

Written Testimony of James Kunder Deputy Assistant Administrator for Asia and Near East U.S. Agency for International Development

The Future of U.S.-Egyptian Relations

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House International Relations Committee
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Thank you, Mr. Chairman, for inviting me to testify at this hearing. I appreciate this opportunity to share with you progress in our economic assistance program in Egypt and to discuss with you possible future directions for what is still one of our largest programs in the world.

It is important to talk a little about the history of the Egypt program to better understand what we see as its future direction. USAID first opened a mission in Egypt in 1975. After the Camp David Accords in 1979, economic assistance funding was earmarked annually at \$815 million until 1998 when funding began to decline at a rate of \$40 million annually. To date, the U.S. has provided over \$26 billion to Egypt in economic assistance. The program always has been driven by both political and developmental agendas - political in the sense that the U.S. Government wants to support a staunch ally in the Middle East peace process, and developmental in the sense that we want to see the resources used in a way that promotes positive change and improvements to the lives of all Egyptians. These goals, while often complementary, can be divergent at times.

When USAID launched our program in 1975, Egypt was beginning to move away from 40 years of state intervention and tight control of resource allocation. The economy was at a standstill, much of the physical infrastructure had deteriorated - electricity and phone services were unreliable and the streets of major cities were often flooded with sewage, technical and scientific ties and relations with the West were nonexistent, agricultural productivity was low resulting in food shortages, and basic health and welfare services were poor. The Suez Canal, a major trade artery and source of foreign exchange had been heavily damaged and closed as a result of the conflict with Israel.

In the 1970s, USAID concentrated on the immediate needs of the economy: reopening the Suez Canal, expanding and rehabilitating electric power and telecommunications, improving water and wastewater management and improving grain storage and port facilities. Beginning in the 1980s, USAID broadened its program to address improving agriculture, education and health and rebuilding Egypt's industrial and commercial base. In the 1990s, USAID's program began to focus on macro-economic policy reform and privatization, and also added activities aimed at strengthening the systems of governance, improved cost recovery and sustainability of utilities, and mitigation of air and water pollution.

What has been achieved with this huge assistance program? U.S. assistance program touches the lives of every Egyptian. As a result of our investment:

- 99% of all Egyptians have access to reliable electricity and 5.2 million have phones;
- 22 million Egyptians in 11 governorates have access to clean water and sanitary sewage collection;
- Domestic food production has increased 119%, which translates as 36% more domestically produced food for each Egyptian;
- Primary school enrollment has increased by 61% in the past 20 years, and the gender gap in enrollment has dropped from 21% in 1979 to 6% at the end of the 1990s;
- Infant and child mortality rates have decreased by more than 65% since the late 1970s, with rates for full vaccination increasing to 92% of all children;
- Maternal mortality decreased by 50% in the 1990s and the average Egyptian woman today voluntarily chooses to have approximately 3 children, down from about 6 in the 1980s, resulting in 6 million fewer young Egyptians, a significant statistic in a country with very limited water resources and population densities that

- can exceed 33,000 per square kilometer in parts of Cairo;
- Micro and small business lending programs supported by USAID have provided more than \$750 million in loans to over 600,000 borrowers with a negligible default rate. USAID estimates that this financing has allowed microenterprises to hire over 300,000 additional employees;
- 90% of all gasoline sold in Egypt is now unleaded and more than 25,000 vehicles have been converted to clean-burning compressed natural gas.

Current Situation

Economic Growth:

As you have read in this year's annual "Report on Economic Conditions, 2003," the greatest threat to Egypt's stability may be popular frustration with recent economic performance and a persistent lack of economic opportunity. About a third of Egyptians still live below the poverty line, the real rate of unemployment may be as high as 25%, and the economy is not creating nearly enough jobs for the estimated 750 - 800,000 annual new entrants to the job market.

The Government of Egypt (GOE) has implemented reforms in these areas, but the pace of reform has been too slow in recent years. As a result, Egypt continues to suffer from cumbersome customs and business registration processes, growing fiscal deficit, foreign exchange regime that impedes business, lagging privatization, lack of transparency and an education system that does not train young Egyptians in skills they will need to contribute to their country's economic growth. Egypt is simply not attracting enough foreign direct investment to stimulate the economy.

In the past year, there have been some bright spots. The GOE has continued to make significant progress on intellectual property rights, money laundering and export promotion regulation. It has taken steps to comply with international trade standard requirements: the country has acceded to the Basic Telecommunications Agreement and the Information Technology Agreement, ratified a Patent Cooperation Treaty, and ratified the International Labor Organization's Convention on Agricultural Occupational Health and Safety. Egypt will shortly be included in the IMF's Special Data Dissemination Standards grouping of countries, as a result of its making publicly available timely and accurate economic and financial data. USAID has provided technical assistance and worked with the Egyptians to conclude all of these actions, which play an important role in improving Egypt's investment environment and export prospects. Negotiation of a free trade agreement with the European Union was concluded and ratified by most of the EU member countries. All of these accomplishments will serve to move Egypt more into the global market place and stimulate exports and investment, both of which are sorely needed to kickstart economic growth and begin to address the lack of jobs and improve the standard of living to tackle the growth in the number of discouraged, out of work, youth.

Education:

Egypt's education system is not producing graduates with skills suited to today's workplace. The average low-income Egyptian, particularly in rural areas, has finished five or fewer years of basic education. Literacy rates are low especially for women – while 81.5% of Egyptian men are literate, only 58.2% of Egypt's women can read and write. The GOE spends at least 13% of its budget on the formal education system but the system is poorly managed and outdated. In the past few years, many Egyptians have begun to complain publicly about their education system, with those that can afford it putting their children into private schools. The lack of a sufficiently educated population is a real constraint on Egypt's economic development. Egypt cannot compete with countries in Asia with much higher literacy rates. USAID, having obtained the agreement of the Ministry of Education, has successfully demonstrated for the first time in Alexandria the feasibility and effectiveness of introducing education managed by and responsive to local communities. A total of seven governorates are now working with us on implementing the reforms adopted in Alexandria.

Health:

As I have mentioned above, there have been enormous achievements in reducing population growth, improving the survival of mothers, infants and children and improving primary health care in Egypt. However, the major issue facing Egypt in the health sector remains population growth. Egypt's growing population – 1.7 million births each year – strains natural resources, especially water. About 70% of the population is under age 40, and 38% is under age 15. This challenges the provision of basic services such as health care and education and results in a growing cohort of unemployed or underemployed workers because the economy cannot create sufficient jobs to employ new entrants to the job market. It is sobering to realize that, in 1949, Egypt had 19 million people and now, just over 50

years later, the population is approximately 70 million. The Egyptian Government has made stabilizing population a top priority. Furthermore, Egypt is still at risk from a number of endemic diseases, especially hepatitis C, Rift Valley Fever and HIV/AIDS, all of which result in premature deaths, reduce productivity and require costly treatment.

Democracy/Governance:

Egypt's overall political situation remains stable but the trade-off is that continued tight government control has resulted in limited political and civil freedom for Egyptians. There are calls for reform, including those from President Mubarak who has called for revision of laws related to elections, political parties and professional syndicates, and from the National Democratic Party (NDP) which has proposed a reform agenda which includes abolishing State security courts and hard labor as a punishment, and appointing women judges. A new Human Rights Council was recently established. There may also be some loosening of controls on media. While the pace of reform undoubtedly could be faster, there are encouraging signs that justify some expansion of our DG programming.

Environment:

Egypt's environment has been under attack for many years now. Burgeoning population has put pressure on water supplies and has created urban problems such as poor sanitation, both sewerage and solid waste, and air pollution. Air pollution is caused by vehicular emissions, particulates and lead. Cairo, in particular, is a very crowded city with a large number of gasoline burning buses, vans and cars. The lead smelting industry has been concentrated in some of the more densely populated areas of the city, resulting in some of the world's highest airborne lead levels. This impacts on the physical development of Cairo's children and increases the incidence of respiratory illnesses. The USAID program has tackled these problems by introducing clean-burning compressed natural gas vehicles and bakeries (practically every street corner in Egypt has a bakery because bread is the major staple, especially for the poor). A side benefit of these programs has been to reduce Egypt's dependence on imported gasoline - Egypt has extensive natural gas reserves but has to import much of its petroleum needs. USAID has also been working on moving lead smelters out of downtown Cairo and updating the industrial processes and equipment used in the smelting facilities. This year, the Cairo governorate and Egypt's Ministry of Petroleum were the joint recipients of the U.S. Department of Energy's annual International Clean Cities Award. The award recognized Cairo's efforts to improve air quality, largely reflecting work that was supported by USAID programs.

Future Programming Directions

In the period 2002-2003, USAID and the State Department conducted an in-depth review of USAID's Egypt program. As a result of this review, decisions were taken to focus the program more strongly on the following: economic, political and education reform; health needs in rural and urban slum areas; and village-level infrastructure development.

Economic Growth:

The revised USAID economic program is more focused on financial and trade reform and will promote competitiveness in agriculture-based industries. The program continues to support job creation and increased productivity. We are using appropriate technical assistance, commodity imports and cash transfers to support macro-policy reform to achieve our objectives in this sector.

The cash transfer Development Support Program will pursue reforms to the financial sector to modernize it, give a greater role to the private sector through privatization, and encourage domestic and foreign investment. Related technical assistance to institutions supporting international trade, investment and company formation will support enterprise formation for export production. Our program supports the GOE's review of the commercial code and other laws to create a legal framework which will facilitate private enterprise. Activities include modernization of the Company Law and other commercial codes, continued support to the reorganization of the Ministry of Foreign Trade for WTO compliance, customs and ports reform, reduction of technical barriers to trading in high value markets, and expansion of information and communication technology including e-government, without which Egypt cannot compete in the global marketplace.

Assistance for financial sector modernization will emphasize banking sector reform, microfinance development, monetary policy strengthening, development of real estate finance, insurance market modernization and development of mechanisms for sustainable private financing of infrastructure and environment-friendly business.

Finally, the program is raising incomes for average Egyptians. USAID works through smallholders and related trade associations to increase product quality, reduce post-harvest losses, and helps Egyptian farmers meet global standards for their crops. Our program promotes the adoption of improved environmental management in water and biodiversity conservation to promote tourism, and control of industrial pollution.

Education:

When USAID's strategy was originally formulated in 1999, prospects for progress on reform in the education sector were not encouraging. At that time, we decided that we would close out the education portfolio in 2003. The environment has changed so significantly that the program will continue through the strategy period and funding has been increased from a total of \$47 million to approximately \$280 million. Changes have occurred within Egypt, and in the foreign policy environment, as a result of the publication of the Arab Human Development Report highlighting deficiencies in education in the Middle East, and the prominent role given to modern education systems by the Middle East Partnership Initiative and by broader U.S. efforts to combat terrorism.

USAID/Egypt's education program builds on the success of the model piloted in Alexandria and will replicate it in six additional governorates. This model focuses on decentralized decision-making authority, increased community involvement, and improved school performance. We are expanding access for girls by providing scholarships, establishing multi-grade classrooms to allow girls who have not been enrolled to re-enter the formal system, providing non-formal education to out-of-school youth, constructing new schools where long commute distances limit girls' attendance, and by motivating parents through awareness campaigns to support education for their girls.

Education quality remains problematic in Egypt. Even if a child completes school, he or she may not have learned what is needed to succeed in the workplace. To address this, our program is improving instructional quality by strengthening education management, establishing standards at teacher training colleges and by improving assessment of both teachers and students. Teacher training systems will also be improved and incentives introduced to reward teacher performance. In support of GOE efforts, learning materials are being developed, reproduced and distributed for both formal and non-formal education institutions. The Minister of Education has requested our assistance to work on curriculum in several specific areas, and already we are assisting the Ministry on curriculum related to English language instruction and may support in the future math and science curriculum development.

Alam Simsim, the Arabic version of Sesame Street, was initiated through a USAID/Egypt program, and is now broadcast in 22 countries throughout the Middle East. In Egypt alone, eleven million children regularly watch the series.

The final key element in our approach to assisting Egyptians to reform their education system is to cultivate community support for schools and education. Communities will be mobilized around issues such as school governance and education quality. Community support will ensure success of activities such as scholarships, new school construction and literacy and life skills classes.

Health:

USAID's revised health program is extending proven interventions to new priority governorates and ensuring that they become sustainable. The program continues to improve quality of care, increase demand for family planning, and serve hard-to-reach groups and under-served geographic areas. Quality of care is being improved through pre-service and in-service training for clinic staff and by renovation of public and NGO-run clinics. Given the GOE's goal to slow current population growth to replacement levels, USAID is supporting voluntary behavior change communication through mass media and interpersonal counseling.

Our revised program continues to help improve the health of mothers and children. USAID is contributing to improved maternal health through safe birth protocols and better family planning delivery (child spacing is vital in improving infant and maternal health). These approaches have been used in Upper Egypt and have reduced maternal mortality by 59% since 1992. We will continue to support programs to reduce childhood illnesses including polio eradication.

USAID has helped the GOE build a nationwide system of disease surveillance, reporting and outbreak control. This has involved capacity building through training, definition of case standards and methods of investigation, improved infection control, improved laboratory practices and improved surveillance at the district level. We will continue these activities until the entire population of Egypt is covered by a disease surveillance system, currently projected for

2006.

Democracy/Governance:

While there have been some improvements in loosening government control and opening political space, Egypt still, as DAS Satterfield has stated, restricts basic political and religious rights and relies on the Emergency Law. This creates a challenging environment for promoting democratic reform. Furthermore, because of the way the USAID program has developed in Egypt, we are constrained by having to obtain GOE agreement on all programs we wish to implement. This restricts the kinds of activities we can engage in, especially for example working with opposition parties and human rights activists. In addition, some Egyptian NGO groups, including human rights groups will not accept donor funding for fear of being arrested and held by the GOE as happened to noted civil society proponent Saad Eddine Ibrahim.

Within the constraints I have just presented, USAID will take advantage of openings as they occur. We plan to support the development of a more competitive political process. We plan to provide assistance to the Egyptians to reform the electoral and political party laws and improve election administration, including voter registration and education and training of candidates. Activities will also promote more transparent, accountable government, improve citizen participation and involvement to increase satisfaction with their government, and support increased benefits to underserved populations including Coptic communities. Finally, USAID is assisting in the improvement of the administration of justice by supporting GOE efforts to reform its judicial system by streamlining court procedures, enhancing transparency, reducing opportunities for corruption, training judges, law students and court personnel.

Conclusion

The USAID/Egypt program has always been a program that has evolved in response both to political and development priorities. As I have stated previously in this testimony, our initial goals in opening the program in the 1970s were to rehabilitate infrastructure damaged by the war with Israel and construct adequate infrastructure to meet the needs of Egypt's population. As those activities were underway, we began to address structural issues in the economy and in social sectors.

As a result of the development of Egypt and, to some degree, the successes of our programs, we are now entering a new phase of assistance. When we put together our strategy in 1999-2000, our vision, in partnership with Egypt, was to transform our relationship with Egypt to one that was more focused on trade and partnership and less on assistance. The latest evolution in our program, oriented increasingly to reform of the economy, education and the governance arena, supports the continuing development of Egypt. There have been enough significant openings in recent years to justify such an evolution.

Where do we go from here? One of the issues we are currently examining at USAID is how to provide support regionally to our smaller missions. We are grappling with the balance of security and the costs and danger that adds to our programs and the vital role of economic assistance in contributing to the stability of the region. We need to develop models that allow us to provide the technical and support backstopping needed to all these programs, which are vital to U.S. foreign policy goals but where it may be too dangerous to locate staff in large numbers. An obvious candidate to base technical and other staff to support our Middle East missions is Cairo. This will allow us to leverage the expertise we have developed through the years of our development work in Egypt. We are thus looking at several models that will ensure that our programs in the region will be adequately supported. As we come closer to defining our approach, we will consult with you on these issues.

I appreciate your taking the time to hear about USAID's program in Egypt and I welcome any questions you may have.