under increasing pressure from tourism, coastal development and accumulated solid waste.

According to UNESCO, enrollment in the formal education system has increased from 62% to 87% in the past two decades. The enrollment ratio of female students has increased from 50% to 80%. However, the adult literacy rates of 52% overall and 39% for women are among the lowest in the world. Relative to this, public investment in education has provided insufficient numbers of Egyptians having the minimum skills necessary to meet current and future market demands in what increasingly will be a globally competitive economy. As a result, businesses are less competitive resulting in fewer new job opportunities. When questioned about specific human resource needs, the business community identified the lack of skilled managers as its single most important constraint.

Life expectancy rose from 59 years in 1985 to 66.4 years in 1997. The infant mortality rate has fallen from 72.4 per 100,000 in 1988 to 45.5 in 1998. The population growth rate now is 2%, with a total fertility rate of 3.4 children per family. However, fertility must fall further to help contain expenditures for social services and to reduce the growth of the labor force and poverty.

C. Partners

In addition to the U.S. Mission family of USG departments and agencies, and various private and nongovernmental entities with which USAID works, there are three major sets of partners critical to the successful implementation of this plan: The US-Egypt Partnership for Economic Growth and Development, the Government of Egypt, and other donors.

1. U.S.-Egypt Partnership for Economic Growth and Development

In September 1994 President Hosni Mubarak and Vice President Al Gore announced the establishment of the U.S.-Egypt Partnership for Economic Growth and Development (the Partnership). The Partnership's main objective is to promote economic growth in Egypt through broadening and strengthening the economic relations between the private sector in the two countries. It includes four inter-governmental subcommittees supporting efforts in (I) trade, investment and finance, (II) science and technology, (III) environment and sustainable development, and (IV) education and training. A Presidents' Council of leading U.S. and Egyptian businessmen provides guidance and advice to the two leaders.

The Partnership provides a framework for all U.S. civilian agencies' activities in Egypt. Weekly meetings within the U.S. Mission ensure the broadest coordination and shared knowledge. The State Department, Foreign Commercial Service, Foreign Agricultural Service, and USAID are active participants. Other agencies implementing activities coordinated through the U.S. Mission Partnership working group include: the U.S. Treasury, the U.S. Trade Representative, Department of Education, Department of Energy, the Environmental Protection Agency, the Small Business Administration, the Department of Commerce, the Trade Development Agency, the Overseas Private Investment Corporation, and the Export-Import Bank.

2. Government of Egypt

“Egypt & the 21st Century,” more commonly known as the “2017 Vision,” sets forth the GOE’s vision and action plan. The 2017 Vision emphasizes Egypt’s critical role as a regional leader. Achieving the vision explicitly depends on the pivotal roles of the private sector, national will, and human development. Enhancing women’s roles, dismantling rigid dogmas, and conserving the environment and water are key features of the vision. National goals include a legal and regulatory framework to support the new vision, a greater role for an active and mature civil community, and increased development outside Cairo and the Delta area. An ambitious set of targets describes the GOE’s vision of Egypt in 2017. To achieve those targets, the vision comprises: 1) mobilizing national resources; 2) attracting foreign investment while increasing the domestic savings rate; and 3) encouraging the private sector to become a principal partner in the development process by increasing its share of the economy to 75-80% by 2017.

3. Other Donors

Donor assistance has been an important part of Egypt’s development strategy, with assistance flows averaging over \$2 billion per year in recent years from approximately 35 donors. The United States has long been the largest aid donor, followed by the European Union, Germany, the United Arab Emirates, Canada, Scandinavian countries, Japan, France, Italy, and the Arab agencies. This is complemented by the World Bank, UNDP, IMF, IFC and other UN specialized agencies’ activities.

Coordination is largely a donor effort, currently chaired by USAID. Donors meet regularly to discuss common issues and exchange information to ensure program complementarity and coordination. Some activities, mainly in health and education, are jointly implemented. Sub-groups address privatization, human resource development/education, population, health, environment and energy, water supply and resources, gender and development, poverty alleviation/social development, governance and participation, and the social fund for development. Four focus groups have recently been established to provide an integrated approach to social and economic development, governance and the environment. Donor coordination will remain important during the plan period, as other donors such as the EU and World Bank take a more prominent lead in promoting social/economic development.

D. Past USAID Program

For the past 25 years, the United States has supported Egypt’s economic growth and development through major programs focused on infrastructure, social development, and macroeconomic reforms. Overall, assistance has evolved through four overlapping phases. The *first phase* (mid 1970s to early 1980s) focused on improving the country’s physical infrastructure, and included a major public sector commodity import component. To date, program funding has helped rehabilitate and expand urban water and wastewater systems, now serving 22 million people in cities throughout Egypt, and to rehabilitate the vastly overburdened telephone systems. In the power sector, programs have helped Egypt install over 2,500 megawatts (mw) of capacity and rehabilitate another 2,500 mw, with electricity now reaching over 95% of the Egyptian people. USAID’s replacement of the 12 turbines in the Aswan High

Dam resulted in making the facility one of the world's most efficient producers of hydroelectric power and in helping Egypt become an electricity exporter.

With the rehabilitation of the country's physical infrastructure well underway, the *second phase* (1980s) shifted the primary focus to education, health, family planning and related. USAID financed the construction of nearly 2,000 schools, and emphasized girl's primary education in order to overcome disproportionate female illiteracy. Specialized training has been provided to over 13,500 Egyptians in the U.S. and over one million in Egypt. In health, infant and child mortality rates were substantially reduced through child survival interventions such as the national childhood immunization program which dramatically increased immunization rates among children to 84%. The GOE's highly successful family planning program, supported principally by USAID, resulted in fertility rates dropping from 5.3 births in 1980 to 3.4 by 1998, due largely to the increase in the use of modern contraception from 23% to 50%. In agriculture, the program helped replace more than 17,000 obsolete irrigation structures, benefiting over 2 million small farmers, and increased access to credit for another 2.3 million small farmers. Support for some of Egypt's first sectoral policy reforms produced phenomenal yield gains and significant production increases in several major crops.

Phase three (early 1990s) focused on the policy environment. USAID supported Egypt's economic reforms aimed at macroeconomic stabilization, which, despite the dislocations of the Gulf War, dramatically reduced inflation and unified the exchange rate. During the past five years, the economic reform program matured, with increasing support to economic restructuring for higher growth. The economic policy reform process was bolstered by initiatives to improve adjudication of commercial law.

Phase four began with the 1994 Partnership's focus on trade and investment. It is developing a policy framework and foundation for domestic and foreign direct investment to replace official development assistance in Egypt. It is also guided by the Gore-Mubarak decision in July 1998 to emphasize increased trade and investment, human resource development and technology transfer.

Part II. The Strategy

A. Program Goal

Egypt's political, economic and social development, supported by U.S. and other investments over the last 25 years, has provided a solid foundation for it to stand as a partner in the global economy. The challenge, however, is more than economic growth alone. To be globally competitive and sustain economic growth, Egypt must translate growth into good jobs for those who need them, avoid environmental degradation, and offer adequate services. Therefore, the goal of the USAID/Egypt 2000-2009 strategy is a "*Globally Competitive Economy Benefiting Egyptians Equitably*." Two subgoals further define this strategy: creating private sector jobs and sustaining Egypt's human and natural resource base.

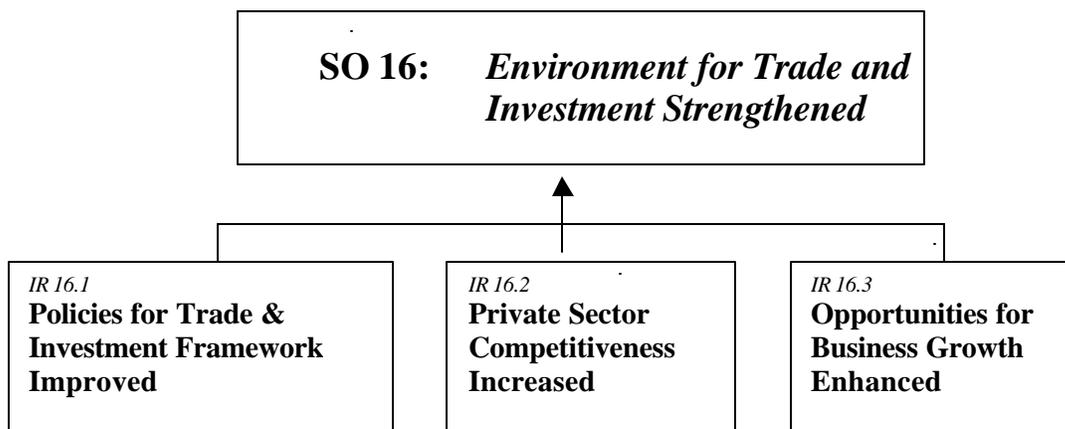
B. Subgoal 1: Creating Private Sector Jobs

The goal of a globally competitive economy benefiting Egyptians equitably can be achieved if Egyptians are participating fully in the economy. Discussions and analysis showed that the best way to ensure this economic participation was through jobs. On average, each of the next 10 years will see 700,000 new entrants to Egypt's labor force. To meet this demand, Egypt needs to expand investment and trade, promote workforce development for the private sector, and ensure an adequately developed and maintained infrastructure base. Privatization will be a key signal that Egypt recognizes the key role private sector involvement and leadership will play in the country's continued development. Such signals will bring increased foreign direct investment (FDI) to produce adequate rates of future economic growth. Similarly, the future demands a workforce equipped with the technical and innovative management skills required for globalization. Finally, infrastructure services for future growth need to be developed in ways that attract private sector investment. USAID's subgoal of job creation embraces two strategic objectives (SOs), one for trade and investment and the other for workforce development. It also includes a time-limited special objective for infrastructure services.

Central to USAID's strategy is the role job creation will play in reducing poverty, a relationship which recent studies in other countries have confirmed. The relationship is strengthened when the pace of economic growth is increased, when labor-intensive industries and small/medium businesses are emphasized, and when capital market activity is increased. This program addresses all of these factors.

- *Increase the overall pace of economic growth.* By improving the environment for trade and investment, the Mission's program is designed to quicken economic growth and thereby stimulate private sector job creation.
- *Emphasize labor intensive rather than capital intensive industries.* The strategy addresses this issue in a number of ways. One program outcome is to reduce the tariff and non-tariff barriers which protect the capital intensive, import-substituting local industry and prevent the free flow of goods and services. The program also works to improve the competitive efficiency of labor intensive sectors like horticulture and promotes the export of labor intensive products. It promotes the change of the tax incentives in the corporate income tax to eliminate the bias towards capital intensive industries. Labor laws that make it difficult to dismiss workers discourage hiring. The new labor law will make it possible for firms to dismiss workers while providing organized labor with important new rights. The social insurance reform activity also argues for lowering the 40% tax rates imposed on low wage labor. This high tax rate discourages formal sector employment.
- *Emphasize the development of small and medium sized businesses.* USAID's small business lending program is world class, large, and getting larger.
- *Provide markets for long term capital.* The program will include a number of initiatives to improve capital markets and provide increased long-term lending.

Strategic Objective 16 *



Rationale: The rationale for a trade and investment strategic objective derives from both global economic and bilateral political demands. Today's commercial world demands a different approach to markets; countries that fail to integrate into the global economic community do so at great cost to the welfare of their citizens. Successful integration requires:

- trade and investment policies that encourage economic activity rather than control and constrain it;
- strengthened private sector competitiveness through appropriate tax regimes, effective financial markets, and market-oriented management; and
- a favorable climate for business growth, including supportive legal and regulatory frameworks, timely market information, and sustainable and cost-effective credit programs.

Corresponding to this economic globalization, the United States and Egypt have underscored the political need for a closer trade and investment relationship which will both ensure Egypt's future prosperity and enhance regional security. This is a critical part of the U.S.-Egypt Partnership for Economic Growth and Development and of U.S. participation in the Middle East peace process. A recent highlight of this growing relationship was the signing of the U.S.-Egypt Trade and Investment Framework Agreement (TIFA) in Washington, D.C. during July 1999. Based on this agreement, a binational Council on Trade and Investment has been established. The first TIFA Council meeting took place in Cairo in November 1999.

Because actual changes in trade and investment levels depend on many factors beyond USAID's and the GOE's control, the Mission's objective is more narrowly defined, i.e., strengthening the environment for trade and investment. However, monitoring and analyzing changes in overall financial levels will continue to be important components of the program. The resulting information will be used both to help assess program performance and as input to future activity designs.

* The Mission's current program is composed of 13 strategic or special objectives. The new strategy, comprised of seven new objectives, therefore begins with strategic objective number 16.

The GOE is increasingly committed to allowing market forces to allocate scarce economic resources and to letting the private sector make the economy's investment and production decisions. In addition, the private sector mirrors the government's commitment to reform. Nonetheless, the Mission is realistic in its expectations for reform during the strategic plan period. It recognizes that change may come slowly, and will assist reform elements in both the public and private sectors to facilitate and hasten those changes.

To date, USAID's program has contributed to economic reform and growth, particularly throughout the 1990s. The results of this investment are significant.

- The GOE has: issued regulations for clearing and settlement companies, portfolio management companies, and brokerage firms; eliminated licensing requirements for exports; and passed laws allowing majority foreign ownership of public sector banks and insurance companies.
- Several policy programs and private producer associations supported cotton sector reforms. As a result, 1998/99 saw -- for the first time since the 1960s -- no floor price or target planting area for cotton. In addition, six spinning and weaving companies were privatized and new private firms are starting up or expanding.
- The private sector now enjoys Internet access from more than 47 private providers.
- From 1991 to 1999, 110 state-owned enterprises were privatized by the Ministry of Public Enterprise, including majority IPOs, anchor sales, employee stock ownership's, and liquidations. In addition, 16 joint venture firms were majority privatized by the Ministry of Trade and Supply as were 16 joint venture banks by the Ministry of Economy.
- In a recent survey, 62% of respondents reported that the Private Sector Commodity Import Program (PRCIP) increased firm sales and production, and 72% said it was increasing employment in Egypt. For U.S. suppliers, 46% credited the PRCIP with their introduction to the Egyptian marketplace.
- In 1998, private foundations made almost 80,000 small and micro-enterprise (SME) loans valued at \$75 million. Since 1990, six foundations and a private sector bank program have been established and are operating on a self-sufficiency basis. Repayment rates are over 98%, 57% of the loans are under \$300, and women comprise 22% of loan recipients. Over the past decade, 150,000 jobs have been created through program activities.
- The Capital Markets Development activity is helping to improve capital market efficiency and transparency. In 1998, the volume of trading on the Egyptian Stock Exchange increased by over 53% and market capitalization increased by 17%.

Results Framework: Achieving the SO requires successfully removing three main constraints – weak policies and legal/regulatory frameworks, low level of competitiveness, and lack of business opportunities. These three constraints form the basis of our intermediate results (IRs). They represent a significantly streamlined program as compared to earlier years, and a reduction in the number of results packages and contracts by 50%.

IR 16.1 - Policy Framework for Trade and Investment Improved: A weak and contradictory policy framework constrains trade and investment expansion. Priorities for this IR include supporting an improved trade regime and making the investment climate more business-friendly. To achieve these objectives, USAID anticipates supporting actions to help the GOE achieve its WTO responsibilities and objectives. Specifically, USAID will use policy programs to reduce tariffs,

improve intellectual property rights, enhance information flows, and facilitate the private sector playing a larger role in the economy. Supplementing the policy programs will be activities to assist the GOE in implementing their reforms. Activities could include: working with the GOE in understanding WTO requirements; reducing non-tariff barriers to trade; strengthening intellectual property rights; improving customs operations; removing remaining agricultural sector controls; reforming insurance and capital market supervision to enhance competitiveness; and fostering information-based policy-making. One ongoing activity that supports this IR is the Administration of Justice Support activity, managed under SpO 21 (governance and participation), that provides training to judges on intellectual property rights and modern commercial law trends.

The GOE attaches a high priority to attracting foreign direct investment. Foreign investors can expose Egypt to the latest in technological prowess worldwide. Equally important, they can open it up to what increasingly is becoming the mainstream of international trade, namely, trade in semi-finished products and other intermediate goods. But attracting foreign direct investment means that Egypt has to convince investors that it is an investor-friendly destination. To be convincing, the Egyptian government will need to continue to reduce its role in the economy from producer and controller to facilitator and regulator.

Many of Egypt's productive assets remain in state hands. Substantial divestiture in power, telecommunications, water and wastewater, banks, and insurance companies is required to increase efficiencies, and to convince prospective investors of the GOE's commitment to an expanded private sector role in the economy. This should be accompanied by a strengthening of autonomous and semi-autonomous regulatory authorities.

The Development Support Program (DSP) is a policy reform program designed to assist the GOE in achieving its planned reform measures and objectives. Under DSP I, (1999-2001) the policy reform priority areas are closely integrated with the current USAID programmatic emphasis. These areas include trade, finance, employment, balance of payments, privatization and financial markets. As agreed to by the GOE, future DSP activities (beyond 2001) may include other key sectors such as health, education, agriculture, and the environment as current policy programs in those areas end. Also, future DSP policy reform agendas will be defined by the needs of the new strategic plan. Currently, \$200 million is budgeted for DSP annually for seven years. A strong policy environment requires information-based decision making. To complement DSP, the Mission expects to provide targeted technical assistance to improve analytical and decision-making capacities of the GOE's economic policy team.

IR 16.2 - Private Sector Competitiveness Increased: During the plan period, Mission programs will focus on addressing key obstacles to Egypt's domestic and international competitiveness. Privatization is key to investor confidence and enhanced competitiveness. Thus, to the extent necessary to achieve its objectives, USAID will continue to provide privatization assistance to the GOE in the strategy's early years. As these objectives are achieved, however, direct support activities will disappear. Trade will contribute to increased competition in domestic markets, which in turn will set in motion the restructuring of economic activity. This economic restructuring induces increased specialization, largely through outsourcing and subcontracting, to expand trade domestically and create jobs throughout the economy. In addition, enhanced growth in the information technology industry will be critical to broad expansion in traded goods and services.

Such vibrant economic activity requires an investor-friendly tax system that reinforces and deepens the corporate tax reforms taking place. Changes in tax regimes will foster an environment which will encourage micro-enterprises to enter the formal sector and simultaneously encourage reverse linkages from larger enterprises to small and medium-sized businesses.

Financial markets are similarly critical. At the moment, Cairo and other cities in Egypt are awash in real estate construction projects. While this particular real estate boom may have its pitfalls, it's nonetheless symptomatic of two macroeconomic phenomena: first, the availability of savings to finance investment; and, second, the lack of investment opportunities in more productive sectors such as goods and services for export. Savings could match investment if opportunities grew, but financial outlets for savings remain embryonic. The Mission, therefore, will continue to help strengthen key financial institutions and instruments. Assistance, however, will shift from direct support for the creation of capital markets, in the initial years of the strategy, to the regulatory structures necessary for the maturation of the capital markets, e.g., for banking and insurance. Of special interest will be the promotion of social insurance reform, not only for its salutary effect on financial markets, but, more importantly, to enable ordinary Egyptians to enjoy higher and more secure pension incomes.

Finally, at the firm level, behaviors and perceptions toward competition, trade, and competitiveness must change. To succeed in the global economy, Egyptian businesses will have to understand the risks and opportunities of international trade and investment, and how to profitably exploit those opportunities while reducing risk. Egyptian businesses will also need to internalize the bottom-line benefits of ensuring demand-driven behaviors in international trade. Through interaction with real importers, e.g., horticultural and information technology firms, Egyptian businesses will learn the demands and opportunities of this approach.

IR 16.3 - Opportunities for Business Growth Enhanced: Various existing policies discourage business and employment growth in Egypt. For example, labor law makes it difficult to dismiss employees. Prohibitive withholding requirements for social insurance lead firms to stay small, inefficient, and underground. If increased trade and investment are to bring about a pattern of economic growth that is labor-intensive, a framework of incentives must support it.

Therefore, the Mission will support legal and regulatory reforms consistent with increased trade and investment, and favorable to job creation. The program will support GOE efforts to revise the labor law and intellectual property rights. Legal and regulatory reforms will be necessary to ensure that contract enforcement and dispute resolution mechanisms exist. While policy dialogue will make it easier for firms to be established legally and to grow, hands-on assistance from our PRCIP or small and emerging business programs may also be necessary. The PRCIP program will play a key role in promoting trade, investment, and technological innovation as the Egyptian economy grows. It also will provide special incentives for firms operating in geographic areas which are economically disadvantaged.

The Mission will build on successful elements of the current sustainable and cost-effective credit programs, while increasing its focus on approaches that will enable SMEs to become more competitive. USAID will give special attention to the promotion of linkages with large firms, both domestic and international, so that small and medium enterprises can capitalize on

incentives to invest, formalize, expand, hire more people, and make more money. The recently initiated Poverty Lending Program will assist NGOs to provide small loans to the poor, the majority of whom are female heads of households. In addition, recipients will have access to information, various social services and technical assistance to help sustain or initiate income generating activities as well as to enhance their families' standard of living. These programs are an important part of the Mission's focus on equity in the distribution of benefits of economic growth.

Businesses find it difficult to grow when information is lacking. Therefore, the Mission will explore ways to support private sector systems for "broadcasting" timely and appropriate market information related to the specific sectors of trade and investment activities.

While recognizing that the market should allocate scarce resources, the Mission is concerned about equity, and also recognizes that not all people benefit equitably from growth opportunities. The program will track the impact of Egypt's future economic growth on disadvantaged groups and, as appropriate, will support policies and programs to promote equitable economic opportunity. The Mission will track four specific groups: women, children, unskilled labor, and the population living in the poorer regions, especially rural areas and Upper Egypt.

Customers and Partners: In achieving this SO, there are intermediate customers that represent and provide service for the ultimate customers, the Egyptian people. Many of the intermediate customers also serve as partners. The Mission assists 16 private sector business associations and more than 20 ministries and independent government agencies. Since 1990, it has provided assistance to over 200,000 borrowers through its small and emerging business activities, and will continue to provide similar assistance. The PRCIP has helped directly over 1300 Egyptian businesses obtain financing to purchase U.S. goods, and will continue to help even more businesses in the future. Technical staff working on this SO actively participate in Subcommittees I and II of the Partnership for Economic Growth and Development. Subcommittee I focuses on the GOE's policy agenda in trade and investment. Subcommittee II promotes commercialization of existing technology and strengthening the linkages between Egyptian R&D institutions and the private sector.

Impact and Measuring Performance: By the end of FY2004, USAID expects significant lowering and streamlining of tariffs and non-tariff barriers will be reduced. Privatization will see significant progress and USAID plans to move out of providing direct assistance to this sector as government privatization objectives are reached. The Mission will gradually focus more on regulatory issues and institutions and their importance in managing the process of change. Direct support to small and emerging businesses, particularly through micro-credit lending, will be wholly managed by a local institution. Private-sector based market information systems will be established.

USAID expects significant progress in establishing investor-friendly corporate and VAT tax systems. Financial markets are being strengthened quickly. Further work in expanding efforts to change business perceptions and behaviors in second-level focus industries will continue.

It is unlikely that Egypt will have completed all the reforms necessary to be a fully competitive member of the global economic community by the end of the strategy period. However, the tenor of the U.S.-Egypt relationship will have shifted and the domestic capacity of Egypt matured so that direct support from the U.S. Government will be highly targeted and specified solely toward Egyptian-defined goals and objectives.

The Mission will continue to monitor progress using available quantitative data. Qualitative methods will be used to measure the perceived change in the policy environment for trade and investment. The following indicators and targets will be used to monitor progress and to help define success:

SO 16: Environment for Trade and Investment Strengthened

- The Economic Freedom Index (EFI) which measures trade policy, taxation policy, monetary policy, government consumption of economic output, banking policy, wage and price controls, property rights, regulation policy and the black market. In 1998, the index was at 3.7. It is expected to decline to 3.1 by 2004 and 2.8 by 2009.

IR 16.1: Policy Framework for Trade and Investment Improved

- Those components of the EFI which relate to trade, taxation, monetary policy, banking and regulation. In 1998 the index was at 3.35. It is expected to decline to 3.2 by 2004 and 2.9 by 2009.
- Openness component of the Global Competitiveness Report (GCR); this factor measures openness to foreign trade and investment, openness to foreign direct investment and financial flows, exchange rate policies and ease of exporting. Targets for this indicator will be set at a later date.

IR 16.2: Private Sector Competitiveness Increased

- Real output per worker in the private sector in industry and productive services (agriculture, transport, trade, finance, insurance, tourism and communications) reached LE 25,710 in real terms in 1998. It is expected to grow to reach LE 29,800 by 2004 and LE 34,500 by 2009.
- Finance component of the GCR: this factor measures how efficiently the financial intermediaries channel savings into productive investment, the level of competition in financial markets and the perceived stability and solvency of key financial institutions, levels of national savings and investment, and credit ratings given by outside observers. Targets for this indicator will be set at a later date.

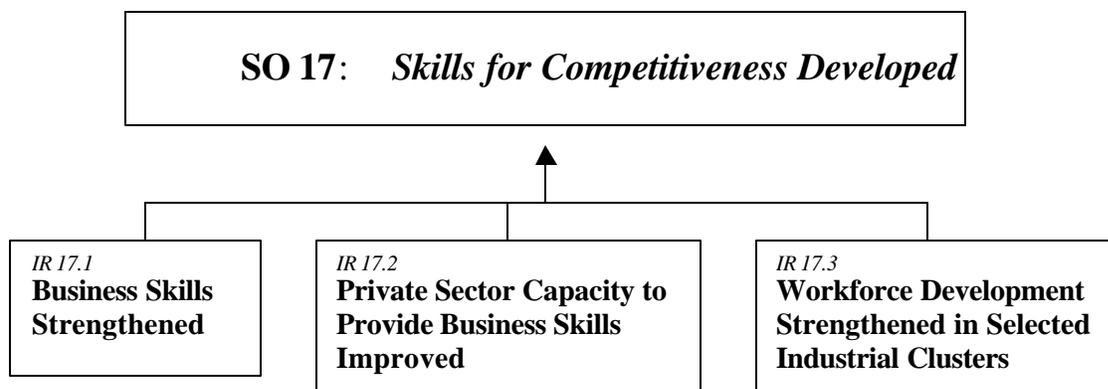
IR 16.3: Opportunities for Business Growth Enhanced

- Those components of the Economic Freedom Index which relate to wage and price controls, property rights, regulation, and black market average, as of 1998, at 3.25. We expect the index to decline to 2.88 by 2004 and 2.5 by 2009.
- Government component of the GCR: this factor measures the role of the state in the economy in providing sound business environment for the business sector. Targets for this indicator will be set at a later date.

Relationship to Agency and Foreign Policy Goals: Past gains were broad, reflecting program activities across many areas supporting economic growth. Under the new strategy period,

USAID’s program will increasingly focus on policies, practices, and business opportunities necessary to improve and strengthen the environment for accelerated private sector trade and investment growth. The SO will contribute to the MPP goals of *broad-based growth* and *open markets*, and to *global economic growth*. Finally, this SO will contribute to the Agency goal of “Broad-based Economic Growth and Agricultural Development Encouraged.”

Strategic Objective 17



Rationale: One of the most critical constraints on the competitiveness of Egyptian companies is the lack of an appropriately skilled workforce. Egyptian managers and workers do not yet have the skills required for modern competitiveness and new entrants do not come into the workforce with the critical thinking and practical skills that allow them to take full advantage of on-the-job training. In the view of many business leaders, this is the most binding constraint on Egypt's ability to upgrade competitiveness, more critical than problems in raising finance or finding markets. Survey data in the 1998 and 1999 Global Competitiveness Reports confirm Egypt's low international ranking on workforce skills and training institutions.

One cause of this problem is the education system’s (basic, secondary, technical, and university) inability to produce trained manpower to meet workforce needs. Long-run solutions require fundamental reforms in these institutions to upgrade quality, teacher skills, and curricula. However, such reforms will take time to put in place and more time to produce results in terms of higher-skilled graduates. Egypt's business and government leaders do not believe that the country can afford to wait for such structural solutions. They believe that long-term educational reform must be complemented by immediate efforts led by the private sector to upgrade skills.

President Mubarak articulated this view at the July 1999 meeting of the Gore-Mubarak Partnership, in which he cited human resource development as one of Egypt's three most pressing needs (along with increased investment and trade as well as high technology development), and asked for U.S. help in this area. The Presidents’ Council (the U.S. and Egyptian private sector leaders associated with the Gore-Mubarak Partnership) supported this request and is raising private sector contributions to fund skills development at management and entry levels.

USAID has responded to President Mubarak's request by developing a new program to support skill development, reflected in a new strategic objective: SO 17– *skills for competitiveness developed*. This program will target the 40% of Egyptian workers who are literate and include workers who are in management or who have management potential. Activities will focus on strengthening Egyptian private sector management and training providers; encouraging the private sector to budget for training as an investment and not an expense; and ensuring that training institutions provide training based on demand and in growth areas. The intention is to change management attitudes and to build a cadre of trained personnel to better meet the needs of institutions in a globally competitive economy. These activities should have a multiplier effect on non-management and lower management levels of employment, improving the work environment for Egyptian workers and increasing private investment in training.

Within the workforce development field, a strategic choice has been made to focus largely on management training. This choice is based on the following rationale: 1) USAID does not have enough resources to have major direct impact on shop floor-level skills (this is being addressed by the EU, Germans and other donors); 2) the only way to achieve real progress in raising shop floor-level skills is to increase the amount and quality of investment in human resource development by Egyptian companies; 3) one way to encourage such investment is to expose Egyptian managers to current international business experience regarding the importance of investing in human resources and effective ways to build skills; and 4) management training can also contribute to broader changes in business practices that will increase competitiveness and exports.

Achieving SO 17 will strengthen linkages between suppliers of training and private sector consumers of training. At present, there is limited communication and cooperation between companies which need trained people and both public and private sector providers of training. As a result, the type and quality of skills developed are not responsive to private sector needs. To address this problem, assistance will be provided in three industrial "clusters" (agribusiness, tourism, and information technology) to expand dialogue between companies and training providers and to co-finance specific types of training.

Long-term workforce development requires fundamental improvements in education. The Mission's current plan is to continue its on-going programs in demonstrating new basic education models (with an emphasis on girls and poor children) under a time and resource limited SpO 22 (Basic Education), and to leave long-term investment in this area to other donors (such as the World Bank).

Results Framework: To achieve the SO, the following intermediate results are necessary:

IR 17.1 Business Skills Strengthened: To compete in the global market place, Egyptian companies must change their attitudes about human resources. They must see modern business skills as critical to achieving productivity, be willing to invest in training for employees, retain properly trained employees by paying competitive salaries, empower lower-level managers, and initiate management best practices. USAID will support a variety of activities to expose Egyptian business leaders and public policy makers to modern business thinking in these areas. Activities will be coordinated with

the Egyptian side of the Presidents' Council and with other Egyptian business leaders. Targeted investments in the development of business, technical, and entrepreneurial skills will contribute to competitiveness, and will utilize skills and training methods in which American organizations have strong expertise. Finally, limited U.S.-based MBA training, of particular interest to the Egyptian Presidents' Council, will have a long-term impact on Egyptian productivity by producing high-quality Masters of Business Administration (MBAs) who eventually will occupy key positions in Egyptian companies.

Illustrative activities include:

- Executive training programs for senior private sector and public sector managers conducted by leading U.S. business schools;
- USAID and the Egyptian private sector co-funding a limited number of MBA scholarships in leading U.S. business schools;
- Six-month training programs for recent university graduates and new employees in basic business skills co-funded by the private sector;
- Specialized management and professional courses on topics such as developing marketing strategies, effective use of information, and export promotion;
- Entrepreneur training for small business development, with an emphasis on sectors with high potential for job creation; and
- Presentations by noted U.S. management and human resource development experts.

IR 17.2 – Private Sector Capacity to provide Business Skills Training Improved: Existing training providers technical skills that are not relevant to today's private sector needs. Activities supporting achievement of this IR will increase the capability among Egyptian private sector training providers to supply consistently high-quality, market-relevant training. Program investments will emphasize catalytic activities that have multiplier effects.

Illustrative activities include:

- Strengthen or establish an Egyptian business school, co-funded by the private sector, that will deliver MBA and executive training at a world-class level (similar to INCAE in Central America or the Asian Management Institute), with the support of a leading U.S. business school or a consortium of U.S. business schools;
- Upgrade the quality of management education at leading Egyptian universities through training-of-trainers in such topics as case method teaching, curriculum development, managing change, managing diversity, leadership skill and decentralization.
- Provide training-of-trainer assistance to human resource development departments in companies investing their own resources in training programs;
- Expand use of distance learning for low-cost management and technical training.
- Strengthen associations of training institutions, including accreditation standards.

IR 17.3 - Workforce Development Demonstrated in 2-3 Industrial Clusters: As noted above, one of the reasons for the poor productivity of training in Egypt is weak or non-existent communication between the companies requiring trained personnel and the suppliers of trained personnel (public and private training organizations). Training, therefore, is not responsive to employer needs and is often of low quality. In addition, government-funded vocational-technical school system face many constraints; public-sector training programs supply little

hands-on technical training; and private sector training often does not focus on skills and teaching methods appropriate for modern businesses.

To overcome this problem, the IR will provide workforce development tools developed and tested in other countries for building training cooperation within industrial clusters. Pilot demonstrations will bring suppliers and customers together to strengthen market-responsive supply. Three industrial clusters have been identified as having the potential to provide the most significant gains in jobs and competitiveness: agribusiness, tourism, and information technology. Agribusiness was selected because many agribusinesses already understand the importance of human resource development for competitiveness and exports, it is labor-intensive, and USAID has considerable experience in this sector. Tourism is also labor-intensive and has high potential to earn foreign exchange. Information technology, by improving the information infrastructure, can boost competitiveness throughout the economy. Information technology is one of the highest priorities of the Gore-Mubarak Partnership, the GOE's 2017 Vision, and the private sector. Cluster activities will make a special effort to address job creation at lower income levels and in poor areas of the country. If successful, this approach can be replicated in other industry clusters.

Illustrative activities include:

- Workshops bringing together training customers and suppliers to agree on specific training priorities and new initiatives in each cluster;
- Trainees linked to potential employers through privately managed databases;
- New training programs developed to respond to priority needs in each cluster; and,
- Limited training institution upgrading to meet industry demands.

Impact and Monitoring Performance: By FY 2006 the Mission expects the following results. First, Egyptian companies in targeted areas will better understand what business practices are required for modern competitiveness, and many companies will have strengthened their competitiveness. Second, a substantial number of managers will have been trained to an international standard in management and technical skills, thus increasing their effectiveness. Third, companies will be investing a higher proportion of their resources in training and skill development, leading to stronger skills accumulation and increased productivity. Fourth, a substantial number of new workforce entrants will have stronger basic business skills, allowing them to earn higher pay and inducing other public and private providers to provide similar training by the power of example. Fifth, Egyptian providers of general management training will be strengthened and will provide relevant instruction. (If Egypt succeeds in developing a world-class business school, the quality of management education in Egypt will be permanently increased.) Sixth, skills will be stronger and more responsive to market needs in information technology, tourism, and agribusiness, stimulating growth in employment, competitiveness, and exports.

These changes will directly increase competitiveness, employment, and wages, and indirectly strengthen business interest in economic reform and openness, by increasing the confidence of Egyptian business leaders that their companies can withstand the pressures of international competition.

The following indicators will be used to monitor progress. As this is a new area of intervention, baselines and targets are tentative. The Mission intends to use longitudinal studies to track the quality of training and its impact on firm level competitiveness.

SO 17 Skills Developed for Competitiveness

- The value (and rank) of a selected component of the management part of competitiveness index compiled annually by the World Economic Forum (WEF). (This index will be monitored for the WEF sample of the Egyptian businesses as a whole and for the subgroup of companies benefiting from SO interventions). Baseline (1999) value =3.29 and rank = 43. *Target:* 10% increase in index value by 2005 and an increase of 10 in the rank of Egypt on the index.

IR 17.1 Business skills strengthened

- Number of international-quality MBAs attained and employed by the Egyptian private sector. *Target:* 25 completed MBAs by 2003 and 25 by 2004 with graduates returned and employed by private sector.

IR 17.2 Private sector capacity to deliver business skills training improved:

- Number of training institutions engaged in establishing and implementing a certificate standards review process. *Target:* Five private sector training providers participating in capacity building activities and in implementing a certificate standards review process.

IR 17.3 Workforce development demonstrated in 2-3 industrial clusters

- Percentage of annual wage bill spent on training and human resource development in selected industrial clusters. *Target:* A 10% increase in the portion of the annual wage bill spent on training and human resource development in the firms benefiting from SO interventions in selected industrial clusters.

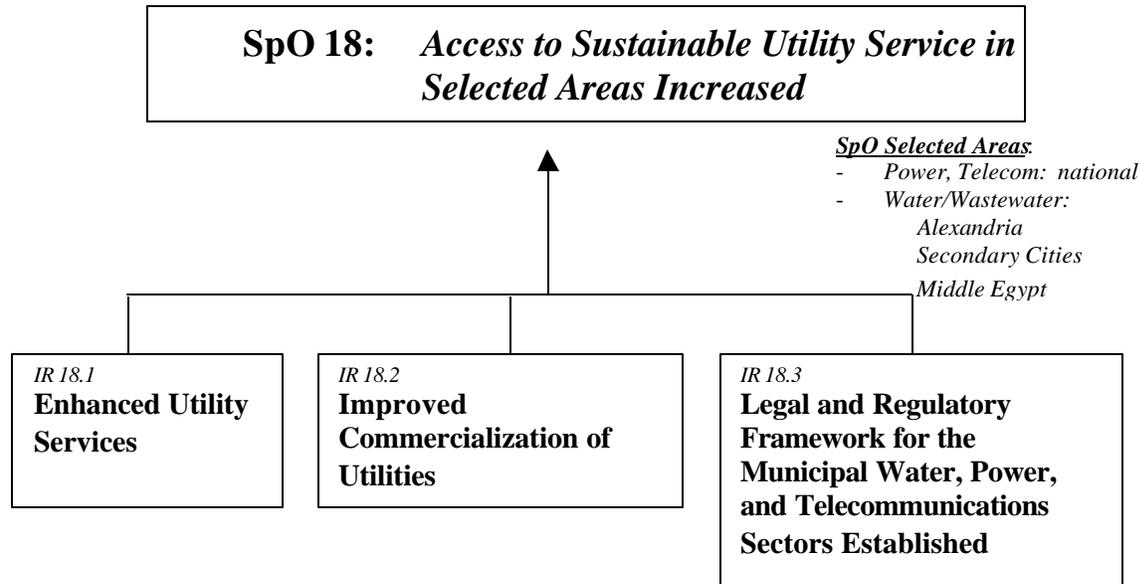
The Mission expects that most SO results will be achieved within five years, although the full impact will take longer to see. The main exception is the possible establishment or strengthening of a business school, which would take ten years to reach full capacity.

Customers and Partners: Customers include the firms which will directly benefit by a better trained workforce, as well as Egyptian business organizations, such as the Mubarak Professional Development Organization, the Egyptian Hotel Association, the Assiut Businessman's Association, and the Alexandria Businessmen's Association. These organizations, together with the Presidents' Council, also would be partners, co-sponsoring activities to enhance human resource development in Egypt. Within the Mission, support will come from school-to-work activities related to SpO 22. Other donors active in the workforce field are the European Union (skills training), Germany (school-to-work programs), and the World Bank (loans for basic education and secondary education with technical training and school-to-work training components).

Relationship to Agency and Foreign Policy Goals: Achieving this SO will directly support Agency goals of "broad-based economic growth" and "agricultural development and human capacity built through education and training," while directly contributing to

and linking Partnership Subcommittees I and IV. Results also will contribute to achieving MPP goals of open markets, expanded U.S. exports, global economic growth, and broad-based growth. The SO responds directly to the request of President Mubarak for help in human resource development.

Special Objective 18



Rationale: One of the important foundations for increased trade and investment is reliable and sustainable utility service. Reliable power, telecommunications and water and wastewater (w/ww) services are required for businesses to flourish as well as meeting the needs of Egyptian citizens. To meet the needs of Egypt’s growing economy, utilities must make needed capital investments, be able to recover costs and operate efficiently. The public sector does not have the investment resources required for expanded, well-run utilities. The GOE, therefore, is promoting increased private sector participation in these sectors. To support this, it is also establishing legal and regulatory frameworks that provide a more stable and transparent investment environment.

This time-limited special objective (Infrastructure SpO) will bring to conclusion USAID’s 25-year urban infrastructure program. In 1975, an aging urban infrastructure presented USAID with an opportunity to better the lives of many Egyptians through improvements in access, efficiency, and reliability of urban public utilities. Since that time, USAID has invested over \$5 billion in urban infrastructure (\$2.6 billion to w/ww, \$1.8 billion to electric power, and \$700 million to telecommunications). W/ww programs have reached 22 million people; power sector programs have increased and improved 35% of Egypt’s generating capacity and telecommunications programs have financed expansion and improvements in the quality of services reaching several million customers.

USAID is now placing increased emphasis on supporting legal and regulatory reform in the three sectors in order to create an enabling environment for private sector participation and to improve service delivery. Legal reforms are being put into place and regulatory agencies have been created in the power and telecommunications sectors and will soon follow in the water and wastewater sector.

Results Framework: Achieving the SpO requires successfully enhancing service delivery, addressing the need for commercialization of utilities and promoting a legal and regulatory framework conducive for increased investments. These areas form the basis of the SpO's intermediate results: (a) *Enhanced Utility Services*, (b) *Improved Commercialization of Utilities*, and (c) *Legal and Regulatory Framework for Water, Power and Telecommunications Sectors Established*. These are explained below in terms of their application to each of the sectors.

In the power and telecom sectors, through the end of FY 2002 the facilities upgrading work will continue its focus on improvements in efficiency, reliability and increased access to utility services, putting into place critical infrastructure needed to support increased private investment. In coordination with the SO 16 team, the SpO 18 team will help the GOE restructure the new electricity companies so that company shares may be offered to the public. It will help the power regulatory board initiate its basic oversight functions. USAID will also assist Telecom Egypt to become a high quality provider of customer-driven services and position itself for possible privatization in the medium term.

In w/ww, USAID will pursue a two-pronged approach until the end of FY 2004. The SpO team will help the creation of an independent regulatory agency, enhance the GOE's capacity to manage private sector investment transactions, and institute measures to enable/encourage local utilities to operate along business lines. Concurrently, institutional development efforts aimed at greater cost recovery and operating efficiency, when coupled with capital assistance investments, will encourage the commercialization of utility operations and increase their capacity to deliver services to customers. The result will be an enabling environment for attainment and enforcement of higher performance and environmental standards; adoption of economically based tariff pricing, and increased access to private capital for investment.

The SpO team will work with other Mission teams, including privatization, governance, environment and health, to implement the proposed program.

SpO 18 will conclude at the end of FY 2004. All infrastructure and institutional strengthening activities in the power and telecommunications sectors will be completed by the end of FY 2002, and all w/ww infrastructure and institutional strengthening activities are expected to be completed by the end of FY 2004.

The SpO will help partners establish the conditions for mobilizing private sector financing of infrastructure, while enhancing utility management and customer services and protecting USAID's massive capital investments to date. This is a logical graduation strategy for a program that has matured to the point where public entities are ready to change their roles from service delivery to facilitation. Toward the end of the SpO period, there will be a hand-over of policy reform activities to the Mission's privatization and investment team. These include deepening

the capacity of the regulatory agencies to carry out their functions, and support for privatization transactions. When SpO 18 ends all regulatory/privatization work with utilities will be managed by SO 16.

Impact and Monitoring Performance: Expanded and better managed infrastructure services, including the provision of enhanced wastewater collection/treatment facilities and efficiency improvements in electricity infrastructure, will improve urban environmental quality and the health of millions of Egyptians. Over the FY 2000 – 2004 period, increased efficiency in power generation and transmission, and a decrease in emission of greenhouse gases from fossil fuel-fired power plants will help address global climate change issues. Power and telecommunications sector reform activities will focus on institutional strengthening of the utilities, facilitating implementation of the existing regulatory legislation and establishing new efficiency mechanisms such as power pooling. The utilities and regulatory bodies will expand their use of business and trade tools, e.g., information technology hardware and software, competitive pricing and cost recovery, improved contracting methods, enhanced financial management, and international accounting procedures. By the end of FY 2002 Telecom Egypt and the seven electricity companies will be operating as autonomous institutions with their own budgets, staff, and implementing capacity in a more market-oriented environment.

The w/ww program will also make significant progress providing new and improved facilities to more than three million people, achieving policy reform at the sector level, and moving towards a system of autonomous, regulated local w/ww utility organizations. By 2004, key features of an appropriate legal/regulatory framework will be in place, and local utilities will be evolving from subsidized service providers to public enterprises with more managerial and financial autonomy. Regarding physical capacity, a new generation of infrastructure activities, based on modern master planning methods and conditioned on acceptable institutional reform progress by the partner utilities, will lay the foundations for improved service capacity in Alexandria and up to seven underserved urban centers in Middle/Upper Egypt and the Sinai.

USAID anticipates collecting data from partner utilities on the following indicators:

SpO Indicators and end-of-SpO targets:

- Change in the number of customers with new or upgraded utility service.
Power: 6 million (2002); Telecommunications: 3 million (2002);
Water: 4.4 million (2004); Wastewater: 2.3 million (2004)
- % of system O&M costs recovered.
Power: From 80% (1999) to 90% (2002)
Telecommunications: From 90% (1999) to 95% (2002)
Water and Wastewater: From 45% (1999) to 75% (2004)

IR 18.1 Enhanced Utility Services:

- Percent change in new or upgraded service capacity of USAID-assisted utilities.
Water: 25% (2004); Wastewater: 25% (2004)
- Change in the annual average fault rate per hundred units of power in medium voltage underground lines: From 15 (1999) to 10 (2002)
- Percentage of calls requested by customers which result in connection:

From 50% (1999) to 57% (2002)

IR 18.2 Improved Commercialization of Utilities:

- Percentage of treated water produced which is not billed:
From 55% (1999) to 30% (2004)
- Percentage of billed tariff amounts collected:
Power: From 70% (1999) to 75% (2002)
Telecommunications: From 90% (1999) to 95% (2002)
- Annual average revenue received per line:
From LE 700 (1999) to LE 770 (2002)

IR 18.3: Legal and Regulatory Framework established:

- Enabling legislation enacted for establishment of an appropriate legal/regulatory framework for water/wastewater services: *Target:* By 2000 Presidential Decree issued establishing a new regulatory agency, and re-delegating authority to the National Organization for Potable Water and Sanitary Drainage (NOPWASD) and the local water and wastewater utilities. 2) Private sector participation law issued by 2001 for the w/w sector that amends existing laws to repeal limitations on profits, duration of concessions and the right of the public sector to intervene in utility management concessions.
- Implementing regulations issued establishing key features of the regulatory agencies for the power, telecommunications, and water/wastewater sectors: *Target:* Promulgation by the end of the strategy period (September 2002 for power/telecom, and 2004 for the water/wastewater sector) of regulations for the three regulatory agencies' organizational structure, budget, and staffing.

Customers and Partners: The SpO's customer base includes millions of urban dwellers, as well as Egyptian public and private enterprises enjoying new or improved utility services as a result of USAID-financed programs. In w/ww, geographic foci have shifted from large cities to smaller, relatively under-served urban centers in Middle and Upper Egypt, where poverty issues are significant and customer access to quality services is poor. Directing considerable financial resources to smaller urban centers in areas relatively under-served for potable water and adequate wastewater service delivery can significantly improve the health of the poor who live in homes where inferior waste-disposal systems facilitate seepage into water sources. In Middle Egypt and in Alexandria, NGOs will help facilitate community participation in addressing priority environmental health issues for villages and poor urban districts, and to enhance citizen communication with local authorities concerning provision of basic services. SpO 18 and governance teams will coordinate efforts to support strengthening local government capabilities to deliver services and encourage public-private partnerships. Where there are geographic complementarities, the SpO 18 and health teams will work on a healthier environment surrounding communities, which will directly benefit women and children.

USAID implements w/ww activities in cooperation with nine economic utility organizations, 12 governorates, and the Ministry of Housing, Public Utilities, and New Communities. Other donors include the EU, Great Britain and Italy in Cairo; Denmark in Aswan and Qena Governorates; and the Netherlands in Fayoum. Donor cooperation is excellent, but particularly with the programs in the Aswan and Fayoum Governorates where other donors provide

institutional strengthening support that complements USAID activities. In the power and telecommunications sectors, USAID works closely with the Power Regulatory Board, the Egyptian Electricity Authority, Telecom Egypt, and their subsidiaries, i.e., seven Egyptian electricity companies and various telephone exchanges. USAID is strongly focused on policy and regulatory reforms to promote private sector participation, supported by the EU and the World Bank.

Relationship to Agency and Foreign Policy Goals: By working on legal/regulatory reform and efficiency improvements at the central level, and institutional reform at the local utility level, the SpO supports USAID's goal of a globally competitive economy, the sub-goal of creating private sector jobs, and SO 16's focus on an improved framework for trade and investment. It also contributes to synergies between Subcommittees I (Economic Policy) and III (Environment and Sustainable Development) of the Partnership. The SpO strongly supports the Agency Environmental Objective (Sustainable Urbanization Including Pollution Management Promoted), as well as contributing to strategy subgoal of *Sustaining Egypt's Human and Natural Resource Base*.

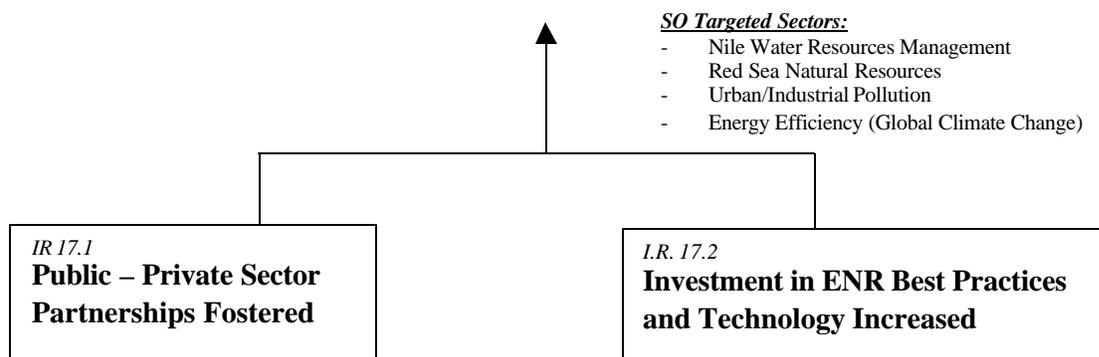
C. Subgoal 2: Sustaining the Human and Natural Resource Base

The GOE and the USG agree that growth and jobs cannot be pursued in Egypt in isolation from concerns about social development, environmental sustainability, and poverty alleviation. Therefore, USAID's second subgoal is to help Egypt sustain its human and natural resource base. It comprises strategic objectives in the areas of environmental and natural resource management, health and population, governance and participation, and basic education. Sustainable growth requires protection of the environment and natural resources base. Equitable job creation requires a literate and healthy workforce. And private sector led investment requires high quality services, which are best achieved by participatory and transparent governance.

Critical environmental challenges having an impact on Egypt's sustainable growth and quality of life will be addressed through a series of initiatives focused on institutional and policy reform, capacity building, public-private partnerships and citizen awareness. In partnership with the Ministry of Health and Population (MOHP), the Mission will continue its support for health and family planning improvements, preparing for a systematic transfer of funding and management responsibilities to Egyptian organizations (public and private) which will sustain program achievements after the end of USAID funding. Support for Egyptian initiatives in governance and participation will initially focus on limited and achievable objectives in strengthening civil society, improving the rule of law, and increasing participation and quality of services in selected communities, with the option of expanding those objectives in the future if Egyptian initiatives make that feasible. A time-limited special objective in basic education will demonstrate effective models of education delivery, emphasizing the special needs of girls, with replication of models being continued by the GOE, the World Bank, and other donors.

Strategic Objective 19

SO 19: *Management of the Environment and Natural Resources (ENR) in Targeted Sectors Improved*



Rationale: Preserving Egypt’s environment and natural resource (ENR) base--in particular water, air and coastal ecological areas--is key to improving competitiveness and creating a healthier environment that benefits all Egyptians. The challenges facing stabilization of the resource base are considerable. The quality and efficient use of Nile water must be improved in order to meet population increases and the increasing demand for water in the agricultural and industrial sectors. Growing levels of tourism and rapid development along the Red Sea coast require protection of fragile coastal ecosystems. Air pollutant levels in Cairo are among the highest in the world and contribute to respiratory ailments and lost productivity. A growing economy requires increasing amounts of energy.

There are nascent efforts to address these and other ENR conditions such as: a GOE-initiated public awareness program on the benefits of water conservation and improved water management; energy conservation investments leading to reduced industrial energy demand and pollution; and improved air quality through increased use of clean burning compressed natural gas (CNG) for power generation and as a transportation fuel. In addition, the GOE has made progress in articulating national environmental policies to address deteriorating ENR conditions. Environment Law 4 of 1994 specifies a process and timeframe for meeting air and water pollution standards, and the 1998 Red Sea Policy Framework for Sustainable Tourism Development promotes responsible management of Red Sea coastal areas. Other recent policy reforms directly address Nile water quality, the re-use of drainage water, improved irrigation practices and other critical water management improvements. Despite these advances, poor enabling conditions and weak implementing institutions detract from even greater potential.

In order to address these issues and improve enabling conditions, USAID intends to implement its ENR program in two phases. During phase one (FY 2000-2004), the Mission will assist the GOE to formulate policies and regulatory standards as well as to increase institutional capacity for monitoring and enforcement. It also will promote the adoption of best practices and modern

technologies, the adoption of economic/market incentives, and the privatization of ENR services. During phase two (FY 2005-2009), with the enabling conditions established, the Mission's program will focus more directly on the actual improvement of environmental conditions. Permanent solutions for environmental problems can only be accomplished and sustained once phase one objectives have been achieved. Throughout the strategy period, four areas will be targeted: Nile water resources, Red Sea natural resources, urban/industrial pollution, and energy efficiency (global climate change).

Results Framework: The results framework for this SO is based on the assumption that sustaining an environmental and natural resource base requires effective management systems. Analysis of constraints in all four environmental sectors targeted indicate that there are two key components common to each management system which must be greatly enhanced and strengthened: a) management procedures and approaches which promote enlightened environmental stewardship; and, b) investments in the environmental sector which supply the energy for growth and development. Strengthening these two management system components are the critical intermediate results required for achieving SO level results. The following two IRs will operate throughout the strategy period:

IR 19.1 - Public-private partnerships fostered: Regulatory agencies in the environmental sector are currently too small to rely exclusively on centralized, command and control forms of management procedures. Rather than focus solely on building such a regulatory capacity, this IR will seek to foster linkages and partnerships between the public and private sector (including NGOs) and among different public sector agencies and local governorates. Such partnerships will allow environmental sector agencies to leverage resources, expertise, and public influence. With stronger linkages to the private sector, these agencies can more effectively encourage sustainable environmental practices with less staff and resources by using an approach that provides incentives (in addition to more traditional disincentives) for voluntary compliance with environmental laws and regulations.

Illustrative activities include:

- use of private sector water users to operate and maintain irrigation networks;
- the privatization of municipal waste management systems;
- involvement of the private sector in the management of protected areas;
- voluntary environmental management systems for industrialists to comply with environmental regulatory standards; and,
- creation of a sustainable energy efficiency market through a National Energy Efficiency Strategy.

IR 19.2 - Increasing investment in ENR best practices and technology: Currently there are many policy and economic/market disincentives to investing in environmentally sensitive and sustainable infrastructure, technologies, and management practices. This IR will seek to create an atmosphere where private sector investment in the environmental sector is actively encouraged and where public sector investment can be used to attract future investment.

Illustrative investments that will be promoted include:

- use of more efficient irrigation equipment;

- use of energy savings performance contracts;
- use of clean technology equipment;
- construction of infrastructure for compressed natural gas services using mechanisms such as the Commodity Import Program; and,
- investment in environmental sector by the Environmental Protection Fund.

Underpinning these IRs are three sub-IRs: *An effective ENR regulatory and policy framework* requires the adoption of targeted laws, regulations, standards, policies, and national strategies that directly support public-private sector initiatives and provide incentives for increased investment; *Increased ENR institutional capacity* requires: 1) the development of grassroots groups to influence public policy; 2) the decentralization of ENR management responsibility from national to regional and local offices; and 3) improving the ability of GOE authorities to manage resources, including the generation and use of data for effective decision-making; and *Enhanced Citizen Awareness* will be required in order to engage the public and private sector in actively participating in the management of the ENR base.

The Mission will utilize both activity-based approaches and policy-based approaches to achieve objectives. A mix of cash transfer, technology transfer, technical assistance, capacity building, and policy reform will allow the Mission to most effectively promote sustainable advances towards improved ENR management, and, over time, improved environmental conditions.

Three existing Results Packages will be used to implement phase one of this SO. The Egyptian Environmental Policy Program (EPPP): 1) assists in the development of sustainable environmental policies and institutional reforms; 2) promotes private sector and grassroots participation in the development and implementation of policies; 3) promotes the adoption of economic instruments designed to generate fees, resources, and incentives, alter bureaucratic behavior, institutionalize information exchange and dissemination, and encourage market-oriented valuation of environmental goods and services; and 4) raises public awareness and involvement in managing the ENR base. The Agricultural Policy Reform Program (APRP) assists the GOE in establishing mechanisms that improve the management of fresh water resources by promoting a wide range of measures to improve Nile water quality and to conserve and use irrigation water more effectively, thereby gaining improved efficiencies in agricultural production per unit of water. The Cairo Air Improvement Project (CAIP) includes activities that have some immediate impacts on reducing vehicular emissions, total suspended particulates (TSP) and lead, while setting the stage for long-term effort through demonstrations and pilot tests of alternative technologies, increased public awareness and training.

Phase two will focus on intensified implementation of selected and more complex private sector policy reforms, employment of larger scale economic incentives, and continued emphasis on technology transfer, public participation, and citizen awareness through a proposed new RP entitled Partnership for Environmental Progress (PEP). PEP will rely on access to limited cash transfer resources from the DSP program to complement technical assistance mechanisms. Envisioned activities include strengthening the private sector's capacity to respond to market forces, internalizing and remediating the costs of ENR pollution and degradation, and encouraging further public sector decentralization. PEP will collaborate with those partners who

have demonstrated a strong commitment to systemic reform during phase one. Other partners may be added that demonstrate potential for significant impact, but these will be limited.

Impact and Performance Monitoring: Phase one activities will assist the GOE in formulating policies and regulatory standards and in increasing monitoring and enforcement institutional capacity. They will help Egypt adopt best practices and modern efficient technologies, become familiar with economic/market incentives, and promote privatization of selected ENR services.

Phase two will more directly improve environmental conditions, through 1) implementation of selected policy reforms, 2) employment of larger scale economic incentives; and 3) continued emphasis on technology transfer, public participation and citizen awareness. Activities will include strengthening the private sector's capacity to respond to market forces, remedying ENR degradation, and developing appropriate responses to address ENR issues as they arise. They promote public sector decentralization, and increased investment in pollution control and other technologies. Nile water resource policy issues will continue to be addressed during both phases one and two.

By the end of the strategy period, the Mission's Egyptian partners will be able to formulate and successfully apply comprehensive policy measures and manage programs that address ENR concerns. Institutions will routinely act in the public good and encourage open, participatory public dialogue. Citizens will have a better understanding of environmental issues, guidelines and policies. This increased awareness will help ensure that public and private sector actors in their communities are better able to meet compliance standards and requirements.

USAID will seek to counterbalance disproportionate impacts of adverse ENR conditions on poor and marginal urban and rural populations. This will be accomplished by channeling resources to groups that assist the poorer segments of society and by promoting policies that call for transparent guidelines, open and transparent public processes, and increased civic participation.

The Mission will be tracking results of activities such as those illustrated below.

SO 19: Improved Management of the Environment and Natural Resources in Targeted Sectors

- Real value of agricultural production per unit of water for agricultural use: measures the capability of Egyptian farmers to produce crops of equal or increased value by employing improved techniques that conserve water (1998 baseline is LE 522). *Targets:* By 2004, LE 633 of agricultural production per unit of water (1000c.m) and LE 783 by 2009.
- Percentage of Cairo's 1.2 million vehicle fleet that meets environmental standards through Egypt's first vehicle emissions testing (VET) network: measures the number of vehicles that meet the standards within the first two test passes (Baseline in 1999: zero percent). *Target:* By 2004 an estimated 70% of all registered vehicles tested will meet VET standards.
- Coral Reef Management Index (CRMI): the percentage of sites where the CRMI (ratio of the area of soft coral to hard coral to total area) does not degrade (1998 baseline: 80%). *Target:* By 2004 95% of the Red Sea dive sites do not suffer coral degradation.

IR 19.1: Public-Private Partnerships Fostered

- National energy efficiency strategy approved by relevant public and private sector entities.
Target: It is expected that the strategy will be fully operational by 2004

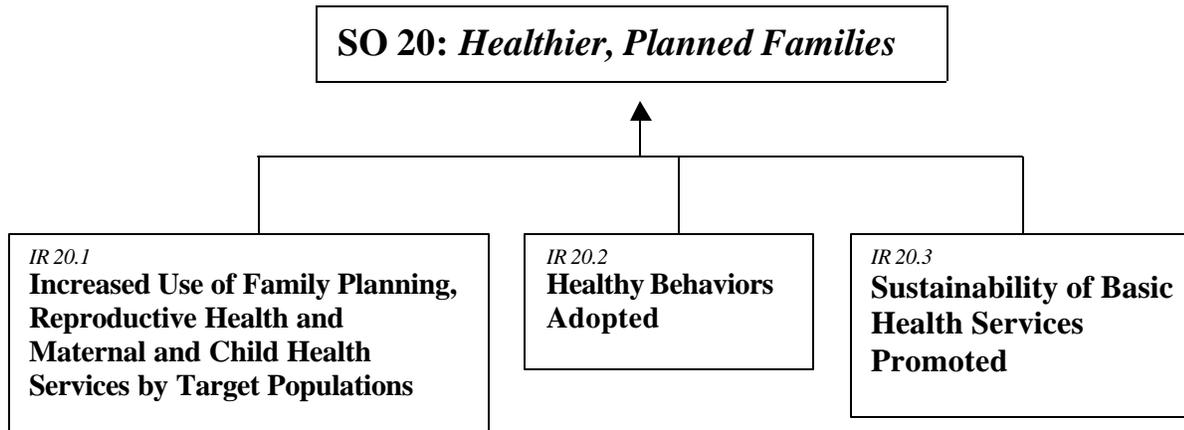
IR 19.2: Increased Investment in ENR Best Practices and Technology

- % of Red Sea tourist facilities using one or more best practices during design, construction and operation (1998 Baseline: 55%). *Target:* By 2004 80% of new Red Sea facilities will have employed best practices.

Customers and Partners: Achieving this SO will get national and local GOE authorities concerned with the environment, as well as the active participation of the business and NGO communities, individual communities and Egyptians. For example, the EPPP and APRP management structures (executive committees and empowered agency task forces and working groups) will help ensure collaboration with the GOE and other non-GOE partners to identify program priorities, provide technical assistance, and promote the widest participation of the private and non-governmental sectors possible. Involving these groups helps ensure the sustainability of USAID's efforts. The World Bank, EU, Canadians, Danes and the UNDP are the major donors in this sector with whom USAID works and meets with regularly.

Relationship to Agency and Foreign Policy Goals: Achieving this SO supports the Agency goal, The World's Environment Protected for Long-term Sustainability, and contributes to all six Agency environmental objectives. Coordination with other SO teams will promote trade and investment, good governance, a healthier citizenry, and regional political stability through work on regional water resources. The strategy supports Subcommittee III of the Partnership and the MPP goals of reducing air pollution; ensuring sustainability of natural resources, particularly in the new Red Sea projects; and further engaging the public on environmental issues.

Strategic Objective 20



Rationale: This strategic objective reflects a major redirection of the health and population program. It shifts the priority to capacity strengthening and sustainability. It includes families rather than simply women of reproductive age and their children, a more integrated perspective responsive to the GOE's vision. Finally, it merges previously separate health and population sectors under a combined SO to maximize efficiencies and impact. Egypt has successfully reduced infant and child mortality substantially and halved the fertility rate. With USAID assistance, the country is well on its way to establishing a firm foundation for sustainable, effective health and family planning services. Through a final phase of assistance, this strategy will a) help Egypt complete work in underserved areas; b) help achieve sustainable, quality services overall; and c) encourage greater private sector involvement. Consequently, during this final phase, the focus will be on sustainability.

By the end of FY 2009, after thirty years of USAID support, the Mission expects that the Egyptian family planning (FP) and maternal and child health (MCH) programs will have the independent capacity to continue to deliver quality services to all Egyptians. Egyptian partner organizations, some of which may be supported through local currency-funded endowments jointly programmed by USAID and the GOE, will ensure that the impact of these programs endures and that the considerable investment in the programs continues to yield returns. The potential future benefits of a continued strong FP/MCH program fully in Egyptian hands are significant:

- If the GOE's goal of replacement level fertility by 2015 is reached, then by the year 2026, there will be an 18% increase in per capita income, 2.4 million fewer people entering the labor force, 3.8 million fewer primary school students, and 8% more water available per capita.
- If all women in Egypt had access to maternal care and had only the births they planned, then infant deaths would decline 55% and an estimated 63,000 deaths would be averted annually. If health status continues to improve, then income per capita will increase due to higher labor

productivity, poverty will be reduced, women's status improved, and social stability enhanced.

To secure these and other benefits, a number of important challenges remain to be addressed. There is notable unmet need for family planning. Population momentum, which will add 1.8 million people annually, will require a substantial increase in the supply of services. At the same time, service quality needs improvement. Knowledge and awareness of health risks and health-promoting behavior are weak, resulting in low use of services, especially among the poor and vulnerable. Infectious and chronic diseases, notably Hepatitis C, remain serious threats. The capacity of nascent NGOs and private sector organizations is weak. In its effort to serve all Egyptians, the public sector is stretched thin providing subsidized care to many who can afford to pay and creating inequities in access to services.

Results Framework: Three IRs are necessary to address these constraints and achieve the strategic objective:

IR 20.1 - Increased use of Family Planning, Reproductive Health, and Maternal and Child Health Services by Target Populations: Many Egyptians still lack access to quality FP/MCH services. In partnership with the Ministry of Health and Population (MOHP), NGOs and the private sector, USAID will focus on the following areas:

- Expanding access to services for the poor, vulnerable, at-risk and under-served populations through more effective targeting of resources and services;
- Increasing participation of partners and customers through district and community-level planning and management;
- Improving effectiveness of services through technical interventions such as Integrated Management of Childhood Illness (IMCI) and Essential Obstetric Care; and
- Increasing the acceptability, convenience and safety of services by providing FP and MCH services together during the 40th day post-partum visit, broadening contraceptive method choice, increasing involvement of female physicians, and improving provider knowledge and skills.

This IR will be phased-out in FY 2008 at which point it is expected that unmet need for family planning will be reduced, the gap in access to FP/MCH services between rural Upper Egypt and the nation will be narrowed, and the capacity of Egyptian partners to meet the needs of the poor and vulnerable will be strengthened.

IR 20.2 - Healthy behaviors adopted: In partnership with the MOHP, NGOs, and the private sector, USAID will support information, education and communication (IEC) activities that enable families to better protect and maintain their health. Priority approaches will include: 1) increasing public and private sector participation in the development of a national health agenda; 2) building on successful family planning and child survival IEC campaigns to promote behavior change; 3) strengthening the role of NGOs in health advocacy and health promotion; and 4) developing public and private sector capacity to plan and implement a national health promotion initiative called "Healthy Egyptians 2010" which focuses on priority public health problems of the 21st century.

In collaboration with activities supporting the achievement of SO 19 (Egyptian Initiatives in Governance and Participation Strengthened), activities supporting this IR will improve and

increase the focus of MOHP and other health providers on community and NGO participation in the planning and implementation of disease prevention and health promotion priorities. Success will be measured in terms of increases in birth intervals, good breastfeeding practices, and use of antenatal care; improvements in infection control practices; and reductions in female genital cutting (FGC) and tobacco use, among other measures of behavior change

The diffusion of health-enhancing knowledge and norms will facilitate a shift from costly curative care to preventive care, thus contributing to the sustainability of the health services, the third Intermediate Result.

IR 20.3 -- Sustainability of basic health services promoted: The Mission's strategic priority in the PH sector is to secure the sustainability of FP/MCH services by the end of the strategic plan period. Customers and partners currently rely on USAID to support these services, and both USAID and the GOE have a responsibility to ensure that they are sustained. A final phase of support to the MOHP is key to the long-term sustainability of FP/MCH services. The MOHP has the mandate to provide public health services to the poor and vulnerable, a good service delivery track record, and the infrastructure for widespread impact (4,000 plus service sites). In addition, stabilizing Egypt's population growth is a top GOE priority. Political commitment to family planning has been long-standing and remains strong. President Mubarak continues to emphasize the grave implications of population growth for Egypt's economic development. This level of GOE commitment to population and maternal and child health strongly suggests that sustainability is feasible within the next decade.

USAID will, therefore, work with the MOHP to accomplish the following by the end of FY 2009:

- develop the human resources for a dynamic FP/MCH program in the next century;
- institutionalize public and private sector training capacity;
- strengthen critical service delivery support systems such as supervision, quality control, logistics, procurement, infectious disease surveillance and control, and health information;
- MOHP assumption of recurrent costs currently borne by USAID, including the cost of contraceptive commodities;
- remove policy and regulatory constraints such as restrictions on media advertising for contraceptives;
- develop regulatory and oversight mechanisms that promote quality of care and good practices in the NGO and commercial sector; and
- support sustainability of key programs through endowments.

Egypt has embarked on a long-term process to improve efficiency, equity and impact in the health sector. A consortium of donors is coordinating support for reform led by the Minister of Health and Population. The MOHP is implementing the first phase of reform--the design and testing of a financially sustainable basic package of health services, a benchmark under the Health Policy Support Program (HPSP). Modest, but important, progress in health sector reform permits cautious optimism. In collaboration with the partners, USAID will facilitate reform by:

- strengthening private sector and NGO management and technical capacity to assume new and larger roles in the sector;
- establishing endowments or funds for key institutions to support the provision of FP/MCH services to the underserved;

- demonstrating the feasibility of new public/private sector partnerships in policy dialogue, training, hospital management, and provision of basic health services; and
- strengthening MOHP capacity to contract with the private sector; plan, manage and evaluate the sector reform process; and perform core public health functions such as strategic planning, health education and promotion, and provider regulation and accreditation.

By September 2001, at the end of Health Policy Support Program, the Mission will have a better sense of GOE commitment to implement more ambitious and politically difficult reforms. With substantial progress on the HPSP reform agenda, USAID would work with the GOE on a health policy agenda for inclusion in the Development Support Program (see SO 16). Policy reforms would focus on improving efficiency, equity, sustainability and impact in the health sector.

Phase-out plan: The phasing out of USAID assistance to the population and health program will be based on a detailed implementation plan to be completed in FY 2001. The plan will include: (1) a schedule for MOHP assumption of FP/MCH recurrent costs currently borne by USAID; (2) a financing plan for meeting the escalating costs of FP/MCH; (3) a plan for meeting final system strengthening, capacity-building and human resource development needs; and (4) a preliminary plan for a post-bilateral relationship under which G/PHN would provide limited support for technical assistance with USAID/Egypt financing

Consolidated results packages will be designed in FY2001 to implement the plan, complete the turnover to the GOE, and secure sustainability. Progress has already been made in streamlining and consolidation: previously separate population and health teams were merged; staff have assumed crosscutting responsibilities; and eight activities have been or will be discontinued.

Impact and Performance Monitoring: By the end of the ten-year plan period, the Mission expects the following: access to basic health services will be more equitable; use of services by the poor and vulnerable will increase substantially; Egyptian families will be armed with the knowledge and skills they need to be healthier and more productive; and the Egyptian family planning and MCH programs will be able to meet the growing demand for quality services. With sufficiently strong political will and commitment on the part of the GOE, structural reforms will improve equity, efficiency and impact in the health sector, and NGO and private sector participation will have increased substantially. Overall, the national economy will be stimulated by the benefits of lower population growth and improved health.

The Egypt Demographic and Health Survey (DHS) and the GOE budget will be the primary sources of information with which to measure performance. Full DHS's are scheduled to be conducted in 2000 and 2005 and an interim DHS is scheduled for 2002. Data will be collected on the following indicators:

SO 20: Healthier, Planned Families

- Total Fertility Rate (TFR): By 2004, the TFR is expected to decrease to 2.89 and by 2009 to 2.5.
- Infant Mortality Rate (IMR): By 2004, the IMR is expected to decrease to 38 deaths per 1,000 live births and to 32 by 2009.

IR 20.1: Increased Use of Family Planning, Reproductive Health and Maternal and Child Health Services by Target Populations

- Contraceptive Prevalence Rate (CPR) for Modern Methods: The CPR is expected to increase to 60.2% by 2004 and 62.5% by 2009.
- Percent of births whose mothers received four or more antenatal visits. The target to be achieved by 2004 is 60% and 80% by 2009.

IR 20.2: Healthy Behaviors Adopted

- Percent of children 0-23 months with diarrhea in the past two weeks who received ORS and/or increased fluids. By 2004, the target to be achieved is 60% and 80% by 2009.
- Percent of births within the last 2 years spaced greater than 23 months. Results from the 2000 DHS will form the basis for the 2004 and 2009 targets.

IR 20.3: Sustainability of Basic Health Services Promoted

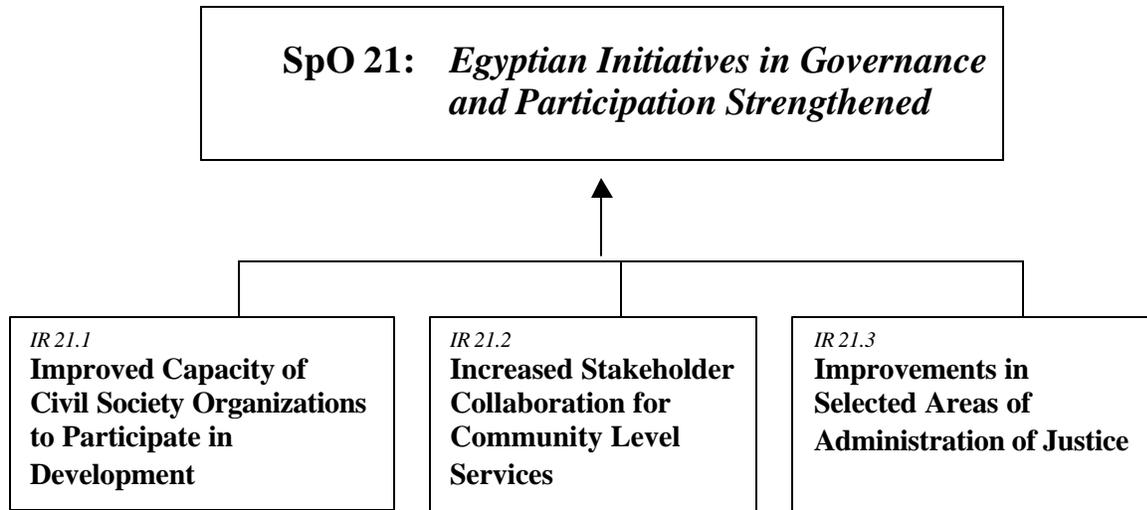
- MOHP expenditures for primary/preventive health care per capita (targets to be established).
- Percent of population covered by insurance (targets to be established).

Customers and Partners: The ultimate customers are Egyptian families, particularly married women of reproductive age (MWRA) and infants and children. The program's beneficiaries also include men and adolescents. Groups with unmet need (e.g., MWRA in Upper Egypt and peri-urban areas) are a special focus. Even non-users of FP and MCH services are considered customers because the program gives them better information to make decisions on family size and health practices.

Partners and stakeholders include: the MOHP and other governmental agencies working in the health and population sector; the Ministry of Information/State Information Service; NGOs and other traditional, religious, and community groups; medical and nursing schools; and private sector health providers. Other partners include USAID-funded contractors, international and bilateral donors (e.g., WHO, UNFPA, UNICEF, JICA, EC and World Bank), U.S. federal agencies working in Egypt such as NAMRU, CDC/US Public Health Service, DHHS,

Relationship to Agency and Foreign Policy Goals: Achieving this SO contributes to the Agency goal of "World Population Stabilized and Human Health Protected" and MPP goals of "Reducing Egypt's total fertility rate from 3.63 in 1995 to 3.01 by 2001," and "Sustaining improvements in the health of women and children."

Special Objective 21



Rationale: An environment that encourages private sector job creation and a more sustainable resource base depends upon transparent and accountable governance, which in turn is founded on widespread citizen participation and the ability of institutions to respond. This special objective has been tailored to match the pace and scope of political change in Egypt and to support the Mission’s achievement of its other objectives. It depends on achieving a limited number of discrete results that are supported by Egyptians, that appear achievable, and that are part of a broader change process. As that process unfolds, USAID’s program can be revised to meet changing conditions. By design, activities are included which can be used to strengthen governance and participation in other sectors where the Mission has programs.

In Egypt today, there are two main forces pressing for change: private sector actors empowered by economic reforms (who want improved governance of the economy) and NGOs and other elements of civil society (who are calling for improved and more responsive services). Recently the GOE has begun to raise the profile of social development, particularly increased participation for improved services and poverty reduction, to provide some balance to its traditional emphasis on economic reform. USAID believes that supporting the increased involvement of non-governmental actors in formulating and implementing policies for service delivery will help strengthen participation and responsiveness to grassroots needs. Similarly, the Mission’s program to achieve its trade and investment objective (SO 16) is supporting reforms leading to increased transparency, a more rational regulatory environment, and a stronger private sector, all of which are consistent with good governance principles.

Results Framework: The following IRs are necessary to achieving the SO:

IR 21.1 - Improved Capacity of Civil Society Organizations (CSO) to Participate in

Development: Achieving this intermediate result will lead to a stronger role for civil society in economic and political development. The GOE is considering new initiatives which may offer important opportunities for increased partnerships with NGOs in development activities. At the same time, NGOs recognize that they are still constrained by limited organizational capacity, reflecting a long history of operating in a difficult policy environment with limited resources. They have asked for USAID's help to build their organizational capacity so that they can become full partners in the development process. In response, USAID has sponsored the NGO Service Center that will give NGO grants in selected areas, strengthen organizational capacity, and support civil society networking. The SpO intends to include community organizations which dealing with issues directly affecting women, in particular in education and health. Over the long term, it is hoped that such partnerships will help strengthen participation and encourage civil society empowerment more broadly. Buy-ins to the NGO Service Center through activities under other SOs also will support NGO participation in the achievement of those SOs.

IR 21.2 - Increased Stakeholder Collaboration for Community Level Services: Achieving this IR will involve development and application of innovative models of service delivery, initially in selected "new communities." These sites are targeted because they account for a significant proportion of Egypt's new population growth and industrial production, and because they are viewed by the GOE as arenas for experimentation with new methods of participation in policy making for service delivery. The innovative models will be applied in cooperation with the relevant ministries. They are being developed in consultation with an informal group of knowledgeable Egyptians and are based on USAID's "partnering for results" approach, which brings together stakeholders from government, business, and civil society to collaborate in developing new ways of financing, regulating, delivering, and monitoring community level services.

The activity will facilitate relationships between those stakeholders, assist in the process of formalizing those relationships, and provide appropriate technical assistance and training to help strengthen local entities responsible for oversight and service delivery.

Because the services in question will be in various sectors, such as environmental protection, education and health services, achieving this IR will involve close collaboration with staff of other SO teams. Demonstration of the methods and benefits of participatory, accountable governance in these settings will result in two kinds of synergies: 1) where possible, co-location with other SO sector activities will be sought in order to benefit from their knowledge and to tap into services they are already providing; and 2) working across sectors with numerous stakeholders will reinforce efforts to effect policy and regulatory reform necessary to achieve other SOs.

The approach selected to achieve this IR is experimental and will remain in an exploratory phase for one year. This Mission then will make an assessment of performance and determine whether the approach and/or the IR requires revision.

IR 21.3 – Improvements in Selected Areas of Administration of Justice: The historically independent judiciary is a potentially important force for promoting pluralism and diversity in Egypt. In addition, the expeditious, fair and predictable administration of justice is essential to more rapid growth of both foreign direct investment and exports, especially those of manufactured goods and services. Five years ago, the GOE responded to business concerns about the effectiveness of court services by asking USAID to support a series of improvements in adjudication of commercial law and in the training of judges, including strengthening the court that handles commercial cases for half of Cairo. This activity has been highly successful.

In the future, USAID expects to significantly expand support to the administration of justice. Further improvements to the adjudication of commercial law as well as possibly engaging lawyers and commerce-related associations are being considered. In addition, USAID stands ready to respond to a range of GOE initiatives to increase transparency and promote anti-corruption, including those with implications for the protection of human rights and the improvement of the criminal justice system. USAID will also consider working with the Court of Cassation (Egypt's supreme court) in improving its capability for case management and administration.

Impact and Performance Monitoring: Achieving this objective will result in stronger linkages between the public and private sector. The impact of this program will be: increased institutional capacity and empowerment of civil society organizations; increased citizen participation in decision making at the local-level; and increased transparency and efficiency in the judicial sector. However, the extent to which this impact can be realized depends on:

- the political will of the GOE at all levels to institute reform and change;
- the existence of political space for CSOs and NGOs to operate efficiently;
- private sector willingness to engage in the delivery of public sector services; and
- private sector pressure to modernize the court system.

Progress at the strategic objective level will be measured through an annual qualitative assessment of the contribution of the IRs to strengthening governance and participation in the targeted areas. At the IR level, USAID anticipates using the following indicators:

IR 21.1: Improved Capacity of CSOs to Participate in Development

- Expert assessment of capacity of CSOs to participate in development

IR 21.2: Increased Stakeholder Collaboration for Community Level Services

- Improved delivery of public services in selected communities as a result of private and public sector collaboration. (provisional for one year)

IR 21.3: Improvements in Selected Areas of Administration of Justice

- Selected court systems tested and accepted for replication by MOJ

Because SpO 21 is explicitly formulated to respond to Egyptian initiatives, its overall contribution to governance and participation depends on the quantity and quality of those initiatives. If there is little change in the broader political environment, progress can be made in the three IRs as presently structured. If there is significant change, the targeted results could be expanded. Public discussion of governance obstacles to Egypt's effective globalization and the provision of services has intensified recently. Transparency, accountability, decentralization,

combating corruption--all have been signaled as areas for GOE action under the new cabinet. If the GOE wishes to expand its partnership with USAID by addressing some or all of these areas, the scope of the SO could be broadened. Each of the IRs as presently configured is, in effect, a placeholder for more ambitious undertakings should the political environment permit.

If the SpO is on track after five years, it will have strengthened CSOs, and by facilitating more stakeholder collaboration in community level services, participation as well. It will have favorably impacted governance through improvements in the administration of justice and by increasing interaction between governmental and non-governmental stakeholders for the provision of services. If conditions allow the expansion of one or more of the IRs, broader impact could be expected on strengthening more diversified elements of civil society, decentralization and the administration of justice.

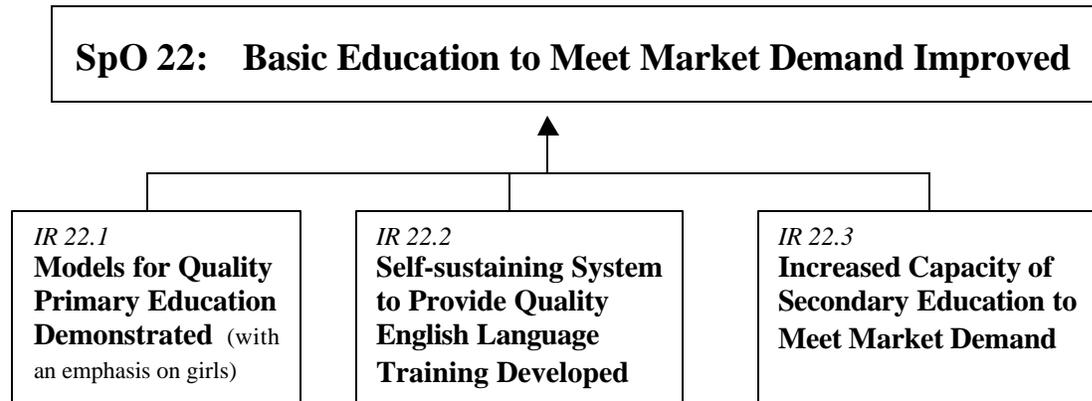
Assuming broader progress in strengthening governance and participation as part of the transition to a more open economy, the following results are expected by 2009:

- a judicial structure established capable of supporting Egypt's growing role in the global economy and the increasingly diversified civil and commercial legal requirements for Egyptians and investors;
- significant increase in the free flow of information at all levels of the economy, society and polity;
- increased demand for stakeholders' input in making and implementing public policy for service delivery;
- increased accountability and decentralization in government, including devolution of more authority to the local level; and
- more effective and broader-based political participation and civil society activity.

Customers and Partners: The primary customers are governmental and nongovernmental stakeholders in the provision of selected public services, including those that enhance private economic activity. Partners will include Egyptian CSOs, the Ministry of Social Affairs, representative bodies at the local level, selected governorates and central government agencies, departments and ministries engaged in service delivery at the community level as well as the Ministry of Justice and the Lawyers' Syndicate. U.S. Mission and donor partners include: the U.S. Embassy's Institutions of Democracy Working Group (IDWG) which meets regularly under the direction of the Ambassador to discuss policy and programmatic issues related to democracy and governance in Egypt and the Donor Working Group on Good Governance and Participation. Members of this latter group include representatives from the European Commission, the World Bank, UNDP as well as the following embassies: Australian, British, Canadian, Dutch, German, Italian, Norwegian and Swiss.

Relationship to Agency and Foreign Policy Goals: Achieving this SpO will contribute to the good governance portion of the broader US Agency goal of *democracy and good governance strengthened*. It also will contribute to the MPP democracy goal of strengthening the public and private institutions vital to democratization, political liberalization, and the expansion of civil society in Egypt. It will indirectly contribute to Subcommittees I, III and IV of the Partnership.

Special Objective 22



Rationale: An educated, skilled workforce is necessary for Egypt to successfully compete in the global economy. National competitiveness tracks closely with average number of years spent in school and adult literacy rates. Egypt’s average of less than five years schooling and a literacy rate of 52% compares unfavorably with regional competitors; for example, Israel and Turkey have literacy rates of 96% and 85%, respectively. Literacy and universal primary education appears to be necessary but not sufficient for a competitive workforce. Skills in English language and information technology are particularly important for competitiveness.

The Egyptian education sector continues to be faced with a set of complex problems and constraints, particularly in the areas of curricula, teacher training and pay, and school operating budgets. Although USAID has provided \$295 million from 1981 to 1994 to build infrastructure (nearly 2,000 schools), improve school maintenance, train teachers, and introduce modern teaching materials, the sustainability of these contributions will depend on the GOE’s ability to manage the investments.

Egypt’s low ranking in the most recent Human Development Index (HDI), 120 out of 174, is largely due to the country’s inability to quickly affect illiteracy. Since 1995 the GOE has devoted at least 13.8 of its budget on formal education. The World Bank’s recent look at sector expenditures revealed that the level of investment is not the major constraint to achieving positive results. Budget management and allocation, organizational efficiencies, human resource upgrading and restructuring of delivery systems are all areas in need of serious attention.

Advances in basic education are critical to the success of many elements of USAID’s strategy, such as increasing productivity and investment, strengthening family planning, and strengthening civil society. Improved education is essential for moving the U.S. relationship with Egypt from aid to trade. The GOE needs to make the fundamental reforms within the sector necessary to achieve sustainable gains in basic education.

Consequently, USAID/Egypt has decided to adopt a time-limited special objective in basic education that will: 1) demonstrate models of improved basic education, with special emphasis

on poor areas of the country, community involvement, and educating girls; 2) strengthen English language skills; and 3) strengthen school-to-work programs. Model development will be implemented mainly through NGOs. USAID, through for-profit and not-for-profit implementing partners, will strengthen English language skills. The Mission will also pursue a possible endowment to continue this important component. The third component will involve public-private partnerships, will utilize the private sector to stimulate educational reforms and will cooperate with the World Bank by supporting relevant elements of a new World Bank secondary education development program. The SpO should be achieved by the end of 2003. If there is clear evidence that the GOE will take concrete measures to improve the management within the education sector so that quality improvements can be adopted and sustained, USAID would consider revising its objective and developing additional activities which could extend beyond 2003.

Results Framework:

IR 22.1 - Models for Quality Primary Education Demonstrated (emphasizing girls): This IR is a refinement of the Mission's current SO 2 Increased Girls' Participation in Quality Basic Education. NGO activities (Center for Development and Population Activities, Save the Children, Plan International and Children's Television Workshop) will continue to support access, equity and quality indicators through girls' scholarships, non-formal education and reading readiness. The "Sesame Street" production in particular will help equalize opportunities for early school success especially among disadvantaged girls. The New Schools Program and teacher training (Master Teacher Exchange Program) will improve access for girls in those areas in which the need is greatest. At the same time the New Schools will serve as a pilot for working with Faculties of Education and the Ministry to bring about better teacher pre-service and in-service teacher training. Emphasis will be on school-based management, reform from the bottom up and community ownership.

IR 22.2 - Self-sustaining System to Provide Quality English Language Training Developed: This IR shares a similar implementation strategy with IR 22.1 insofar as it delivers needed services while developing institutional systems. Fifty thousand current teachers and 175,000 future teachers will be trained. In the course of training, improved systems for pre-service and in-service teacher training will be established. Most importantly, this program will bring about a reform in testing, which is the key to effecting improvement in English language teaching. In addition, private providers of English language training will be strengthened.

IR 22.3 - Increased Capacity of Secondary Education to Meet Market Demand: Activities undertaken in this IR will improve the responsiveness of public education to private sector needs by providing systems through which curriculum is developed and materials shaped in consultation with future employers. It will coordinate with the World Bank's Secondary Education Enhancement Program to support basic reforms.

Impact and Performance Monitoring: The direct impact of IR 22.1 on supported schools and students does not depend heavily on GOE actions, but replication of the models demonstrated does. With successful replication, the benefits for basic education could be substantial and would contribute to competitiveness over time.

By 2003, achieving this special objective will result in:

- a world-class, independent, educational television production company to produce an Egyptian "Sesame Street" and millions of Egyptian children will be better prepared for primary education with improved literacy and numeracy skills;
- increased primary school enrollment and improved pass rates in supported areas;
- improved knowledge of English by teachers and students, which will help increase their access to the information highway;
- institutionalized systems whereby the private sector (profit and not-for-profit) and parents can influence decision-making at the school and national levels;
- entry-level employment requirements reflected in secondary electives and vocational training; and
- expanded school-to-work options through increased linkages between prospective employers and employees.

The following indicators and targets will be used to measure performance:

SpO 22: Basic Education Improved to Meet Market Demand

- First year employment rates of benefiting graduates. *Target:* 20% increase in first-year employment rates by 2005 (for graduates benefiting from SpO interventions). Baseline and control group data to be established.

IR 22.1: Models for Quality Primary Education Demonstrated (emphasizing girls):

- Number of girls benefiting from USAID NSP schools. *Targets:* 8,000 girls by 2001; 20,000 by 2002; and 28,800 by 2003

IR 22.2: Self-sustaining System to Provide Quality English Language Training Developed:

- Increased number of teachers using modern, communicative teaching methods. *Target:* 225,000 English language teachers and supervisors applying modern, communicative teaching methods by 2003

IR 22.3: Increased Capacity of Secondary Education to Meet Market Demand:

- Satisfaction of private sector companies employing beneficiaries of the program with the quality of the students and relevance of their skills. *Targets:* 25% increase in satisfaction rate by 2005. Baseline to be established in first year of strategy

Customers and Partners: Customers of these programs are underserved communities and the unenrolled girls in Minya, Beni Suef, Behera or Fayoum, and, for the secondary education sector specifically, students, their schools and parent committees, and selected private sector entities. Partners in primary education include the Ministry of Education, the European Union, World Bank, and NGOs, and in secondary education, the World Bank, private sector, and vocational schools. In achieving this SpO and supporting the achievement of other Mission SOs, the SpO team will work closely with SO teams in health and population, governance and workforce development.

Relationship to Agency and Foreign Policy Goals: Achieving this SpO contributes to the Agency goal of “Human Capacity Built through Education and Training.” It also contributes to Subcommittee IV of the Partnership. In addition to its contributions to the MPP public diplomacy goal, SpO 22 helps prepare the foundation for success in the open markets, global economic growth, broad-based growth, democracy, environment, population, and health goals.

D. Crosscutting Themes and Concerns

During the course of strategy development, the Mission identified three areas of concern which cut across all objectives: the appropriate role of the public and private sectors; gender; and income and geographic disparities. As the strategy evolved, the impact of these three factors on program success became clear. Public-private roles must change to achieve sustainable growth; women and men must participate in economic and social progress to achieve improvements in the quality of life; and equity must increase if Egypt is to enjoy a politically stable and economically prosperous future. Each of these is discussed briefly below, and each will be considered as programs are implemented and activities designed.

The appropriate roles of the public and private sectors: Strengthening private sector and nongovernmental organizations participation in the economy and society is an inherent part of USAID’s new strategy. The private sector is key to successful competition for investment and markets in a rapidly changing world economy, to the expansion and delivery of social services, and to compliance with environmental laws and regulations. Increased private sector and NGO involvement is embedded throughout the strategy through programs designed to promote policy reform, increase public awareness and civic participation, and encourage the adoption of private sector–led models. The public sector’s role as facilitator and regulator in many areas also is important to creating a stable and commercially viable environment for development. USAID’s strategy highlights the public sector’s role in the development and implementation of public policies conducive to economic growth and the sustainable provision of services, the development of legal and regulatory frameworks, and the promotion of commercial practices within public utilities.

In terms of the relationship between public and private sectors, increasing transparency in decision-making and opening dialogue among more groups will pose challenges but also will increase long-term stability and growth. Over the period of strategy implementation activities are planned to promote increased public/private dialogue and partnerships, to take advantage of the strengths each sector offers.

Gender: The rapid changes that Egypt has undergone during the 1990s affect the status of Egyptian women. Privatization, structural adjustment policies, and globalization have presented both challenges and drawbacks. The extent to which Egyptian women can be harmed or can benefit from these rapid changes depends on the levels of female education, skills and accessibility to competitive jobs, health conditions, participation in decision-making and the extent to which gender equality is observed. Statistics show that women in Egypt have made

progress during the last decade, but that they also suffered a number of setbacks. Gender gaps still exist in almost all sectors.

In the context of the new strategy, understanding gender issues helps USAID understand its ultimate customers better and design its programs to them to provide maximum beneficial impact. Having identified gender as central to the success of the strategy, SO teams will examine programs through a “gender lens” by using gender disaggregated indicators where relevant to strengthen the program’s positive impact on all.

Income and Geographic Disparities: A recent GOE-supported report estimated that 48% of Egypt’s urban and rural population is poor, based on total annual consumption expenditures per capita (LE 1,098). Early in the analysis of challenges and opportunities, equity was identified as a factor important to the achievement of all desired results. In assessing program results over the past few years, the Mission determined that geographic disparities were a significant problem, a major contributor to poverty, and an important determinant of inequity.

The USAID program has been addressing income and geographic disparities through activities in various sectors. With its new strategy, it will continue to do so. Small and medium enterprise (SME) activities will provide lending opportunities for low-income borrowers, and thus stimulate income generation and increased employment. Increased access to sustainable utility and other services will enhance the standard of living of the poor and equity of service delivery between governorates. Similarly, health and population services will be targeted to the poor and under-served population, thus promoting more equitable development both among income groups and between geographic regions. Future activity design will continue to take into account the impact USAID interventions may have in these areas.

E. Phaseout of programs under the new strategy

Two major factors that have influenced the development of the strategy are: 1) the expected reduction in funding and staffing, and 2) the transition from a U.S. – Egypt bilateral economic relationship based on aid to one based on increased trade and investment. By necessity, these factors will result in the phasing out or redesign of many on-going programs. In addition, some programs are coming to a logical conclusion, their objectives having been met. Where programs will be phased out, objectives and results frameworks in the new plan have been defined in a way that promote the sustainability of past and future accomplishments.

Particularly significant is the completion of the Mission’s 25-year old power, telecommunications and water/wastewater infrastructure programs by the end of FY 2004. These programs, representing \$5 billion in urban infrastructure, have improved the quality of life of millions of Egyptians, and have paved the way for increased industrial and commercial development in the country. Egypt already is using public/private partnerships (BOOT and BOT mechanisms) for utility infrastructure investments that in the past might have been donor-funded. To help sustain program achievements, during the first half of the plan period the Mission will focus on improving the regulatory framework and selected aspects of the commercial viability of utility services, with the aim of increasing their prospects for privatization.

In the area of economic growth, based on the progress that the capital markets activity is making, the Mission should be able to terminate its involvement in creating and strengthening nascent institutions and instruments during the first half of the new strategic plan period. Any continuing activity would be focused on the interface with broader financial sector, competitiveness, export promotion and World Trade Organization issues. USAID involvement in direct support to GOE's privatization efforts will end during the plan's timeframe. This will be possible because 1) critical privatization will have been completed, and 2) GOE commitment and capacity will be more than adequate to complete remaining privatization work.

In family planning and health, the Mission has developed a strategy to graduate its programs during the plan period in a phased approach which will emphasize sustainability. Direct support to increasing access to family planning, reproductive health, and maternal and child health services will be phased out. Support for ensuring the sustainability of health services will continue to the end of the plan period. Assistance to the GOE to promote greater private sector and NGO involvement and participation in family planning and health services, an area where capacity is weak, will be a major theme.

In education, the degree of progress and change has not provided adequate return on USAID's investment. Therefore, during the new strategy's early years, the Mission will focus on the completion of activities that have been successful, some of which are particularly important to girls' education, and will support a World Bank curriculum reform program. The education special objective should be accomplished by the end of FY2003. However, as discussed in the plan section on this SpO, if significant change occurs in the education sector, USAID could consider revising the objective and developing additional activities which could extend beyond 2003.

F. Legacy

Egypt and the United States, working in partnership for the past 25 years, have taken enormous strides in building a modern Egyptian economy that is increasingly engaging in world class trade and investment. Major infrastructure projects have created a platform on which policy reform has been able to build and energize the Egyptian economy, eliciting significant interest on the part of international investors in what is seen as a growing target for investment and commerce.

As the U.S.-Egypt partnership matures from one based on aid to one based on trade and investment, both governments and both private sectors have begun to develop policies and programs to maximize the benefits that will accrue to both countries. As aid levels decline over the 10-year period, sustainability will depend on strengthening key private and public institutions and on investing in creative institutional arrangements and far-reaching agreements that will maintain the strength and vitality of the economic partnership. Already, increasing activities by OPIC, TDA, and EXIM Bank are evident in Egypt. Efforts are underway by both governments to negotiate freer trade, starting with a Trade and Investment Framework Agreement (TIFA).

These activities and successful negotiations on freer trade will help ensure mutual cooperation into the future.

An important component of both the FY 1996-2000 and FY 2000-2009 strategic plans has been strengthening the capacity of nongovernmental organizations, such as business associations, water user associations, farmer associations, community development associations, parent-teacher associations, and a variety of other voluntary organizations. During this strategic plan period, USAID will increasingly focus on organizations' ability to be self-sustaining and on creating a supportive environment.

As Egypt's economic transformation continues, USAID's support to GOE partner institutions will highlight improving their efficiency and effectiveness to increase sustainability. Fiscal policy and cost efficiency will become important elements in policy discussions, both through projects and through cash transfer programs, to help ensure the sustainability of critical government functions such as highly targeted support for the severely disadvantaged.

Innovative ideas for enhancing long-term mutual cooperation in the future include proposals to establish self-sustaining legacy institutions, through such mechanisms as foundations or endowments, for purposes consistent with the partnership. Such institutions would permit the interests of both nations to be mutually advanced without adding substantial recurrent costs to either. Endowments to existing nongovernmental or other private organizations could be structured to support their ongoing operations without significant oversight by the respective endowers, GOE and USAID. A foundation and/or other mechanisms could be established that directly reflect the governments' mutual interests and that could support through grants and other assistance a variety of initiatives, including technology transfer and commercialization, research on social and economic issues, American studies, and protection of Egyptian antiquities. Also discussed has been the endowment of an organization or a trust account to maintain and manage a continued private sector commodity import program.

Legacy institutions and endowments will ensure that U.S.-Egyptian cooperation extends far into the new century and becomes an ongoing, dynamic investment in the future of our bilateral relations. By putting aside funds now, when assistance levels are still relatively high, the two governments will have created a living legacy which will benefit future generations.

Part III. Management

A. Achieving Management Efficiencies

The Mission will achieve management efficiencies through changes in organizational structure, individual behavior, new program design and implementation approaches, and greater use of information technology. These changes will take into account Mission staff downsizing, finance reductions, increased focus on fewer sectors, and will be guided by current agency thinking about reengineering and other management tools. The overall intent is a mission structure and operating procedures that promote timely decision-making, strong performance by staff, and significant program impact.

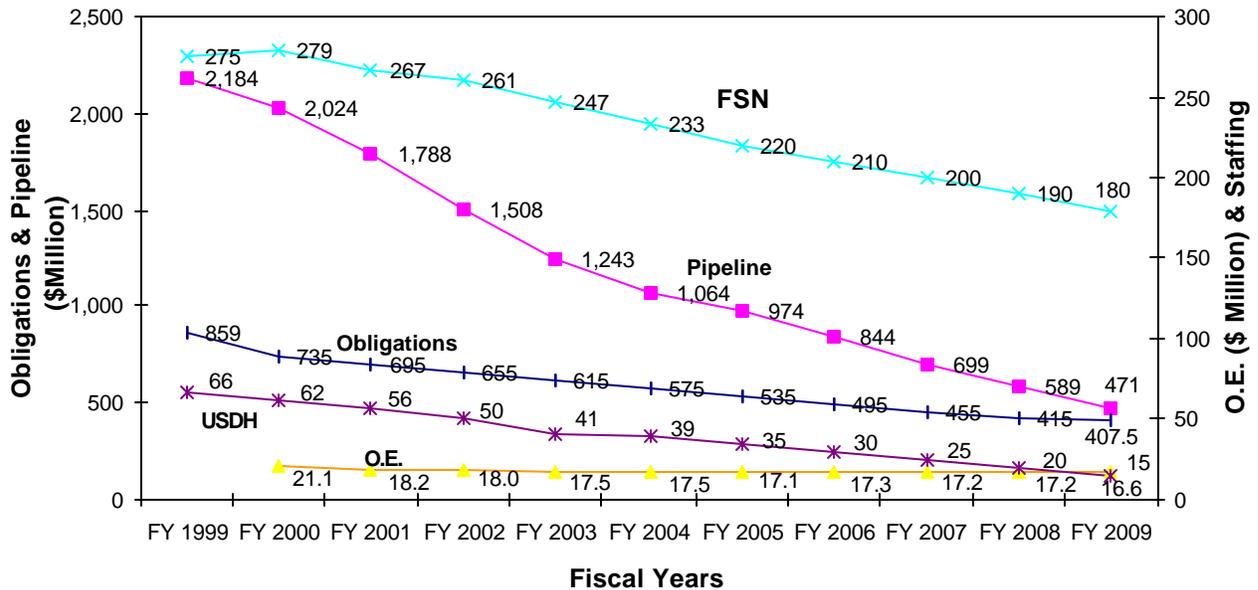
In its organization, the Mission will focus on: 1) streamlining mission structure by eliminating the dual technical office/SO team structure and shifting to an exclusively team-based structure; and 2) reducing the number of formal organizational units by reducing the number and limiting the scope of SOs, by consolidating activities into fewer results packages; and by externalizing management of program activities. The current dual organizational structure has caused inefficiencies and lowered productivity. Eliminating the dual structure is expected to result in faster processing of program management actions while maintaining a strong consultative process necessary for program integrity. Utilizing best practices from Mission and Agency experience for support staff participation on SO teams will help accomplish this.

To facilitate changing behaviors, the Mission will provide team leadership training, team building facilitation, and a clear definition of team member roles and responsibilities. Where necessary, new guidance will be issued on Mission procedures for document preparation and approval.

Delineating mission management roles and responsibilities, and those of individual team members, involves operational as well as behavioral aspects. Determining mission management roles requires redefinition of supervisory functions to bridge the integration of responsibility and accountability of SO team leaders and the teams in their new identity as official organizational units. Identifying who is responsible and accountable for specific actions, both within the team and within the mission, is critical to efficient, results-oriented and accountable program management. To support this effort, clear operating procedures will be available to team members, and the current Mission delegations of authority will be reviewed to identify opportunities for further delegations to SO team leaders as well as for additional streamlining.

Finally, the Mission is committed to finding implementation approaches and mechanisms for achieving its new objectives that take into account the planned reduction in funding and staff levels. The portfolio review process will be used to identify best practices for program implementation, as well as immediate issues requiring resolution. Program management units are being consolidated within each SO team to the extent possible to promote increased program synergy and more efficient contracting while maintaining an appropriate span of control. Programs will be designed and contracting mechanisms selected with explicit recognition of the need to reduce management intensity.

B. Resources



Program Funding

The overall program funding level is projected to decline by \$40 million annually over the strategy period until it reaches \$407.5 million in FY 2009.

The largest proportion of the funding will support SO 16 (trade and investment) activities, including the Commodity Import Program (CIP) and the cash transfer programs (the Development Support Program and its successors). Currently, each of these latter two programs is budgeted at approximately \$200 million annually through FY 2006, and together will consume almost 70% of projected OYB for the strategy period. Cash transfer and CIP budgeted amounts are in accordance with discussions with the GOE. As a result, funding for SO 16, as a percentage of total OYB, would increase from about 66% to 91% of the total OYB over the strategy period, but that percentage would be reduced if some cash transfer funds are used to support other SOs. Although the portion of the SO going towards technical assistance (TA) activities is relatively small (averaging about 13% of total strategy OYB), this SO will remain a significant (see Pipeline discussion below) and staff intensive part of the program.

Most of the balance of program funding is allocated to finance technical assistance activities in the target areas of skills development; environment and natural resources management; healthier, planned families; governance; and basic education. In general, funding in these areas, with the exception of health/population and education, will initially decline and then level out in the out-years of the strategy. Funding for infrastructure is zeroed out early in the period, after mortgages

for remaining water and wastewater results packages are drawn down; power and telecom activities are already fully funded.

In addition to dollar resources, the Mission anticipates programming about LE 1 billion in local currency generations from the cash transfer and CIP programs during each of the next seven years, and slightly less for the remaining three years of the plan period. The bulk of these generations are targeted for general and sector budget support, with a portion directed to funding endowments and USAID operating expenses. However, the Mission expects the GOE will request the increased use of local currency generations to finance discrete bilateral activities, in lieu of lost dollars, in order to continue the Mission's activities. Such projectizing of local currency would increase management intensity and require additional staff, neither of which fits well with the projected declines in staff levels. The Mission will therefore push hard to minimize any increase in projectized local currency generations.

The resource allocations in the table below reflect activities, budgets and mortgages for the reduced OYB trajectory under which the Mission is currently operating.

STRATEGIC PLAN BUDGET 2000-2009

Amounts in \$000

SO No.	SO Title	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	TOTAL
SO 16	Environment for Trade and Investment Strengthened Program Activities	492,318	506,557	509,500	517,700	487,500	459,200	444,500	412,500	380,000	380,500	4,590,275
	Cash Transfer	92,318	106,557	109,500	117,700	87,500	59,200	44,500	45,500	46,300	80,500	789,575
	Commodity Import Program	200,000	200,000	200,000	200,000	200,000	200,000	200,000	183,500	166,850	150,000	1,900,350
		200,000	200,000	200,000	200,000	200,000	200,000	200,000	183,500	166,850	150,000	1,900,350
SO 17	Skills Developed for Competitiveness	10,000	15,000	20,000	31,500	31,500	23,900	14,000	9,000	8,500	6,500	169,900
SpO 18	Increased Access to Sustainable Utility Services	91,079	39,626	35,000	0	0	0	0	0	0	0	165,705
SO 19	Improved Management of the Environment Program Activities	66,481	51,560	14,000	12,000	8,500	6,500	5,500	5,500	5,000	5,000	180,041
	Cash Transfer	36,481	16,560	14,000	12,000	8,500	6,500	5,500	5,500	5,000	5,000	115,041
		30,000	35,000	---	---	---	---	---	---	---	---	65,000
SO 20	Healthier, Planned Families Program Activities	52,422	48,107	43,650	38,950	33,000	28,900	14,500	11,500	10,000	9,000	290,029
	Cash Transfer	37,422	48,107	43,650	38,950	33,000	28,900	14,500	11,500	10,000	9,000	275,029
		15,000	---	---	---	---	---	---	---	---	---	15,000
SpO 21	Egyptian Initiatives in Governance	9,200	18,650	18,050	14,850	14,500	16,500	16,500	16,500	11,500	6,500	142,750
SpO 22	Basic Education Improved to Meet Market Demand	13,500	15,500	14,800	0	0	0	0	0	0	0	43,800
Total		735,000	695,000	655,000	615,000	575,000	535,000	495,000	455,000	415,000	407,500	5,582,500

Notes to budget table:

1. Cash transfer amounts after FY 2000 all appear as a line item in the SO 16 budget, and are included in the Development Support Program. The DSP memorandum of understanding signed in 1999 states, "Under future DSP programs, [policy reform] priorities will cut across, or impact on, several sectors including health, education, agriculture, and possibly others as well." Consequently, cash transfer amounts which currently are budgeted under SO 16 may be reallocated to other SO areas as specific sectoral policy reforms are identified and agreed-to between the GOE and USAID. Those amounts and related reforms would continue to form part of the DSP. Cash transfers in the health sector may be in the range of \$10-20 million annually for the period FY 2001 – 2007.
2. The increase in funding for SO 17 (workforce development) in FYs 2003 and 2004 is due to the currently planned completion of SpO 22 (basic education) in FY 2002, and the consequent need to shift management of its residual activities to SO 17. The budget of SO 17 has been increased accordingly.
3. The 50% reduction in funding in SO 20 (health and population) from FY 2005 to FY 2006 reflects the planned phaseout of obligations for family planning and maternal and child health services (IR 1). As is explained in text of this plan, the Mission will complete a detailed implementation plan in FY 2001 regarding assistance to the population and health program, and final budget decisions will be made at that time. It is expected that \$10-20 million of DSP funds per year would be allocated to the health sector once its specific policy reform program is completed.
4. SpO 22 (basic education), as it currently is defined, will be achieved within three years, by the end of FY 2002. There remains significant work to be done in the sector to make the basic education system supportive of a growing economy and of USAID's strategic focus on trade and investment. If the GOE agrees to initiate key sector reforms dealing with management within the sector and with quality of education, the Mission is prepared to reallocate funds among its SOs to support education sector reform in the event that the GOE initiates sustained reform. Otherwise, the budget as shown would remain.

Projected Pipeline

The strategy envisages a significant reduction in pipeline. The Mission projects the following pipelines for selected years of the strategy period:

	FY99	FY05	FY09
(\$ Millions)			
Cash Transfer (Policy Reform)	429	240	190
Commodity Import Program (CIP)	304	200	150
Infrastructure Activities	928	0	0
Technical Assistance Activities	523	534	131
Total	2,184	974	471

The end-of-FY 99 pipeline was \$2.184 billion, up slightly from the FY 98 pipeline of \$2.129 billion, reflecting obligation of FY 98 carryover funds. While the present pipeline exceeds Agency guidelines on forward funding, planned expenditures should bring it into line with existing guidance by FY 2001.

The above projection reflects several variables, including: (1) the completion of infrastructure programs; (2) the increased proportion of OYB earmarked for faster disbursing cash transfers and CIP; (3) staffing levels described below; (4) changes in management structure and approaches to increase efficiency; (5) use of endowments and other legacy instruments; and (6) an OYB declining at \$40 million per year. It also assumes the program will not be required to carry special Agency earmarks at levels inconsistent with the strategy.

Operating Expense (OE)

OE projections are based on planned reductions in Mission OYB and accompanying rightsizing of staff in managing Mission operations. Under the rightsizing plan, FSN personnel will assume greater responsibility as U.S. direct hire (USDH) numbers decline at a faster rate proportionally.

These personnel reductions will result in a lower requirement for Operating Expense funding. The Mission projects an operating expense budget of \$21.1 million, \$17.5 million and \$16.6 million for FY 2000, FY 2004 and FY 2009, respectively. The overwhelming majority of operating expenses, however, are funded from local currency trust funds. Appropriated dollars for the Mission, excluding ICASS, are generally less than \$1 million per year (less than budgets for most other missions). Dollars are used to fund ICASS costs and costs associated with regional support. ICASS costs are extremely difficult to control due to the nature of their distribution, and regional requirements will not reduce due to reductions of the Egypt program. For these reasons, due to inflation, the actual requirement of OE dollars shows no reduction.

FSN personnel costs represent 25% of the total budget for FY 2000. Over the projected period, the FSN staff reduction of approximately 4% per year will be more than offset by FSN pay increases, liberally estimated at about 7% per year plus 3% for step increases or a total 10% increase. With the reduction of USDH costs, the FSN costs increase to 35% of the out year budgets causing an upward pressure on operating costs. ICASS costs represent 5% of the total budget, and do not fluctuate directly based upon reductions in personnel, but are projected to remain constant. The New Office Building will be completed at the beginning of this period, meaning that the costs of office space will be fixed. Although the U.S. staff and its costs are reduced at the rate of approximately 20% per year, the above factors offset these savings and combine to cause the O. E. budget to remain fairly constant.

Projected OE Requirements based upon Staff Reduction

Amounts in \$ Millions

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Dollar OE Requirements	1.9	2.2	2.1	2.0	2.0	2.0	2.0	1.9	1.9	1.8
Trust Fund OE Requirements in \$\$	19.2	16.0	15.9	15.5	15.5	15.1	15.3	15.3	15.3	14.8
Total OE Requirements	21.1	18.2	18.0	17.5	17.5	17.1	17.3	17.2	17.2	16.6

Staffing

Mission reorganization and improved teamwork over the past several years have reduced staff redundancies and helped cushion the effects of a greatly reduced USDH staff (35% reduction since 1995). Additional efficiencies from restructuring and rightsizing will be less significant. The Mission is therefore developing new approaches to externalize management, in order to increase staff productivity. Some of these new approaches include using an Egyptian organization to manage the small and micro-enterprise credit program, more technical assistance contractors to monitor results and performance against policy benchmarks, conscious efforts to limit the number of management units, one tour recruitment, and heavier reliance on FSN staff. At present, under the currently mandated Agency staffing ceilings, Mission USDH staff will decline from 61 in FY 00 to 15 in FY 09 (a 75% reduction).

Staff Type	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
USDH	61	56	50	41	39	35	30	25	20	15
FSN	279	267	261	247	233	220	210	200	190	180
USPSC	21	19	19	16	15	14	14	14	14	14
Other	4	3	1	1	0	0	0	0	0	0

A sufficient number of USDHs is necessary to ensure the transition of the U.S.-Egypt bilateral assistance relationship from one of aid to trade and investment as well as the proper reduction of the pipeline. This transition, and consequently the rate of staff reductions, cannot be accelerated. Although this strategy fully integrates the U.S.-Egypt Partnership for Economic Growth and Development and the USAID program, the Partnership will continue to demand considerable USDH and other staff resources above and beyond normal USAID operations. Experienced USDH employees are needed to provide adequate management oversight of continuing levels of new assistance and the existing pipeline. The transition will require USDH competence in continuing essential policy dialogue, developing new assistance mechanisms, refocusing activities for greater impact, and negotiating the phase-out or curtailment of less successful activities. These projections do not take into account possible regional responsibilities in program, legal, financial management, and contracting services.

The rightsizing plan based on this strategy and its parameters projects FSN staffing levels to drop from the FY 00 level of approximately 280 to 216 by FY 05 and to 180 by FY 09. However, some of the most experienced staff are now finding new opportunities with better pay in the growing private sector. Experienced FSNs currently have management responsibilities for approximately 25% of the ongoing activities, and the Mission is actively developing Egyptian staff to accept responsibilities to replace the deleted USDH slots and recruiting experienced new Egyptian employees.

In addition, the USPSC level, currently at 22 (of which seven are OE-funded) will decline to 14 in FY 09. Flexibility to hire program-funded USPSCs will be important to minimize the impact of USDH cuts on program achievements, especially in the phase-out programs where attracting competent USDH and FSN professionals will become increasingly difficult. Finally, staffing plans include one IDI and one TAACS in the near term.

Earmarks and Directives

Historically, a stable level of Economic Support Funds (ESF) appropriations have enabled the Egypt program to contribute extensively to Agency and Congressional priorities ("hard" or "soft" earmarks). However, the new strategic focus of the program combined with declining assistance levels for Egypt will reduce the Mission's ability to contribute to current earmarks and directives.

Currently, Egypt's program contributions to earmarks are in large part derived from funding under policy programs and technical assistance results packages. Sector policy programs in agriculture and environment contribute to earmarks in these areas. In FY 00, for example, 40% of the final obligation for Cairo Air Improvement (CAIP) is programmed against global climate change while 100% of the final obligation for Technical Assistance for Agriculture Policy Reform supports agriculture. In addition, the Development Support Program (DSP) is a major contributor toward the agriculture earmark.

The Mission plans to phase out of sector policy programs in the new strategy period, with cash transfers provided only through the DSP and its successors. These programs will cover some sector-related reforms that might contribute to earmarks. However, it is expected that DSP and its successors will primarily support macroeconomic policy reforms. The flexibility that enables DSP to meet USG mandates as well as GOE needs makes concrete projections about earmarks difficult.

Given the above, and assuming that existing funding priorities remain constant, estimated Mission support for earmarks and directives is given below. The numbers are based on the contributions of current programs and current projected funding for new starts in the first half of the strategy period. The Mission considers FY 06-09 as too notional to estimate potential contributions to various earmarks, although the 50% cut in total levels and the cash transfer and CIP's 74 - 81% share of the OYB between FY 06 and FY 09 would indicate substantial decreases in all earmarks.

	FY00	FY01	FY02	FY03	FY04	FY05
	(\$ Millions)					
Agriculture	45	35	32	27	24	24
Micronutrients	0.5	-	-	-	-	-
Microenterprise	-	15	15	10	-	5
Climate	18	14	-	8	8	8
POP	15	15	12	10	8	6
CSD	5	5	4	3	3	2