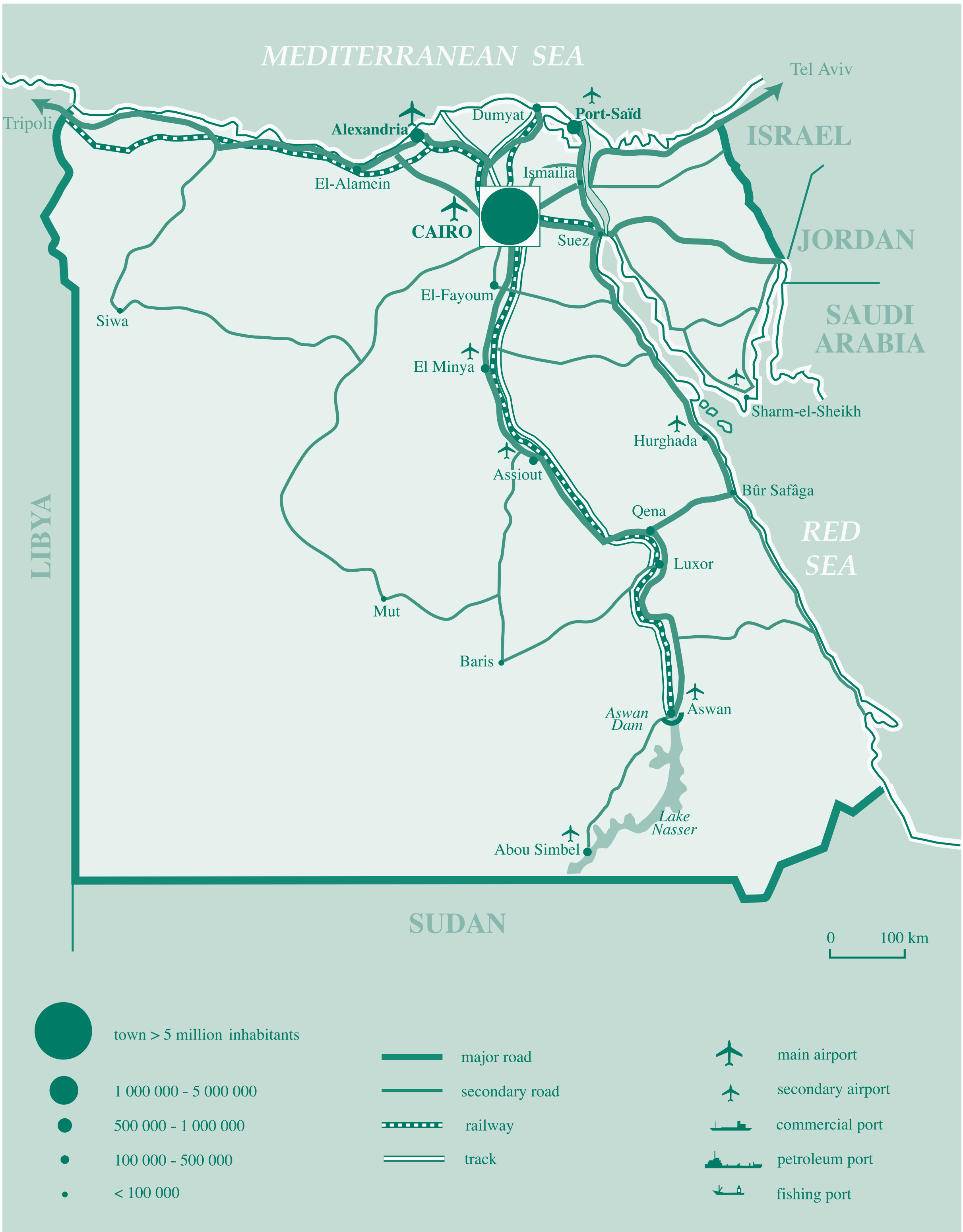
Egypt

key figures

• Land area, thousands of km²	1 001
• Population, thousands (2007)	75 498
• GDP per capita, USD at constant 2000 prices (2006/07)	1 801
• Life expectancy (2007)	73.1
• Illiteracy rate (2007)	39.4

Egypt



MEDITERRANEAN SEA
Tel Aviv
Tripoli
Alexandria
Dumyat
Port-Saïd
ISRAEL
El-Alamein
Ismailia
CAIRO
Suez
JORDAN
SAUDI ARABIA
Siwa
El-Fayoum
El Minya
Sharm-el-Sheikh
Hurghada
Assiout
Bûr Safâga
Qena
RED SEA
LIBYA
Luxor
Mut
Baris
Aswan
Aswan Dam
Lake Nasser
Abou Simbel
SUDAN
0
100 km
town > 5 million inhabitants
1 000 000 - 5 000 000
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Egypt

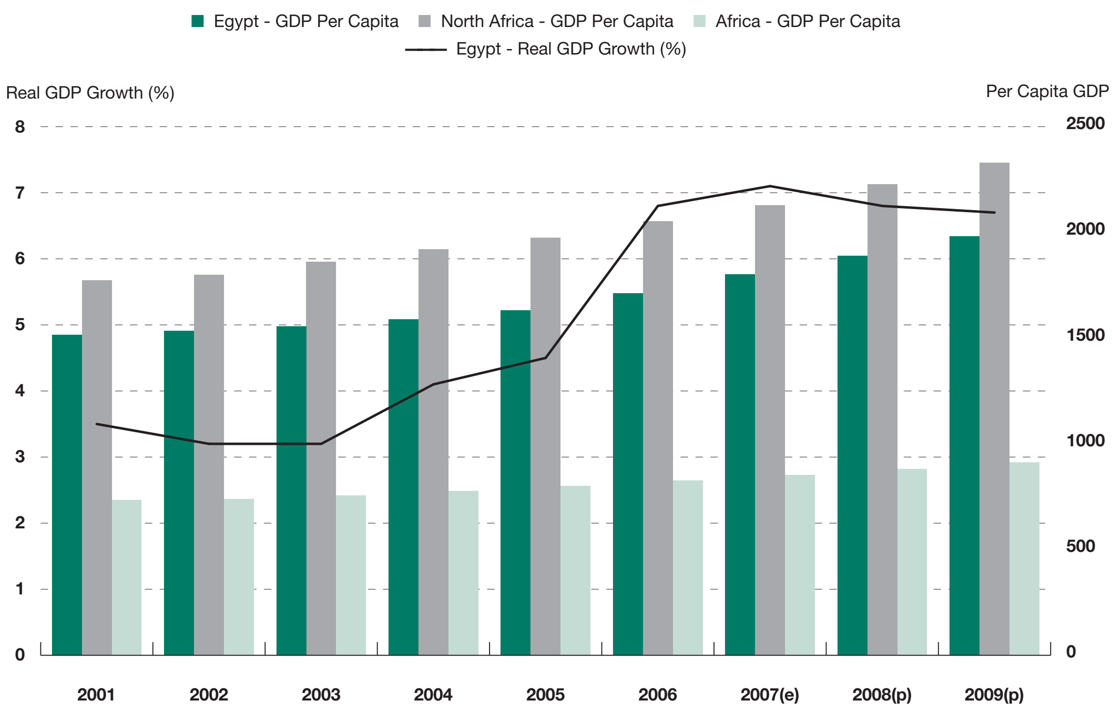
IN 2005/06 AND 2006/07, GDP GROWTH in Egypt averaged about 7 per cent. Manufacturing, construction, real estate and tourism were the main sectors driving growth. On the demand side, growth was mainly led by private investment and to a much lesser extent by private consumption and government spending. Sharp cuts in tax rates and customs duties helped to stimulate demand.

In 2006/07, foreign direct investment (FDI) rose to unprecedented levels, making Egypt the top FDI recipient in Africa and the second among Arab countries, after Saudi Arabia. In addition, the government's effort to improve the business environment has been recognised, with the World Bank identifying Egypt as one of the fast-reforming countries in 2007/08. Egypt's *Doing Business* ranking improved from 167th of 175 countries in 2006 to 126th out of 178 countries in 2007. In July 2007, Egypt became the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises, reflecting its recent progress on policy reforms aimed at improving the country's investment climate.

Unemployment and large fiscal deficits continue to be major challenges.

Economic growth is expected to continue at similarly high levels in 2008 and 2009. Growth is threatened, however, by an increase in fiscal imbalances and delays in institutional and political reforms. Rising income inequality is another cause for concern.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

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Large fiscal imbalances have resulted in large and growing public debt and debt service payments. In order to address this problem, the government is undertaking an ambitious programme to consolidate public finances and reduce the budget deficit. In addition, the government faces strong inflationary pressures, which are mainly demand-driven.

Recent Economic Developments

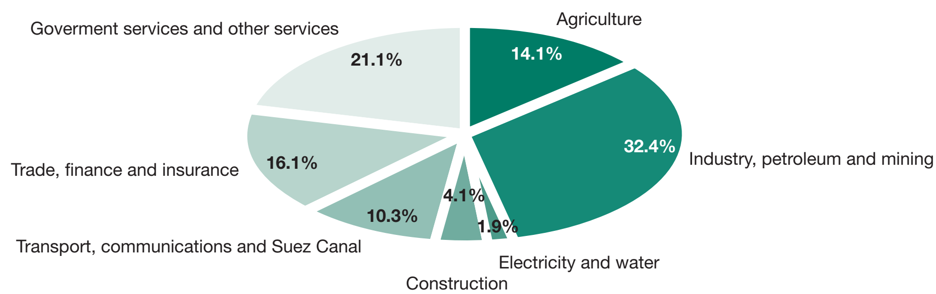
The real GDP growth rate continued the upward trend that began in 2004, increasing from 6.8 per cent in 2005/2006 to an estimated 7.1 per cent in 2006/07. The main economic sectors contributing to this growth in 2006/07 were industry, construction, real estate and tourism. Growth is expected to be 6.8 per cent in 2007/08 and 6.9 per cent in 2008/09.

In 2006/07, the non-petroleum manufacturing sector grew by 7.6 per cent, a rate exceeding that of GDP growth. The government's programme for the period 2005-11[1] includes the construction of 1 000 large factories by the private sector. These factories are supposed to generate 1.5 million jobs, contributing to the government's goal of creating 4.5 million jobs by 2010/11. The newly established Industrial Development Authority (IDA) allocated land for industrial projects having a total value of EGP 17.2 billion (Egyptian pounds), which are expected to provide 167 000 jobs. IDA also plans to establish a number of industrial clusters with a total value of EGP 4.5 billion, which are expected to provide 48 500 jobs opportunities. In addition, 28 new industrial zones are planned; they will require investments amounting to EGP 61.4 billion and are expected to provide 850 000 jobs. Manufacturing production was concentrated in fabricated metal products, printing, transport equipment, paper products, non-metallic industries, chemicals, ready-made garments and food products. Total investment in the manufacturing sector increased by 180 per cent in 2006/07 with respect to 2005/06.

Agricultural output grew by 3.7 per cent in 2006/07, as against 3.2 per cent in 2005/06. Production of major crops, such as vegetables and fruit, increased during the year, and Egypt produced 6 million tonnes of rice to become the largest rice producer in the Middle East and North Africa. Cotton production continued its decline as production fell by 2.8 per cent and exports increased by only 1.5 per cent, due to higher prices for other crops such as maize and rice, which replaced cotton cultivation.

The extractive sector grew by 3.9 per cent in 2006/07, with gas production increasing by 7.6 per cent. During 2007, 39 discoveries were made (27 for oil and 12 for gas). In September 2007, one of the largest gas producers in Egypt announced a landmark discovery in Upper Egypt, and production started in December. This discovery will help to boost the development of Upper Egypt, the poorest region in the country, which will need vast investments, especially in infrastructure, to cope with the new gas discoveries.

Figure 2 - **GDP by Sector in 2006/07** (percentage)



Source: Authors' estimates based on Ministry of State for Economic Development data.

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1. The government's 2005-11 programme was adopted after the September 2005 presidential election.

Domestic consumption of gas and petroleum products rose by 8 per cent and 4 per cent respectively. The number of housing units that use natural gas increased by 202 000, reaching a total of 2.5 million units. The number of vehicles using natural gas rose to 11 400, representing only 0.3 per cent of total vehicles (4.1 million in 2006/07), and 11 new natural gas stations were established during 2006/07. The expansion in natural gas consumption will have a positive environmental impact, since gas will replace more polluting fuels.

In the services sector, Suez Canal revenues grew by 17 per cent in 2006/07 to USD 4.17 billion. The higher revenues are mainly due to a 5.4 per cent increase in the number of vessels passing through the canal and a 12.6 per cent increase in tonnage. In addition, the capacity of the Egyptian maritime fleet rose by 40 per cent and that of maritime ports by 29 per cent.

Despite the continuing turbulence in the region, the number of tourists increased by 13 per cent in 2006/07 compared to the previous year, and tourist nights reached 96.3 million (85.1 million in 2005/06). The majority of the tourists are from Europe (73 per cent), followed by tourists from the Middle East (14 per cent), Asia (6 per cent), the Americas (4 per cent) and Africa (3 per cent). Tourism revenues increased by 11 per cent, while investment in this sector grew by 27 per cent.

Investments in the telecommunications and information technology sector increased by 30 per cent in 2006/07 compared to 2005/06. The number of mobile phone users rose by 28.5 per cent to 4.1 million, while that of fixed-line subscribers reached 12 million. The number of internet users increased by 38 per cent to 2 million users.

The construction sector grew strongly in 2006/07, becoming one of the major forces driving growth. This expansion was accompanied by an increase in the price of land and of intermediate inputs such as iron and cement. In addition, several foreign firms decided to seize the opportunities offered by Egypt's booming construction market and are currently establishing a number of real estate projects. The construction sector is constrained by lack of finance intermediated by the banking system and by a mortgage market that is still underdeveloped despite several recent reforms in this area. The government is also implementing a National Housing Programme that aims to provide 500 000 units for poor and middle-income groups during the 2005-11 period.

The share of agriculture in GDP declined slightly, from 15.5 per cent in 2005/06 to 15.0 per cent in 2006/07. Productive services (the Suez Canal, transport, trade, communications, tourism, finance and real estate services) accounted for 40 per cent of GDP and social services for 11.2 per cent.

Domestic investment increased by a remarkable 34.2 per cent in 2006/07 over 2005/06. Total investment increased from 18.7 per cent of GDP in 2005/06 to 21.6 per cent in 2006/07. Regarding the sectoral distribution of domestic investment, 26.9 per cent was made in manufacturing industries, 15.3 per cent in the oil and gas sector and 14.2 per cent in social services. In addition, infrastructure and transport projects attracted 14 per cent and 13.2 per cent of domestic investment respectively. Government investment accounted for 16.5 per cent of total investment and was mainly allocated to water and sanitation projects and to human resources development, which received 62 per cent. The remaining 38 per cent was allocated to transport (13 per cent), agriculture (8 per cent), construction (2 per cent) and other activities (15 per cent). Public sector investment increased by 47 per cent and was mainly concentrated in transport and the oil and gas sector. Private sector investment accounted for 62 per cent of total investment and grew by 45 per cent, reflecting a better business environment. The telecommunications and information technology sector attracted 28 per cent of private investment, while 25 per cent were allocated to manufacturing. The services and tourism sectors captured 16 per cent and 15 per cent respectively. In addition, 7 per cent of investment went to the finance sector, while investment in the agriculture and construction sectors accounted for 5 per cent and 4 per cent respectively. In 2006/07, FDI increased from USD 6.1 billion to USD 11.1 billion. For the first time

Table 1 - Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
Gross capital formation	**21.6**	**18.7**	**27.4**	**12.5**	**11.4**	**4.3**	**2.3**	**2.2**
Public	10.3	8.0	13.8	10.0	7.0	0.9	0.7	0.5
Private	11.3	10.7	37.6	14.0	14.0	3.4	1.6	1.7
Consumption	**86.6**	**82.9**	**6.4**	**6.2**	**6.6**	**4.9**	**5.3**	**5.6**
Public	11.6	12.3	5.1	5.0	4.0	0.6	0.6	0.5
Private	75.0	70.6	6.6	6.4	7.1	4.3	4.7	5.1
External demand	**-8.2**	**-1.6**				**-2.1**	**-0.8**	**-0.9**
Exports	15.1	29.9	19.3	10.2	6.1	3.9	2.3	1.4
Imports	-23.3	-31.6	31.3	13.3	9.4	-6.0	-3.1	-2.3
Real GDP growth	-	-	-	-	-	**7.1**	**6.8**	**6.9**

Source: Ministry of State for Economic Development data; estimates (e) and projections (p) based on authors' calculations.

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in many years, FDI was concentrated in non-petroleum sectors (47 per cent), with the petroleum and gas sectors attracting 28 per cent. The remaining 25 per cent of FDI consisted of purchases of shares in privatised enterprises.

Macroeconomic Policies

Fiscal Policy

The high level of budget deficits relative to GDP represents a major challenge for the government. On one hand, the government is under pressure to increase spending in order to reduce political risk. On the other, it has promised to reduce the budget deficit by at least one percentage point annually. In fact, the budget deficit fell from 8.2 per cent of GDP in 2005/06 to 7.4 per cent in 2006/07, despite a 4.8 per cent rise in expenditures in 2006/07 due to increases in public sector wages and non-wage compensation. Wages were responsible for 49 per cent of the expenditure increase, representing 23.5 per cent of overall expenditures and rising by 10.3 per cent, in line with the government's commitment to double public wages by the end of 2011. Subsidies declined slightly (by 0.5 per cent), accounting for 26.3 per cent of overall expenditures. Domestic debt service represented 21.5 per cent of overall expenditures. Public investment, other expenditures and purchases of goods and services accounted respectively for 11.4, 9.6 and 7.7 per cent of overall expenditures in 2006/07. The government used some of the proceeds from the privatisation of Bank of Alexandria to retire part of its high gross domestic debt, an operation that helped to reduce the latter from 96.1 per cent of GDP in 2005/06 to 87.1 per cent in 2006/07. The purchase of non-financial assets increased by 20.2 per cent to EGP 25.5 billion, further reducing net domestic debt.

The government is currently reforming the subsidy system, especially energy subsidies. Accordingly, the prices of petroleum products are expected to increase gradually. As for other subsidies, the government is aiming to target them more effectively to low-income households, but has had little success so far.

Since overall expenditures are expected to continue to increase, reducing the budget deficit will require raising additional revenues. In fact, revenue grew by 17.1 per cent in 2006/07, mainly due to an increase in tax proceeds, which account for 75 per cent of total revenue. This increase was due in part to the improved efficiency of the tax collection system, but also to a broadening of the tax base and strong economic growth. In addition, customs duties increased by 7.2 per cent despite the reduction in import tariffs.

Table 2 - **Public Finances** (percentage of GDP)

	1999/2000	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**23.1**	**21.0**	**20.6**	**24.5**	**24.6**	**24.7**	**24.9**
Tax revenue	15.1	13.8	14.1	15.8	15.6	15.8	16.0
Oil revenue	7.4	6.1	6.0	8.3	8.5	8.5	8.5
Total expenditure and net lending[a]	**26.0**	**30.1**	**30.0**	**33.6**	**30.4**	**29.4**	**28.3**
Current expenditure	19.9	25.0	25.3	29.9	26.5	25.4	24.4
Excluding interest	*14.6*	*18.7*	*19.3*	*23.9*	*20.0*	*19.7*	*19.2*
Wages and salaries	6.4	7.7	7.7	7.6	7.1	6.9	6.7
Interest	5.3	6.3	6.1	6.0	6.5	5.6	5.1
Capital expenditure	5.7	4.7	4.3	3.4	3.5	3.6	3.7
Primary balance	**2.4**	**-2.8**	**-3.3**	**-3.2**	**0.8**	**0.9**	**1.6**
Overall balance	**-2.9**	**-9.1**	**-9.4**	**-9.2**	**-5.7**	**-4.7**	**-3.4**

a. Only major items are reported.
Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

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Tax revenue is expected to increase further after the adoption of a new Real Estate Tax Law that is currently under discussion in parliament. The new law envisages lowering the tax rate on buildings and broadening the tax base by greatly increasing the number of buildings to which the real estate tax will be applied. It is estimated that applying the new law will increase tax revenue from EGP 150 million to EGP 2 billion. More importantly, it is hoped that taxing empty housing units will lead to the release of these units for rental. In addition, a new value added tax will be introduced in 2008/09, which further increase tax revenue.

Monetary Policy

In 2006/07, the inflation rate reached 11 per cent, mainly as a result of temporary or cyclical pressures, including avian flu, the rise of international food prices and the increase in the prices of building materials as a result of strong domestic demand and some monopoly practices. By the end of calendar year 2007, year-on-year inflation had fallen to 6.9 per cent (November 2007). Nevertheless, the surge in prices in fiscal year 2006/07 has put considerable pressure on household budgets, especially for low-income families, because of the high proportion spent on food products. These inflationary pressures are expected to continue in 2007/08, fuelled by strong growth in government spending and the expected gradual removal of domestic energy subsidies.

Institutional reforms have improved the ability of the Central Bank of Egypt (CBE) to conduct monetary policy. The substantial liberalisation of the financial markets, including facilitation of interbank transactions, combined with the earlier adoption of a floating exchange rate regime, resulted in a 5 per cent appreciation of the Egyptian pound in 2007. The CBE's key intervention rates, on overnight deposits and on lending to commercial banks, had been left unchanged since December 2006, at 8.75 and 10.75 per cent respectively. In February 2008, these rates were raised by 0.25 percentage point, to 9 per cent and 11 per cent respectively. The shift in the CBE's monetary policy towards inflation targeting will likely lead to further rate increases in order to keep inflationary pressures under control. The February 2008 increase is a step in the right direction but will not suffice to curb inflation, which stood at 11.5 per cent in January 2008.

Deposits increased by 15 per cent in 2006/07, and domestic credit to both the private and household sectors increased by 12.3 per cent, while credit to the government declined by 8.3 per cent. Banks have been reluctant to increase lending because of the high level of non-performing loans. However, with the government's efforts to reform the banking sector and the settlement of a number of large non-performing loans, growth in the supply of credit is expected to increase in 2007/08.

External Position

Egypt is a signatory of the Common Market for Eastern and Southern Africa and a founding member of the Pan Arab Free Trade Area. It was a trade partner of the European Union (EU) even before the Egypt-EU Partnership Agreement entered into force in June 2004. Egypt also signed the Action Plan for the European Neighbourhood Policy. In addition, the country has recently signed bilateral trade agreements with Turkey and Russia, strengthened bilateral co-operation with China and established a number of Qualified Industrial Zones (QIZ) with Israel to ensure better access to the US market. Recently, the terms of the QIZ agreement were changed to reduce the share of Israeli components from 11.7 per cent to 10.5 per cent, and the agreement will be expanded to include eight regions in Upper Egypt. Over the last two years, 203 Egyptian firms have exported USD 1.3 billion worth of duty-free products to the United States.

Exports increased by 19.3 per cent and reached USD 22 billion in 2006/07 (17.7 per cent of GDP). Petroleum exports showed little change between 2005/06 and 2006/07, while non-petroleum exports grew by 45 per cent in value terms over the same period, raising their share of GDP from 9.5 to 12 per cent. The value of non-petroleum imports grew by 34 per cent, while that of petroleum imports declined by 26 per cent. Higher imports are closely related to the increase in exports as well as to the expansion in domestic demand. Import prices in domestic currency have been dampened by the appreciation of the Egyptian pound. The balance of these factors resulted in a 30 per cent increase in the merchandise trade deficit from USD 12 billion in 2005/06 to USD 15.7 billion in 2006/07.

As regards the geographic distribution of exports, 39 per cent were exported to Europe, 30 per cent to the United States, 14 per cent to Asia, 13 per cent to Arab countries and 4 per cent to other regions. Egypt ranks sixth in the world in exports of liquefied natural gas, and further increases are expected in the next few years. In particular, gas exports to Jordan are expected to increase following the renegotiation of contract prices between the two countries. Currently, 85 per cent of Jordan's electricity is generated using Egyptian gas.

The current account surplus increased from 1.6 per cent of GDP in 2005/06 to 2.1 per cent in 2006/07. It is projected to rise slightly to 2.2 per cent in 2007/08 and then decline to 1.6 per cent in 2008/09.

FDI inflows reached USD 11 billion, contributing to a 63 per cent improvement in the overall balance of payments in 2006/07. This has resulted in international reserves exceeding USD 30 billion, which represents more than ten months of import cover. The large increase in FDI reflects broad-based confidence in the Egyptian economy's prospects as a result of the reform measures undertaken by the government over the last three years to improve the business environment. FDI inflows also benefited from abundant liquidity in the Gulf countries, generated by these countries' increased revenue from oil exports.

In July 2007, the government issued a EGP 6 billion Eurobond managed by Citigroup and JP Morgan. As

Table 3 - **Current Account** (percentage of GDP)

	1999/2000	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	-9.7	-11.5	-11.2	-12.3	-12.5	-12.5	-13.9
Exports of goods (f.o.b.)	13.0	15.4	17.2	17.1	17.7	17.7	16.7
Imports of goods (f.o.b.)	22.7	26.9	28.4	29.4	30.2	30.2	30.7
Services	9.3	9.0	7.1	8.0	8.1	8.1	8.3
Factor income	-0.3	-0.3	0.5	0.9	0.9	0.9	1.1
Current transfers	4.9	6.0	5.2	5.5	5.7	5.7	6.0
Current account balance	**0.0**	**4.2**	**3.2**	**1.6**	**2.1**	**2.2**	**1.6**

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

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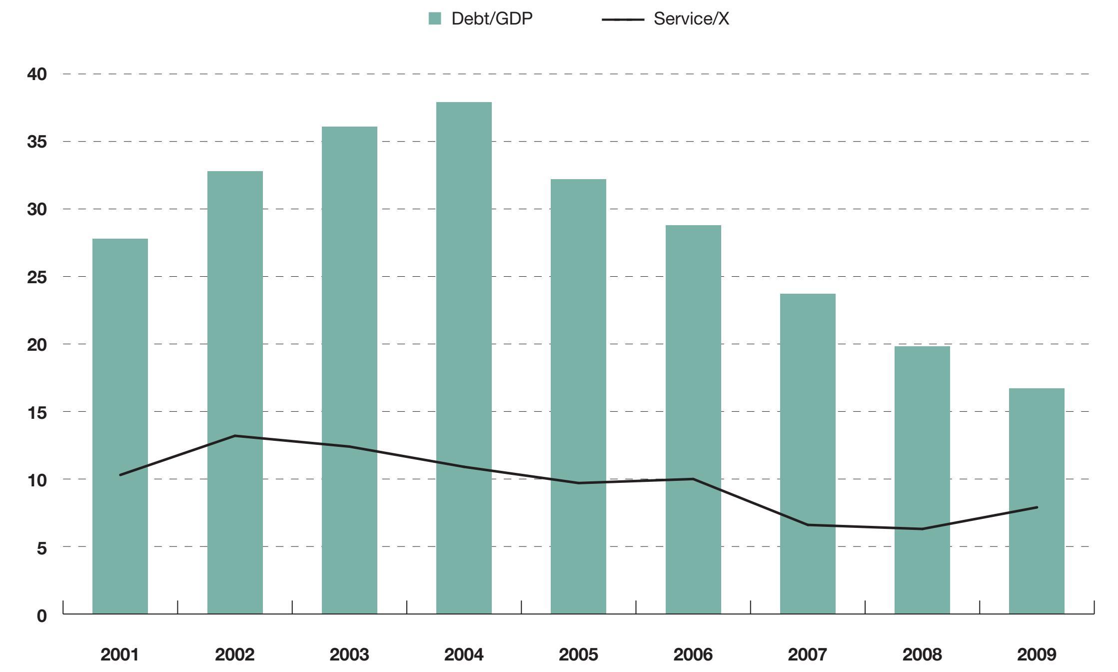
this bond was oversubscribed 2.5 times, the government is preparing to issue another. Similar to the previous issue, it will be denominated in Egyptian pounds but payable in dollars, and the term of the new issue will be increased from five to ten years. The amount had not been determined at the time of writing, but it is expected to be large enough to act as a reference point for future issues.

External debt increased slightly by USD 0.3 billion in 2006/07, as the outcome of two factors: the depreciation of the dollar against most borrowers' currencies, resulting in an increase of USD 0.6 billion, and the repayment of USD 0.3 billion of loans and facilities. External debt amounted to a very sustainable 23.7 per cent of GDP, while the ratio of debt service to current export receipts was 6.6 per cent.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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Structural Issues

Recent Developments

The government adopted a sixth five-year national development plan for the period 2007/08-2011/12[2], which is based on three main pillars: the government programme for the period 2005-11, the new Social Contract for Social Participation and the Millennium Development Goals (MDGs). For the first time, the plan incorporates a gender perspective, aiming to empower women and achieve gender equality. The plan seeks higher female participation in economic activities, from 19 per cent in the baseline year to 25 per cent by the end of the plan. It also calls for the creation of 600 000 new jobs for women through investments totalling EGP 931 million. The plan is aimed at achieving annual real GDP growth of 8 per cent, halving the unemployment rate, reducing public debt and raising living standards.

The government is committed to further privatisation and liberalisation of the economy. Banque du Caire, one of Egypt's largest public banks, is soon

2. The national development plan encompasses the government programme for the 2005-11 period.

to enter the privatisation process. JP Morgan was selected as an advisor to the government on the sale. Part of the privatisation proceeds will be used to pay down domestic debt.

The minimum capital required to start a business was reduced from EGP 50 000 to only EGP 1 000. The time and cost involved in starting a business were halved. Fees for registering property were reduced from 3 per cent of the property value to a low fixed amount of EGP 2 000. New one-stop shops have been established for traders at Egyptian ports; as a result, time to import has been reduced by seven days and time to export by five. New private credit bureaux have been established to facilitate bank lending to individuals. Regulatory reform is expected to continue as well.

To improve protection of intellectual property rights, a law was issued in 2002 to help Egypt comply with World Trade Organisation regulations by strengthening protection for patents, copyrights and trademarks. In addition, the Brand Protection Group, a new non-governmental organisation (NGO), was established in 2005 with involvement from major international and local firms concerned with fighting smuggling, counterfeiting and illicit trade.

The Ministry of Trade and Industry plans gradually to reduce energy price subsidies to energy-intensive industries over the course of three years. The targeted sectors include iron and steel, cement, aluminium, petrochemicals and fertilisers. Initially, this decision is likely to affect large firms only, but small and medium-sized enterprises (SMEs) will be included in the future. It is estimated that the reduction of energy subsidies will save EGP 30 billion in government expenditure over three years. More substantial reduction of government expenditures could be obtained if subsidies were reduced on petrol and domestic electricity. Although it is not publicly announced, the government raises electricity prices periodically.

In October 2007, Egypt announced a programme to build a number of nuclear power plants. Executive measures will be taken to establish the first nuclear power plant through Egyptian expertise and in co-operation with international partners and the International Atomic Energy Agency (IAEA).

A new stock exchange for SMEs was launched to provide these firms with different and diversified financing options. The transaction costs are lower than those of any other stock market and trading is limited to an hour a day. The share prices of major Egyptian firms recorded unprecedented increases during the year, and the Cairo and Alexandria Stock Exchange index of 30 leading shares (CASE 30) stood at 8 688, up 30 per cent from its level at end-2006.

A new textile zone will be established in Borg El Arab in Alexandria, aimed at attracting Italian investments in garment sector SMEs. In addition, the government awarded 14 new cement licences in order to increase competition in the cement market. This is expected to reduce prices and increase job opportunities. Additional iron and steel licences will be issued in 2008 to achieve similar objectives.

In the information and communication technology sector, a new Arabic-language search engine called Onkosh was launched in September 2007. One-third of its users are Egyptian and 29 per cent are Saudi Arabian. This is expected to attract a significant share of Arab internet users to Egyptian service providers.

Technical and Vocational Skills Development

The Ministry of Education's priority is secondary school education that prepares students for tertiary education. The resources allocated to tertiary education are also much greater than those allocated to technical and vocational education and training (TVET) in secondary schools. Meagre budgets are allocated to upgrading equipment and workshops of technical schools and vocational training centres and to teacher training. These schools and training centres are under-equipped and outdated. Teachers are poorly qualified and remunerated, lack motivation and suffer from low social status and poor career prospects. Curricula are reviewed infrequently and are widely regarded as obsolete. Moreover, they lack co-ordination, especially in relation to standardisation of curricula, which results in severe discrepancies in the qualifications and skills acquired by graduates of different schools and training centres.

The TVET system is very complicated, involving 22 ministries and agencies. These include the Ministry of Education (1 600 technical and vocational schools), the Ministry of Higher Education (47 middle technical institutes), the Ministry of Manpower and Migration, the Productivity and Vocational Training Department of the Ministry of Trade and Industry (52 training centres, 40 000 trainees), the Ministry of Reconstruction and Housing (53 training centres, 70 000 trainees), the Ministry of Social Solidarity (196 training centres) and the Ministry of Military Production. In July 2006, an Industrial Training Centre (ITC) was established in the Ministry of Trade and Industry to co-ordinate all TVET programmes. According to the ITC plan, 250 000 workers will be trained per year.

Egyptian enterprises do not provide adequate training for their employees, with the exception of very limited on-the-job training for basic production skills. A small number of large local firms and transnational corporations allocate some resources for training budgets and use modern training methods. Reasons for the failure to provide training include lack of awareness of its benefits and the fear that other firms will poach trained workers. In addition, the government provides no incentives for firms to engage in training programmes, such as sharing the costs of training or providing tax reductions for firms involved in such activities. SMEs invest hardly at all in training programmes, due to budget constraints and lack of understanding of the benefits of these programmes. These market failures could be handled through incentive schemes for in-house training, disseminating best training practices and awareness campaigns on the benefits of training (especially training abroad) in improving efficiency and cutting costs.

As early as 1998, the Egyptian government responded to this need by launching the Future Generation Foundation (FGF), a major initiative to raise the skills of the labour force. FGF's programmes include the Senior Executive Programme developed in collaboration with Harvard Business School to help managers meet the myriad challenges ahead of them and capitalise on their opportunities. The Advanced Management Programme also seeks to prepare potential managers and other functional specialists for successful career transition into general management roles. The Microsoft Scholarship Programme is aimed at training more information technology professionals and equipping them with the skills needed to excel in order to establish a strong national information technology industry. Finally, there is the Basic Business Skills Acquisition programme, which provides university graduates with three months of intensive training to acquire the skills needed to succeed in the current work environment. FGF has provided 30 000 training scholarships in 18 governorates.

A good example of public-private partnership between training institutions and businesses is the Mubarak-Kohl Initiative, widely regarded as the most successful training programme in Egypt. This project involves co-operation among the Ministry of Education, the German technical co-operation agency (GTZ) and business associations. The ministry provides school premises, trainers, teachers and training funds; GTZ provides technical experts, school equipment and training materials; and enterprises, through business associations, contribute training opportunities and allowances for trainees. Under this initiative, training has been provided for 29 occupations in 45 technical secondary schools in 24 governorates. In total, 16 000 trainees have been trained in 1 600 training companies.

In recognition of the need to reform TVET, the Supreme Council for Human Resource Development, reporting to the prime minister, was established in 2000 to design a national training and employment strategy. The strategy was finalised in August 2002 with the objective of designing a TVET system that is responsive to market needs, developing a new legal and institutional framework for TVET schools and centres to make them more autonomous, and enhancing labour mobility. One of its results was the reorganisation and consolidation of TVET programmes mentioned above.

There are currently a number of major projects supporting the TVET reform agenda. The EU's Technical, Vocational and Educational Training Reform Programme aims to provide adequately trained labour for technology-intensive sectors and those with high growth potential. The programme targets students and staff in post-secondary TVET serving the industrial and service sectors, where inadequate or outdated skills constitute an obstacle to competitiveness. The programme is based on a private-public partnership for the delivery of training. In 2005, it established enterprise training partnerships between public and private technical and vocational training providers serving the garment industry, in collaboration with the Chamber of Textiles and Garments affiliated with the Federation of Egyptian Industries.

The World Bank provided a USD 15 million loan for a four-year pilot project, the Skills Development Project (SDP), which started in 2004. The main objective of the project is to provide demand-driven vocational training for SMEs in the construction, manufacturing and tourism sectors. The SDP works closely with employers' organisations and assists them in improving their capacity to assess the skills needs of private sector firms. Currently, the project is dealing with the Union of Arab Contractors and providing training for casual workers.

The National Skills Standards Project (NSSP) aims to upgrade skills standards to international levels in various fields and to develop a National Vocational Skills Standards and Certification System in Egypt, as well as providing teachers with the skills to deliver courses in line with European best practice. The NSSP has produced 235 qualifications for 106 trades in three key sectors (tourism, construction and industry) and was expected to cover 600 trades in 2007 and 1 000 in 2008. The NSSP will also establish procedures for testing and certifying trainees and will create a system for accrediting training providers on the basis of quality, relevance and efficiency.

TVET is mainly funded through the government budget and from training levies collected from businesses, especially public sector enterprises. The budget allocation for TVET depends on the previous year's allocation and is not tied to any key performance indicators. In addition, it does not differentiate between training institutions or specialisations. Consequently, the TVET system has declined in quality and failed to deliver education and training that meet market demand and international standards. Moreover, there are hardly any practical training opportunities for TVET students or even for instructors. The Ministry of Manpower and Migration (MoMM) runs a Training Finance Fund established under Labour Law no. 12 of 2003. According to the law, a 1 per cent levy on net profits of firms employing ten or more workers is to be allocated to the training centres run by MoMM. The levy yields EGP 300-400 million a year.

The TVET system is not yet able to meet the needs of the increasing number of new entrants to the labour market, nor equipped to provide the skills required by an expanding modern private sector. TVET has never been concerned with placement, since jobs used to be secured by the guaranteed employment programme, now discontinued. Private sector firms are increasingly involved in the design and delivery of training, but further efforts along these lines and more business involvement are needed. TVET lacks proper follow-up and evaluation mechanisms.

A major problem facing TVET is the large number of informal workers who receive no proper training, as their on-the-job training is usually incomplete and outdated. Some NGOs offer limited training courses, which are usually market-driven and are better than on-the-job training.

Political Context

Recently, parliament approved 34 constitutional changes, mainly to strengthen democracy and make it easier for political parties to nominate presidential candidates. In regard to the latter, the changes to Article 76 of the Constitution require candidates to obtain the endorsement of 250 elected members of representative bodies such as the People's Assembly, the Shoura Council and local councils. This means that independent presidential candidates need the support of a strong and large network, such as that provided by the National Democratic Party. The number of terms the president can serve was left unlimited. The approved changes also prohibit the establishment of political parties on a religious basis. (In this regard, the Supreme Administrative Court has rejected 13 applications to establish political parties.) The impact of the anti-terror law that is currently being prepared is unclear. Lastly, the constitutional changes eliminated independent judicial monitoring of elections.

Opposition parties are already burdened by a lack of credibility. Given the additional constraints entailed by the current election rules, it would seem highly unlikely that these parties will be able to provide viable alternative candidates for president. In addition, four independent editors were recently convicted for writing offensive articles about the president and sentenced to prison terms, which can be expected to have a chilling effect on the exercise of press freedom.

Social Context and Human Resources Development

The 2004/05 Household Income, Expenditure and Consumption Survey reported a total national poverty rate of 40.6 per cent, representing 28.1 million people. Almost 13.6 million of these (19.6 per cent of total population) were classified as absolutely poor because they failed to secure their basic needs; within this category, there were 2.6 million defined as extremely poor (3.8 per cent of total population) because they could not even secure their food requirements. Another 14.5 million people (21 per cent of total population) are near poor, meaning that they can meet their basic food requirements and to some extent their non-food needs. Between the 1999/2000 and 2004/05 household surveys, the number of poor and extreme poor increased, while the number of near poor declined. The overall poverty rate fell, possibly because of an increase in employment. Poverty is more concentrated in rural areas (the rural poor accounting for 78 per cent of total poor and 80 per cent of extreme poor) and in Upper Egypt (66 per cent of extreme poor, 51 per cent of poor and 31 per cent of near poor). Within rural Upper Egypt, poverty is concentrated in specific pockets. The Gini coefficient declined from 0.36 in 1999/2000 to 0.32 in 2004/05, indicating an improvement in income distribution between the two surveys.

The labour force in the 15-64 age group reached almost 50 million in 2006/07, with an annual growth rate of 2.3 per cent. Employment increased by 3.1 per cent for the same age group during the same period. Consequently, the unemployment rate declined from 9.5 per cent in 2005/06 to 9.1 per cent in 2006/07. According to the 2006 Labour Force Sample Survey, unemployment was primarily a youth problem, as almost 90 per cent of the total unemployed were in the 15-29 age group. Unemployment was also concentrated among those with medium to high levels of education (94.3 per cent of total unemployed). Joining the workforce is also a problem: 90 per cent of the unemployed are first-time job seekers. Unemployment affects women (24 per cent unemployed) more than men (6.8 per cent), and it is more concentrated in Upper Egypt governorates, where unemployment rates reached 9.4 per cent.

Several reasons explain the persisting unemployment in Egypt. On the demand side, the economic slowdown during the first years of the decade reduced the private sector's ability to provide job opportunities to new entrants to the labour market and to compensate for the government's retreat from the guaranteed employment programme. On the supply side, the education system failed to match the skills of graduates with those most in demand in the job market.

The minimum wage in Egypt is not only very low, but also poorly enforced. The National Council for Wages, established in 2003, is currently revising the minimum wage level in an attempt to provide more decent levels of income to a large proportion of society. There is some concern, however, that setting an enforceable minimum wage at too high a level could have negative effects on employment. In 2007, several public and private sector firms witnessed strikes by workers demanding higher salaries and regular payment of their allowances.

The total number of students enrolled in all education levels increased from 19.7 million in 2005/06 to 20.5 million in 2006/07. Class density (average number of students per class) is very high at all levels, especially in primary education where it reached 42.9 in 2006/07. The net enrolment rate in primary education increased from 92.9 per cent in 2000 to 101 per cent in 2005; in the latter year, net enrolment stood at 85.5 per cent in secondary education and 33.9 per cent in tertiary education. The adult literacy rate is 71.4 per cent. The number of illiterate males 15 years and older declined from 3.2 million in 2005/06 to 2.9 million in 2006/07, while the number of illiterate females in the same age group fell from 7.9 million to 7.7 million.

The proportion of students enrolled in the private pre-university system stood at only 8 per cent in 2006/07. The ratio of females to males in pre-university education, including Al-Azhar schools, rose from 63 per cent in 2005/06 to 68.1 per cent in 2006/07. As for higher education, the number of students in post-secondary and university education, including the Al-Azhar education system, increased from 2.5 million to 3.3 million during the same period. There were 18 public universities in 2006/07, and the number of private universities increased from 9 in 2005/06 to 15 in 2006/07. Government expenditure on education declined from 4.2 per cent of GDP in 2005/06 to 3.8 per cent in 2006/07, though it rose slightly as a percentage of total government expenditure (from 12.3 per cent to 12.5 per cent).

Between 2000 and 2006/07, life expectancy increased from 71 years to 73.6 years for females and from 66.7 years to 69.2 years for males. Infant mortality declined from 26.4 per thousand in 2000 to 19.1 per thousand in 2006/07. A new health insurance law is to be discussed in the current parliamentary session and is scheduled for implementation in 2011. The new system aims at widening the coverage of health insurance to the entire population, compared to only 42 per cent at present, including those in rural areas and in the informal sector. Strong public opposition led the government to reject the option of privatising the health insurance system. The proposed new system separates funding from service delivery in order to maximise efficiency.