

USAID/Egypt

Annual Report

FY 2005

June 16, 2005

Please Note:

The attached RESULTS INFORMATION is from the FY 2005 Annual Report and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

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Portions released on or after July 1, 2005

Egypt

Performance:

Egypt, a strong moderating force in the Middle East, has long been an important U.S. ally. Egypt and the U.S. share strategic interests that include combatting terrorism, resolving regional conflicts, advancing regional peace, ensuring domestic and regional security, and promoting economic development, and this continuing bilateral relationship serves the national security interests of both countries. It promotes prosperity in Egypt by assisting the country's ongoing, but incomplete, transition from a state-dominated economy and polity to a free market-oriented, participatory one. A key U.S. goal is for Egypt to become a fully integrated and competitive participant in the global economy. The greatest threat to domestic stability results from popular frustration with recent economic performance and a persistent lack of economic opportunity. About one-third of the 70.5 million people live below the poverty line, despite a per capita GDP of about \$1,470. Unemployment is an acute problem. Official numbers show a steady rise in unemployment from a low of 7.9% in 1999/2000 to close to 11 percent in 2004. Most independent estimates put the rate at around 15-25%. Moreover, unemployment among recent graduates is generally considered to be even higher, at almost 40% for men and 50% for women.

Some order was restored to the foreign exchange market during 2004 as the Central Bank of Egypt took steps to ensure the availability of hard currency. This task was made easier by Egypt's vastly improved external position as tourism boomed, exports strengthened on the back of the depreciation of the Egyptian pound and strong oil prices, and import demand remained extremely sluggish. However, the depreciation of the Egyptian pound severely undermined local purchasing power and inflation emerged as the chief economic concern. Lacking an effective monetary policy framework, the GOE sought direct measures such as broadening price controls and state subsidies. These measures proved partially effective and popular disillusionment with the government's economic management reached a pitch not witnessed for many years.

In mid 2004, President Mubarak responded to public disquiet by a far-reaching cabinet reshuffle, bringing a new prime minister and a team of economically liberal minded ministers to key economic positions, raising hopes of greater coherence in policymaking.

Challenges: Major tasks facing the newly appointed cabinet include reforms in customs and tax regimes and other aspects of business environment to attract new investment and create jobs, and better targeting subsidies and social expenditures to ensure that the truly needy are assisted without overwhelming the budget. Financial sector reform, privatization, and measures to address the banking sector's large non-performing loan burden are major issues of both internal governmental and public debate.

U.S. Interests and Goals: The U.S. seeks a strong bilateral relationship with Egypt to form an effective partnership to combat terrorism, resolve regional conflicts and advance regional peace, ensure domestic and regional security, and promote economic development.

Donor Relations: Two key areas of common interest for bilateral and multilateral donors are: a comprehensive poverty action program, with emphasis on women and children; and further reform of the macroeconomic and investment-enabling environment. These areas were emphasized by donors at the 2002 Consultative Group (CG) meeting, and they have been stressed during 2003 and 2004 in donors' dealings with the GOE. The U.S. and European Union are the largest providers of assistance, and other major donors include Japan, Germany, the Arab Fund, the Islamic Development Bank, and the African Development Bank. USAID collaborates with other donors in all technical areas under its strategic program through regular plenary and sectoral subgroup meetings and other venues. The UNDP, which

acts as the secretariat for donor coordination, has compiled an extensive database showing the sectors, types, sizes, and locations of donor programs; this is to be updated annually and is now available in CD-ROM form.

Key achievements: Overall, the USAID program in Egypt has met its goals in 2004. The GOE is more determined than in the recent past to undertake policy reform and address difficult social and economic challenges.

1. Environment for Trade and Investment Strengthened: USAID/Egypt's assistance for strengthening the environment for trade and investment is organized around the objectives of modernizing the financial sector, facilitating trade and investment policies and procedures, and increasing the competitiveness of natural-resource based industries. In FY2004, USAID provided technical assistance to the Customs Reform Unit, leading to a major adjustment of tariffs. The weighted average tariff rate was reduced from 14.8% to 9%, tariff bands were reduced from 27 to six, and all service fees (2%-4%) were eliminated - changes that simplify custom procedures, boost investment, and promote trade. During FY2004, the Commodity Import Program financed 794 trade and investment transactions valued at \$175 million. A total of 271 private Egyptian firms that employ over 92,808 workers benefited from the financing, 41% of which are partially women owned. As a result of USAID activities, the value of exports of targeted processed foods increased 23% from \$109 million (2003) to \$134 million (2004). The fourteen Egyptian processed-food exporters that exhibited at the annual New York Fancy Food Show, averaged over \$1 million in sales, tripling the average achieved at the October 2003 Anuga Show (a similar major food show in Europe). Exports of targeted fresh horticultural products increased 12% to 23,500 metric tons. FY2004 reflects a significant increase in USAID supported microfinance institution outreach capacity. More than 450,000 loans valued at over LE 700 million (about \$120 million) were issued nationwide.

2. Increased Access to Sustainable Utilities: USAID/Egypt's Infrastructure Program provides assistance to the telecommunications, power, and water/wastewater sectors. Through the completed digital switch and outside plant contracts USAID provided 310,000 new phone lines in Cairo, Alexandria and Port Said. USAID also financed a nationwide Network Operations Center, which will improve the management of the system. Work to replace and upgrade controls at the Abu Qir and Aswan High Dam power generation plants was completed during FY2004. The result is safer, more efficient operation of the plants improving the reliability of the Egyptian electric power system, which serves the entire nation. Construction on a wastewater collection and treatment system in Luxor progressed ahead of schedule, while major construction of water and wastewater facilities started on schedule in the four populous governorates of Beni Suef, Fayoum, Minya, and Dakahlia.

3. Improved Management of the Environment and Natural Resources in Targeted Sectors: The preservation of Egypt's environment and natural resource base, in particular water, air and coastal ecological areas, is the focus of this SO. USAID's efforts to improve air quality, and thus living conditions in Egypt promoted policy shifts including the promotion of increased use of Compressed Natural Gas (CNG). Nationwide, CNG fueling stations totaled 86, with 55,500 vehicles running on CNG. The GOE expanded the vehicle emissions testing program and is now implementing it in four additional governorates using a dedicated fund from its own resources. A consistent increase in the percentage of hotels instituting best environmental practices in the Red Sea continued during FY2004 reaching 75 percent of hotels surveyed.

4. Healthier Planned Families: By utilizing the infectious disease surveillance system supported by USAID, recent disease outbreaks (Rift Valley Fever and lead poisoning) were quickly identified and controlled, averting a serious situation. The first-ever anonymous HIV/AIDS Voluntary Counseling and Testing (VCT) center in Egypt began receiving clients, thanks to USAID support. A national immunization coverage of 95% for the seven most common childhood diseases has been attained.

5. Democracy and Governance: In 2004, approximately 2,400 NGO representatives attended 95 training events on governance, advocacy, networking, constituency building and media relations. An additional 1,300 citizens and 26 civil society organizations participated in open roundtable discussions on democratic participation and policy formation. USAID achieved a major benchmark in FY 04 with the

establishment of the Egyptian NGO Support Center, a permanent institution to strengthen civil society organizations in Egypt.

6. Improved Basic Education: In FY2004, a five-year Education Reform Program was launched to improve the quality of pre-university education in the seven targeted governorates of Alexandria, Aswan, Cairo, Beni Suef, Fayoum, Minya, and Qena. The Information Technology in Schools Program introduced educational tools in 10 Egyptian K-12 schools. Installation of 2,249 personal computers and related connectivity hardware in the participating private schools was completed. In FY 2004, the New School Program (NSP) completed nine additional schools bringing the total to 70 primary schools, consisting of 770 classrooms housing 24,080 students, 80% of whom are girls. In addition, 6,088 out-of-school children who dropped out or never went to formal school attended multi-grade schools and literacy/life skills classes.

USAID/Egypt's program may be viewed at the following website: <http://www.usaid-eg.org>

Results Framework

263-010 Increased Use of Information Services by the Legislature in Decision-Making

263-012 Approaches to Sustainable Tourism Developed

263-016 Environment for Trade and Investment Strengthened

SO Level Indicator(s):

Index of Economic Freedom, The Fraser Institute. On a basis of zero to ten; higher scores are indicative of greater economic freedom

IR16.1 Financial Sector Modernized

IR16.2 Trade and Investment Facilitated

IR16.3 Competitiveness of Natural Resource Based Industries Increased

263-017 Skills Developed for Competitiveness

IR.17.2 Market Responsive IT Skills developed

263-018 Increased Access to Sustainable Utility

SO Level Indicator(s):

Cumulative number of people with new or improved water or wastewater service in selected areas (millions)

Percent of operation and maintenance costs covered by revenue in the power sector

Percent of operation and maintenance costs covered by revenue in the telecommunications sector

IR.18.1 Utility Services Increased

IR.18.2 Commercialization of Utilities Enhanced

IR.18.3 Legal & Regulatory Framework for Municipal Water, Power, and Telecommunications Sectors Established

263-019 Improved Management of the Environment

SO Level Indicator(s):

Percentage of tourism facilities in the Red Sea Region which have received approval through the Environmental Impact Assessment process prior to commencement of construction

Real Value of aggregate agricultural production per 1000 cubic meters of Nile water used in agriculture.

Total volume (1000GGE)of compressed natural gas (CNG)sold per year for transportation

IR19.1 Foster Public-Private Partnerships

IR19.2 Increased Investment in ENR Practices and Technologies

263-020 Healthier, Planned Families

SO Level Indicator(s):

Infant Mortality Rate

Total Fertility Rate

IR 20.1 Improved Family Planning & Reproductive Health

IR 20.2 Improved Maternal & Child Health

IR 20.3 Improved Surveillance and Response to Infectious Disease

263-021 Initiatives in Governance and Participation Strengthened

SO Level Indicator(s):

Impact of Assistance/Interventions on Political Life

IR.21.1 Improved Enabling Environment for Political Processes

IR.21.2 Enhanced Collaboration between a Responsive Government and an informed Citizenry

IR.21.3 Increased Availability of Effective Legal Services

263-022 Improved Access to Quality Education

SO Level Indicator(s):

Annual number of girls and women receiving education and training through USAID-funded

programs

IR 22.1 Percentage of girls, 11-15, attending preparatory school in rural Upper Egypt

IR 22.2 Annual number of teachers and school officials trained

IR 22.3 Number of Community Development Associations, NGOs, Parent Teacher Councils and Community Education Teams and private sector groups supporting USAID reform programs