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COMMISSION STAFF WORKING PAPER

Annex to :

”European Neighbourhood Policy”

Country Report

Egypt

{COM(2005) 72 final}

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1. INTRODUCTION

On 1 May 2004, the enlargement of the European Union took place with the accession of ten new Member States. It has brought changes to the EU's political geography offering new opportunities to deepen existing relations between the Union and its neighbours to the East and to the South. The Union is determined to further develop partnerships with its neighbours to mutual benefit, promoting security as well as stability and prosperity. The EU's external borders will not become new dividing lines but the focus of enhanced co-operation.

The European Neighbourhood Policy (ENP) sets ambitious objectives for partnership with neighbouring countries based on commitments to shared values and political, economic and institutional reforms. Partner countries are invited to enter into closer political, economic and cultural relations with the EU, to enhance cross border co-operation and to share responsibility in conflict prevention and resolution. The Union offers the prospect of a stake in its Internal Market and of further economic integration. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The policy builds upon the existing framework of co-operation.

In this report¹, the Commission provides an assessment of bilateral relations between the Union and Egypt. The report reflects progress under the Association Agreement, and describes the current situation in selected areas of particular interest for this partnership: the development of political institutions based on the values – democracy, the rule of law, human rights – enshrined in the Agreement, regional stability and co-operation in justice and home affairs, and economic and social reforms that will create new opportunities for development and modernisation, for further liberalisation of trade and for gradual participation in the Internal Market. The report provides guidance for the preparation of joint action plans, and serves as a basis for assessing future progress in the Union's relations with Egypt..

1.1. Relations between the European Union and Egypt

Egypt and the European Community first established diplomatic relations in 1966. Ten years later, in 1976, a first **Cooperation Agreement** was signed. The **Euro-Mediterranean Partnership** inaugurated at the 1995 Barcelona conference established a policy with ambitious and long-term objectives. The three main fields of activity within the Barcelona process are (a) the political and security partnership, (b) the economic and financial partnership, and (c) the partnership in social, cultural and human affairs. The 2001 Association Agreement with Egypt sets out in more detail the specific areas in which these objectives can be developed bilaterally.

The trade and trade related provisions of the EU-Egypt **Association Agreement (AA)** entered into force in January 2004 followed by the entry into force of the entire Agreement in June 2004 which now forms the legal basis of EU-Egypt relations. Based on respect of democratic principles and fundamental human rights, it provides a framework for political dialogue, liberalisation of trade in goods, services and capital including the completion of a Free Trade Area by 2015 (2018 for a very limited number of industrial goods), and close economic, social and cultural relations between the parties. Economic co-operation, including approximation of laws and application of Community standards, aim to support Egypt's

¹ For the most part, covering events and developments until 31 December 2004

efforts to achieve sustainable economic and social development. As regards agricultural products, a “rendezvous” clause to continue the dismantling process for tariffs is set for 2007. The AA established an Association Council, which met in June 2004, and an Association Committee. The structure of sub-committees has not yet been established.

Egypt is one of the four signatories of the **Agadir Free Trade Agreement** with Jordan, Morocco and Tunisia which is open to accession by other countries.

Until recently, the EU-Egypt bilateral relations were almost exclusively developed in the framework of the Barcelona process and through the implementation of the MEDA programme. With the entry into force of the Association Agreement, relations entered into a more intense phase which covers a much wider spectrum of fields of cooperation and aims at supporting the economic and political reform in Egypt and a much closer partnership between the EU and Egypt. The relationship will be further strengthened by the implementation of the **European Neighbourhood Policy**. According to Egypt’s declaration at the first meeting of the Association Council in June 2004, it regards the ENP as an ambitious initiative which will benefit all Southern Mediterranean countries

1.2. Community and macroeconomic assistance

Egypt is one of the main beneficiaries of community assistance among Mediterranean partners. The EU (Community, Member States, EIB) is the second largest donor in Egypt. **Community and macroeconomic assistance (MEDA I and MEDA II), in € million**

	2000		2001		2002		2003		2004	
	C	P	C	P	C	P	C	P	C	P
Committed / Paid										
Total	13	64	0	63	78	26	104	57	159	151

Projects and programmes under MEDA I focussed mainly on the promotion of key economic and social reforms. Under MEDA II, the main priorities of EU financial co-operation with Egypt, as set out in the Country Strategy Paper 2002-2006, are i) promoting the effective implementation of the EU-Egypt Association Agreement (AA) ii) supporting the process of economic reform and transition; iii) supporting stability and sustainable and balanced socio-economic development.

The National Indicative Programme (NIP) 2002-2004 for Egypt amounts to €351 million. Egypt currently benefits from a sector adjustment facility (Trade Enhancement Programme-B) of €40 million plus a structural adjustment facility of €175 million following the restructuring of the Industrial Modernisation Programme. The NIP for 2005-2006 involves total funding of €243 million, focusing on three main priorities: i) Support for the Association Agreement in the context of the European Neighbourhood Policy; ii) support for the process of economic transition in the water sector and in the field of knowledge information society; iii) support for sustainable socio-economic development through social and health reforms as well as good governance, human rights and democratisation.

Egypt participates in a range of Euro-Med programmes promoting people-to-people contacts and co-operation between actors of civil society, associations and NGOs. Egypt is eligible for

participation in the Community programmes Tempus and Erasmus Mundus. Egypt has been allocated support under the European Initiative for Democracy and Human Rights (**EIDHR**) in the context of regional projects in the years 2002-2004. EIDHR supports civil society initiatives that aim to promote democracy and human rights.

The **European Investment Bank** has committed more than €2.7 billion in loans since 1978. Major sectors include energy, transport, industry, farming and water sewage. EIB activities in Egypt have strongly increased in 2003, with a special focus on private sector support: total loans in 2002 equalled €252 million and €509 million in 2003, of which 60% was for private sector development. An additional €31.5 million was allocated by the NIP 2002-2004 as interest rate subsidies in support to environmental loans. The EIB's operations receive further impetus from its Facility for Euro-Mediterranean Investment and Partnership (FEMIP) which also led to the opening in Cairo, in July 2003, of the first EIB office in the Southern Mediterranean.

2. POLITICAL ISSUES

2.1. Democracy and the rule of law

The 1971 Constitution defines the Arab Republic of Egypt as a “socialist democratic system based upon multi-party foundation”. The **President** is the Head of State, nominated by the People's Assembly and elected by referendum. The President's term is six years and may be re-elected. President Hosni Mubarak, who is also the President of the ruling National Democratic Party (NDP), has been in office since 1981 and was re-elected unopposed last time in 1999. Election will take place again in 2005 and President Mubarak is expected to run for another term. The President appoints the Prime Minister and other Ministers, as well as civil and military officials, promulgates laws and concludes treaties which only in specific cases (such as peace treaties) require the approval of the People's Assembly.

Islam is the State religion and the principles of Islamic jurisprudence are the main source of law. The Constitution proclaims equality for all citizens, irrespective of religion, race or sex, the latter within the limits of Islamic jurisprudence

Legislative power lies with the People's Assembly which consists of 444 directly elected members - in 222 two-member constituencies - and ten members appointed by the President of the Republic for a five-year term. The Shura Council, Egypt's upper chamber, consists of 264 members, one third of whom are appointed by the President for a six-year term, the rest being elected every three and six years respectively. Consultation of the Shura Council is mandatory but its deliberations are not binding. The last legislative **elections** were held in 2000. The NDP maintains an overriding majority in the two chambers. New elections will take place later this year. According to law, **political parties** must not be based on race or religion. This excludes movements such as the Muslim Brotherhood from forming their own political party. The NDP has announced its intention to propose amendments to key political laws to widen participation in political life.

The supreme **executive** and administrative organ is the government, led by a cabinet of Ministers under the leadership of the Prime Minister. Since July 2004, the cabinet of Prime Minister Ahmed Nazif is composed of 34 ministers, all belonging to the NDP as for the previous governments. Following a period of unsatisfactory economic growth, exacerbated by the events of September 11 2001 and the Iraq war, the focus of the new cabinet is on

economic and social recovery. In its first months, the new cabinet embarked on significant economic reform which included the lowering of customs duties and the simplification of custom procedures (see 3.3.)

Legal opposition parties are rather weak, both financially and politically. In view of the 2005 elections, seven opposition parties have formed an Alliance of National Forces for Reform with a political platform which would start with ending the State of Emergency which dates from 1981.

According to the Constitution, Egypt is divided into governorates, cities and villages. Administrative units have local resources and responsibilities in all areas of competence of ministries. The 26 governorates are headed by a governor, appointed by the President, with the rank of ministers. Governorates are divided into a total of 133 districts, each containing one major town and between four and eight village councils. **Local government** units within each governorate manage all public utilities and provide services. Financial resources are allocated from the national budget. Local Popular Councils work together with local government.

The **judicial system** consists of Summary Tribunals (for low value offences and misdemeanours), Courts of First Instance and seven Courts of Appeal. The appointment of the approximate 7,000 judges is governed by the Judiciary Statute. The Egyptian Supreme Judicial Council (ESJC) oversees judiciary affairs and must give its approval to appointments, promotions and transfers. The highest level of appeal, on law only, is to the Court of Cassation whose jurisdiction extends to criminal, civil and commercial cases as well as labour law, tax law and personal status. The Supreme Constitutional Court has sole authority in reviewing the constitutionality of laws. The Supreme Constitutional Court is recognised by international observers as a truly independent court. There are no religious tribunals. Civil courts apply the Personal Status Law based on Sharia (Islamic Law) to both Muslims and non-Muslims, as regards inheritance matters, while in all other matters regarding family and personal status, non-Muslims maintain separate legislation.

Military courts try cases involving armed forces, but during a state of emergency the President may transfer crimes – even political ones - to these courts. A state of emergency has been in place since 1981 and such case transfers have happened in past years. The decisions of military courts are not subject to review by the Court of Cassation.

The State Council is an autonomous part of the Judiciary. It reviews the constitutionality of administrative decrees issued by the executive and comprises three instances of administrative courts. In addition to military courts, special (State security) courts were established under the State of Emergency. There is no possibility of appeal against the decisions of these courts.

In the absence of well-paid and high-level private sector jobs, a relatively well-educated labour force finds low-productivity jobs in the **public administration** guarantee scheme. This situation leads to a misallocation of human and financial resources and to problems of scarce efficiency of the public administration. A full-fledged public administration reform is not foreseen in the short-term in view of the high social costs attached and the unsatisfactory rate of economic growth.

In 2004 the Transparency International's *Corruption Perception Index* ranked the country at the 77th place which indicates that there is a high perceived level of corruption. Egypt has not yet signed the 2003 African Union Convention on the prevention and combating of corruption

and has signed but not yet ratified the UN Convention against Transnational organized Crime. The UN Convention against Corruption was ratified by the Parliament in November 2004. Egypt is not a signatory of the 1997 OECD Convention on Combating Bribery. Civil cases are tried locally provided they do not involve public interest. Two Agencies are entrusted with the enforcement of Egypt's severe anti-corruption laws in the public sector: the Administrative Control Agency (ACA) and the Illicit Gain Office (IGO). Corruption is treated as a criminal act. Several high-profile corruption cases resulted in prison sentences during the past few years.

2.2. Human rights and fundamental freedoms

Egypt has ratified most of the major UN human rights conventions though with reservations. In general, the provisions of international treaties are part of national legislation.

However, a major obstacle to the full enjoyment of human rights and fundamental freedoms is the implementation of the **Emergency Law** (continuously applied since 1981). The State of Emergency allows for arbitrary arrests, detention without trial and restrictions on freedom of assembly. Court rulings under the Emergency Law often circumvent constitutional and international safeguards such as the guarantee of a fair and impartial trial.

Since 2003, the debate on democratisation and human rights intensified. The National Democratic Party published a document on "Rights of citizenship and democratization". Some positive developments have occurred, such as the conviction of police officers for torture, the release of long-term detainees held without conviction, the banning of the practice of flogging in prisons, a new Personal Status Law improving the status of women, the creation of a National Council for Human Rights, the abolition of hard labour sentences and the abolition of the State Security courts (but not those Security courts established under the Emergency Law, which are still operational), the creation of the Human Right Committee in the People's Assembly.

The Egyptian authorities have not yet established a specific comprehensive human rights strategy. The National Council for Human Rights, created in 2004, has been mandated to propose a national work plan on human rights, to receive complaints, and to monitor the implementation of international agreements related to the protection of human rights.

The Constitution recognises the **freedom of opinion, expression**, assembly and association, although these are nevertheless restricted under the State of Emergency. Citizens speak relatively freely and criticise certain policies, the government and the public service. However, limitations on the right to free expression are reported in the case of political opposition activists, writers, and civil society activists. The Constitution provides for **freedom of the press** and forbids censorship except during a State of Emergency. The Penal Code makes criticism of the President, government members and foreign heads of state punishable by financial and/or criminal sanctions. The Press Law and the Publications Law contain regulations against malicious and unsubstantial reporting. In 2004, in compliance with a 1985 law, the government granted the Islamic Centre al-Azhar the power to search and seize material not in conformity with the Islamic Sharia. The government owns and operates all ground-broadcast television stations and has extensive control over printing and distribution of newspapers, including opposition party newspapers. The Supreme Press Council is responsible, among other things, for authorising the appearance of new publications. Some newspapers and magazines have foreign licences and are printed in a free trade zone. The English-language press tends to be relatively outspoken as it reaches only a comparatively

small audience. The Ministry of Interior has occasionally prevented in the past specific issues of foreign-based newspapers from getting into Egypt on the grounds of protecting public order. Internet use is gradually spreading in Egypt. In 2002 the government established a unit which monitors the Internet in real time and is in charge of investigating Internet crimes. In the absence of a law on the internet, existing laws on the press are applied restrictively.

The Constitution provides for **freedom of belief** and the practice of religious rites, which should not be in conflict with the Sharia. For the most part, non-Muslims are able to worship without harassment and such religious strife as occurs generally has a socio-economic or sectarian origin. Religious identification is required for all documents related to family law. The Coptic community is estimated to comprise around 10% of the population. Representatives of the Coptic community are present in parliament and in the government. They are not, however, recognized as a “minority” and no special provision exists for their protection. There is a small and decreasing Egyptian Jewish community and a few Baha'is. Proselytising and conversion is not prohibited by either the Constitution or the Civil and Penal Codes. However, the Islamic Sharia prohibits conversion to Christianity and administrative obstacles have been reported in officially registering a change of religion from Islam to Christianity.

Regarding freedom of **association and assembly**, a **political parties** committee within the Shura Council is empowered to accept or reject political parties' applications for registration. Over the past 27 years, the committee rejected 63 applications and authorised four, of which two in 2004. Authorities require advance notification for public demonstrations, rallies and protests and permission can be denied for security reasons. Demonstrations are generally limited to confined and controllable areas (mosques, university campuses etc...)

Civil Society organisations perform important tasks, especially with respect to the provision of social services. The number of non governmental organizations (NGOs) in the country is estimated at 16,000. In general NGOs, including human rights NGOs, have a limited operational capacity. A new law on NGOs was recently adopted, setting out provisions for formation, functioning and funding of non-governmental organisations and private foundations. Whilst there are concerns about restrictive provisions in this law (e.g. registration, dissolution of NGO by governmental decree), its implementation to date has been generally encouraging. NGOs can receive funding from countries and organizations with an established presence in Egypt by notifying the Ministry of Social Affairs.

Egypt has ratified all ILO Conventions on core labour standards (forced labour, freedom of association, collective bargaining, child labour, discrimination). The right to create a syndicate or a **trade union** is enshrined in the Constitution. The 1993 Professional Syndicates Law is contested by the opposition since it foresees stringent measures for holding elections within professional organizations. All trade unions are required to belong to the Egyptian Trade Union Federation (EUTF) which, according to the ILO, infringes on freedom of association. The new Unified Labour Law and Professional Syndicates Law recognize in theory the workers' right to bargain collectively and to strike for vocational, economic and social reasons. Nevertheless limitations on the practical enjoyment of these rights exist. The new Unified Labour Law also calls for the establishment of a tripartite labour consultative council to address tripartite issues and review legislation.

Egypt acceded to the UN Convention Against **Torture** in 1986 but it has not ratified the Optional Protocol. The Convention's provisions have been transposed into national law in accordance with the guidelines of the UN Committee against Torture, with the only exception

being the definition of torture which does not fully comply with the Convention. The UN Special Rapporteur on torture requested a visit to Egypt in 1996, but is still awaiting an invitation by the Government. The Constitution, the Criminal Procedure Law and the Penal Code prohibit and punish the infliction of “physical or moral harm”. Torture is, however, often cited by human rights organisations at international and national level as being widespread and the biggest single violation of human rights in Egypt. Despite legal guarantees for victims of torture, human rights organisations report several impediments to effective investigation of torture complaints. The existence of individual misbehaviour by security forces has been recognised by the Egyptian government and during 2002 the Government expanded efforts to hold public officers accountable for torture. In addition to prosecutions of officers involved in cases of torture and abuse of detainees, civil courts continued to review cases and awarded compensation to victims of police abuse. Within the Public Prosecutor’s Office, a Human Rights Unit has recently been created.

Administrative **detention** is provided for under the Emergency Law. The Ministry of Interior can issue a detention order when, on the basis of objective evidence, the individual constitutes a danger to public order and/or security. There are frequent reports of circumvention of the limits on the duration of detention, which can in practice mean that individuals can effectively be detained for years. Failure to implement judicial rulings regarding the release of administrative detainees continues to occur. The current number of detainees is difficult to ascertain. Human rights organisations estimate the number of administrative detainees at around 10-15,000. It is not known how many of these are facing charges, awaiting trial, or are detained without trial. In principle, lawyers are permitted to visit prisoners, however, they often face considerable bureaucratic obstacles and relatives are often unable to obtain regular access to prisons and detention centres for visits. The UN Special Rapporteur on Torture has called for a total ban on the practice of incommunicado detention which is permitted for long periods under the Law on Prisons. Despite recent renovations in a number of **prisons**, the general situation is poor, due to overcrowding, a lack of proper hygiene, food, clean water, proper ventilation, recreational activities, and medical care. Children are not kept separate from adults; no monitoring mechanisms exist to investigate and follow up cases of child abuse. The Public Prosecutor is required by law to inspect prisons and places of detention. Findings have not been made public. However, the premises of the State Security Intelligence, where torture is reported to have been practised, have not been visited. It is very difficult for human rights organisations to have access to prisons or to any place of detention.

The Constitution allows for the **death penalty** which may be imposed for the most serious crimes and is applied in cases involving drug-related offences, rape, and premeditated murder, as well as Emergency Law related cases, e.g. involving terrorism. Over the past decade, death sentences have been carried out for all the above-mentioned offences. Death sentences are passed by exceptional courts as well as by criminal courts. There is no right of appeal against death sentences passed by military courts or by the State Security Court established under the Emergency Law.

Egypt signed the **Rome Statute of the International Criminal Court** in December 2000 but the People’s Assembly has not yet ratified. In July 2003, Egypt signed a bilateral Article 98 (‘No Surrender’) agreement with the US.

Egypt has ratified the Convention on the elimination of all forms of **discrimination against women** (CEDAW) but with four reservations based on non-compliance with the Islamic Sharia. One of the reservations (nationality of children) will soon be lifted following the adoption of a new nationality law which grants Egyptian nationality to children of an

Egyptian mother and non-Egyptian father. Violence against women is still widespread. Female genital mutilation (FGM), prohibited since 1996, is still widely practised - according to the 2000 Demographic and Health Survey, more than 90% of Egyptian women are still subject to this practice. The authorities are making considerable efforts to actively combat this practice and improve the situation by raising awareness among the population but cultural and social resistance remains strong.

The National Council for Women was established by a Presidential Decree in February 2000 with the mission of promoting the advancement of Egyptian women and enhancing their social, economic and political status. An Ombudsman's office was established to receive complaints from women, provide legal advice and raise awareness on women's issues. The 2003 Labour Law aims at eliminating discrimination, but in practice much remains to be done. Egypt was one of the first Arab countries to apply a quota system in 1979, reserving 30 seats in parliament for women although this fell drastically to 2.2% when the law was abrogated in 1986 as anti-constitutional. The emphasis is now on increasing women's participation and encouraging women candidatures. The first female judge was recently appointed to the Supreme Constitutional Court. Rates of education remain higher for men than for women. The illiteracy rate among women is estimated to be up to 65%. However, a substantial improvement in access to education has narrowed the difference in the younger generation. Egypt has ratified the UN Convention on **Rights of the Child**. Egypt is party to the Optional Protocol to the Convention on sale of children, child prostitution and child pornography but it has not signed the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict. Egypt's Child Law, was adopted in 1996, with the aim of bringing the country's domestic legislation in line with the Convention.

Egypt has, in collaboration with the ILO, developed a National Plan to combat the worst forms of child labour. A report by the National Council for Childhood and Motherhood in 2002 stated that of the almost 2.8 million working children, 81.5 % are still enrolled in schools (public education is compulsory for 9 years), and 54% of these work only during the summer vacation. An average working child's revenue makes up 29% of his or her family income. 73% of working children are employed in agriculture. The problem of street children has been recognised by the Government. These children are subject to harassment by police and suffer from a lack of access to medical care and education.

2.3. Foreign Relations - general

Egypt is a member of the United Nations Organisation, the Arab League, the Organisation of Islamic Conference and the African Union and participates in all sectoral institutions/bodies of the above organisations.

Egypt, as one of only two Arab countries to have concluded a peace treaty with Israel, contributes actively to regional stability through its mediation efforts in the Arab-Israeli conflict.

The US provides military aid to Egypt in support of the 1979 Camp David Peace Accord (US\$ 1,3 billion allocated in 2005).

Egypt is a party to the **Non-Proliferation** Treaty and the Convention on the banning of the development, production, stockpiling and use of Chemical Weapons and on their destruction. Egypt promotes a Middle East free from all weapons of mass destruction. Egypt has not

acceded to the 1997 Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and transfer of Anti-Personnel Mines and on their Destruction since it maintains that it needs antipersonnel mines to defend its borders and that the treaty fails to require those who laid mines in Egypt in the past to be responsible for clearing them. Egypt participated in the Ottawa Process only as an observer. As far as the field of arms control and disarmament are concerned, Egypt has not signed the Protocol against the Illicit Manufacturing of and Trafficking in Firearms but is a participating State of the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All its Aspects (UNPoA). Egypt signed the Convention on Conventional Weapons (CCW) in 1981, but has not ratified the convention or any of its protocols. In the absence of formal statements by Egyptian authorities on the country's policy on antipersonnel mine production and trade, Landmine Monitor Report 2004 continue to list Egypt as a producer of antipersonnel mines.

Since the November 1997 terrorist attacks on tourists at Luxor, Egypt has relentlessly pursued violent Islamist groups, with the authorities making use of the Emergency Law which allows the waiving of normal legal procedures and also using military tribunals to try militants. Its specialized **anti-terrorist** forces cooperate very actively with foreign countries. Egypt has become party to nine of the 12 international instruments on terrorism with reservations on some. The Convention on the Physical Protection of Nuclear Materials, the International Convention for the Suppression of Terrorist Bombings and the International Convention for the Suppression of the Financing of Terrorism have not yet been signed.

2.4. Territorial disputes and other conflicts

Egypt and **Sudan** both claim administrative control of the triangular areas that extend north and south of the 1899 Treaty boundary along the 22nd Parallel, but have withdrawn their military presences. Egypt is economically developing and effectively administering the "Hala'ib triangle" north of the Treaty line.

The management of the waters of the **Nile** which is ruled by the Nile Water Agreement of 1929 between Britain and Egypt is contested by east African countries as a colonial relic. Contacts are ongoing among the parties to find a satisfactory understanding.

2.5. Justice and Home Affairs

According to national statistics, 2.7 million Egyptians live abroad. Two-thirds of this **migration** is temporary, mainly labour migration to oil-rich Arab countries and one-third is permanent, mainly to the US, Canada, Australia and, increasingly, to Western Europe especially Italy and Greece. According to a national survey, Egyptian migrants are mostly young, male and have a relatively high education.

As regards illegal migration, Egypt used to be, through the Suez Canal, a transit country for Asian immigrants but this flow has now been stemmed through international co-operation. Egypt is now both a country of origin and transit, for migrants to Europe. More recent illegal flows, especially to Italy, seem to transit through Libya. Migrations outside the legal points of entry (airports, ports) are dealt with by the armed forces. According to Egyptian law, an illegal migrant can not be prosecuted unless he is caught entering the country or unless it is proved that he has used a forged document. Illegal migration of Egyptian nationals is a crime.

Migration is regulated by the 1983 Law on Emigration and Sponsoring Egyptians Abroad whose provisions apply to permanent or temporary migrants and cover issues related to

migrants' rights to sponsorship and exemption from certain taxes and fees. The Law envisages the creation of a Higher Committee for Migration, composed of representatives of 13 different ministries, to deal with the establishment of professional training centres and the organisation of specialised courses for potential migrants. Euro-Med Association Agreement with Egypt contains a readmission clause. No readmission agreement has been concluded so far with the EU or any of its Member States.

Egypt has acceded to the UN Refugee Convention and its Protocol, with reservations on eight issues, and also the Organization of African Unity's Convention on Refugees.

Although the Constitution provides the right to **asylum** "for every foreigner persecuted for defending the peoples' interest, human rights, peace or justice", the country lacks a national legislative framework on asylum. UNHCR is mandated by the government to determine the refugee status of individual asylum seekers and, in 2003, was contacted by more than 1,000 persons a month seeking asylum in Egypt. More than 10,000 persons were granted refugee status in 2003, a 50% increase on the previous year. At the end of 2002, there were approximately 69,000 refugees and asylum seekers in Egypt, including some 50,000 Palestinians (mostly displaced from the West Bank and Gaza by the 1967 Arab-Israeli War - some estimates place the number as high as 70,000), about 15,000 Sudanese, nearly 3,000 Somalis and more than 1,000 refugees from other countries. In the same year, over 2,000 Egyptians sought asylum in Western countries.

The national **police** force comprises approximately 350,000 and is under the direction of the Ministry of Interior, while separate police units exist under the direction of other Ministries. Each governorate has its own director of police who is responsible, together with the governor, for maintaining public order. In urban areas, police have modern facilities and equipment which is generally not available in rural areas. All officers graduate after a two-year program at the Cairo Police College, where all policemen must complete a three-month course. The police force is supported by paramilitary Central Security Forces (CSF), about 300,000 strong, which are responsible for guarding strategic sites but also traffic and crowd control.

Border management is enforced by the Border Guard Force, a department of the Ministry of the Interior with 12,000 personnel, and by the Coast Guard, under the Navy, with manpower of about 2,000. Egypt settled border demarcation with Israel under the 1978 peace treaty. Border demarcation with Libya was defined by the 1925-26 Italian-Egyptian agreement and the 1934 British-Egyptian agreement. A border dispute still exists with Sudan (see 1.2). The Ministry of the Interior operates controls at the two entries of the Suez Canal in Egyptian territorial waters, in cooperation with other ministries such as the Ministry of Transport and with maritime agencies.

Egypt is a party to the United Nations Convention against Transnational **Organized Crime** and as such was one of the founder members of Interpol in 1923. In 2001, the Council of the Arab Ministers of Justice proposed a Draft Arab Agreement to combat Trans-Arab organized crime, in addition to the continuation of co-ordinated efforts among Arab Ministers of Interior to implement the Arab Agreement to combat terrorism. Egypt has recently established an office in charge of the fight against organised crime, within the Ministry of Interior. Egypt is party to the 1961, 1971 and 1988 international **drug control** conventions. According to the United Nations Office on Drugs and Crime (UNODC), Egypt's national drug control laws are generally adequate. The main drugs of abuse in Egypt are bango (cannabis herb), pharmaceutical products, opium and heroin. The number of drug addicts has increased and the

devaluation of the Egyptian currency and the high price of imported drugs have encouraged the use of home-made drugs. According to the UNODC, illicit opium poppy cultivation has spread in the Sinai and has also been reported in Upper Egypt. Egypt's location makes it a potential transit point for trafficking of heroin and cannabis from major production areas in South East Asia to European markets. Counter-narcotic efforts are controlled by the Anti Narcotic General Administration (ANGA), part of the Ministry of Interior. Established in 1929, ANGA is the oldest drug control agency in the world and has branch offices in all major cities, airports and ports. It conducts year-round cannabis eradication and an annual opium poppy eradication campaign. There are four addiction treatment centres in Egypt and an ongoing programme to train those responsible for treatment and rehabilitation, as well as one to train prison staff, on AIDS prevention and drug addiction.

Drug related crimes reportedly account for two-thirds of **money laundering**. New laws in 2002 and 2003 are in compliance with internationally recognised standards and led in 2004 to the removal of Egypt from the Financial Action Task Force's list of Non-Co-operative Countries and Territories. The enforcement agencies in charge of investigations are the Ministry of Interior, the Administrative Control Authority and the National Security Agency. The Central Bank of Egypt (CBE) and the Capital Market Authority are responsible for supervision of banks and securities. In the CBE, the Money Laundering Combating Unit acts as the financial intelligence unit for Egypt and is responsible, *inter alia*, for reporting suspicious transactions. Training is mostly provided by the Egyptian Banking Institute.

3. ECONOMIC AND SOCIAL SITUATION

3.1. Macro-economic and social outlook

3.1.1. Recent economic developments and outlook

Egypt is a lower-middle income country with a population of about 71.8 million. Agriculture which, contributes about 16% of GDP, is still an important part of the economy. The industrial and services sector account for about 34% and 50% of GDP, respectively. Tourism plays a vital and ever more important role in services. With a (goods and services) export/import ratio to GDP of about 45% the economy is relatively open. Though social indicators have improved over the last decade, the fight against poverty remains an important challenge to policy makers.

Economic activity picked up noticeably in the fiscal year 2003-04 (FY04 which runs from July to June) following a normalisation after the Iraq war.

The trend of falling output in the oil industry continued, despite more intensive and extensive production but was compensated by rising oil prices and by newly discovered gas resources. Total GDP growth may reach 4.4% in FY04 in comparison with 3.1% in the period before. Given population growth rates of 2% per year, this has only translated into a modest income per capita growth. In FY05 the economy is expected to grow by about 5%, mainly supported by exports of goods and services (primarily tourism) and the new government's reform momentum.

Despite some fast growing labour-intensive sectors like hotel and restaurant services, the labour market situation has worsened in FY04 as economic growth is too small to create sufficient jobs for the rapidly expanding labour force. More than half a million job seekers

enter the labour market annually. According to preliminary government estimates, the official unemployment rate in FY04 increased to 10.7%, from 9.9%, and actual unemployment might be higher. To keep unemployment from rising, the economy would need an average growth rate of around 6% per annum.

The surge of inflation continued in FY04 following the significant depreciation of the Egyptian pound (EGP) since January 2003 when the currency's long-standing US\$ peg was officially abandoned. The annualised consumer price index (CPI) rose from around 4% in July 2003 to more than 11% in June 2004. The wholesale price index (WPI) peaked in February 2004 at 21.6% before it fell to 16.8% in May 2004. This indicates that the price increases might be coming to a standstill in line with the bottoming out of the exchange rate depreciation. Actually, the annual average CPI increase is expected to drop to 7.7% in FY05 (from 10% in FY04).

3.1.2. *Fiscal management, monetary and exchange policy*

Until FY04, Egypt's fiscal position was strongly deteriorating. In FY04, the government increased wage and food subsidies to counterbalance the negative impact of the 2003 exchange-rate depreciation. Gross government debt, the majority of which is domestic debt, rose to 120.8% of GDP. The share of foreign debt remained relatively stable (about 1/5 of total public debt). Net public debt grew also rapidly, from 64.9% to 69.2% of GDP, raising sustainability concerns.

The central government budget for FY05 is again very expansionary. According to the original plan, revenue is expected to rise by about 7.4 %, mainly because of higher income and sales tax revenues which make up the bulk of revenues, and higher income from petroleum and Suez Canal proceeds. However, expenditure still expands more quickly than revenues (+11.2%), mainly because of increased wage expenditure, direct subsidies (almost doubling) and interest payments.

Recently decided subsidy cuts and the current positive outlook for growth suggest a smaller than expected central government deficit ratio of about 5% of GDP and have also raised hopes for a stabilisation of the debt ratio. Moreover, the government intends to modernise the customs and tax systems including through the transformation of the General Sales Tax into a well-designed Value Added Tax (VAT) with a higher standard rate and by reforming income tax. A new income and corporate tax law are expected to be adopted by the end of 2005 (*see* 3.3).

Whereas the general government deficit, including *inter alia* social insurance funds, at first sight appears to be limited (2.5% in FY05), in reality public finances were burdened in the past by additional large off-budget financing needs because of the National Investment Bank's unexplained borrowing requirements, regularisation of investment spending of earlier years, suppliers' credits and the assumption of debts contracted by other entities. As a result, the FY04 overall public sector borrowing requirement amounted to 7% of GDP. However, measures to bring the off-budget under control are progressing. The World Bank recently launched its Public Expenditure Review (PER) in Egypt

The Central Bank of Egypt (CBE) is completing its preparations for introducing inflation targeting as a new nominal anchor for monetary policy. Currently M2 is used as a target but the objective of a 10% M2 growth rate p.a. was not met over the last years. Following the de-pegging in January 2003, the pound lost about 25% of its value against the US\$ by December

2003. The government adopted a series of measures, including foreign exchange restrictions, to stop a further currency slide and to alleviate the impact on consumer prices.

As a result, black market activities expanded. During FY04 the adjustment pressure on the pound bottomed out, while the pound's fundamental position was strengthened by oil price increases and the ongoing recovery of tourism revenues. Consequently, the pound exchange rate slowly stabilised near a rate of about 6.23 EGP to the US\$ by October 2004 and the differential between the official EGP rate and the black market rate has recently almost disappeared. The foreign exchange restrictions were revoked in December 2004.

Egypt - Selected Economic Indicators, 1998/99-2004/05

	2000/01	2001/02	2002/03	2003/04 prel.	2004/05 for.
Real GDP growth (in %)	3.4	3.2	3.1	4.4	5.0
Unemployment rate (ILO definition)	9.2	9.0	9.9	10.7	11.0
CPI inflation (year on year average, in %)	2.4	2.4	3.2	10.0	5.7
Broad money (% change, yoy)	11.6	15.4	16.9	13.2	13.0
Consolidated government balance (% of GDP)	-2.2	-2.5	-2.4	-2.8	-2.5
Current account balance (% of GDP)	0.0	0.7	2.4	5.1	5.0
Net international reserves, import cover months	10.4	11.6	12.0	9.9	---
External debt (end of year, % of GDP)	27.8	33.6	36.4	44.2	40.7
Debt service (in % of exports of goods and services)	10.3	9.7	10.1	9.2	9.7
Exchange rate (Egyptian pound/€, end of year)	3.3	4.4	7.0	7.2	---
Real effective exchange rate (1994/95=100)	123.1	104.6	83.5	87.0	---
GDP per capita, in US\$	1474	1283	1178	1061	---

Source: National sources, IMF, WB, Datastream.

¹Data refer to the Egyptian fiscal year, which runs from July to June, unless otherwise indicated.

3.1.3. External situation

Supported by a competitive exchange rate, Egypt's current account surplus doubled to 5.1% of GDP in FY04. This was mainly due to a reduction in the trade of goods deficit and to a large increase in the services trade surplus, in line with recovering tourism. Capital exports increased strongly from US\$2.7 billion in FY03 to US\$6.2 billion in FY04. They exceeded the current account revenue in FY04 by more than 67%. Net FDI in Egypt fell to US\$0.4 billion in FY04. More than half of FDI came from the USA, about 35% from Arab countries and less than 10% from the EU.

Foreign reserves amounted to US\$14.8 billion (June 2004), corresponding to 9 months of merchandise imports. In June 2004, most external debt was medium and long-term debt (93.2%), and short-term debt amounted to 13.3% of net international reserves. In FY04 several international agencies downgraded their ratings for Egypt mainly because of the rapid debt increase and the foreign exchange restrictions which were in force until December 2004.

3.1.4. *Social situation and Human Development Policies*

In the past, structural impediments have restrained economic growth below the 6% level necessary to contain the unemployment rate. Moreover, despite its rapid expansion, the official labour force is still relatively small (in FY03 only 30% of the population). Consequently disposable income per capita is relatively low and growing only at an unsatisfactory pace.

Despite improvements in social indicators over the past decades, in 1990-2002 44% of the Egyptian population was living on less than 2 US\$ a day (upper **poverty** line). Egypt was ranked 120 in a group of 177 countries according to the 2004 UNDP Human Development Indicators. A first comprehensive poverty assessment was completed in 2002, and a Poverty Reduction Strategy for Egypt issued in September 2004, both with the support of the World Bank. Poverty is mostly concentrated in the south, and its features are not different from those found in other Middle East countries: large families, a low level of education, working in informal sector, mainly in agriculture and construction. The fight against poverty is one of the objectives of the fifth Social Plan of the government (FY03-FY08) which includes the development of human resources (literacy and education) and employment.

The official **unemployment** rate rose to 10.7% in FY04 and is even higher among women and younger people. In 2000 the female participation rate in the workforce amounted to 30%, according to the World Bank. This was slightly higher than the regional average but markedly below the average of lower-middle income countries (43%). Social security schemes are in place as well as food subsidies but the system suffers from a lack of funds and organisational inefficiencies. Only 16% of the working population are covered by unemployment benefits while the social protection system supports many of the less poor.

In the central government's draft budget for FY04, 15% of public expenditure is earmarked for education and 5% (1.74% of GDP) for the health sector. Progress was reflected in many education indicators (enrolment ratios in basic and secondary education; adult literacy) and health indicators (infant mortality rate, percentage of vaccinated children and the maternal mortality rate).

Spending on **public health** care is growing, yet still comparably moderate among lower-middle income countries. The national health care budget is managed in a decentralised way by the Governorates, under the auspices of the Ministry of Health and Population. Apart from direct health care funding, a significant part of this budget supports medical training at universities and transfers to public health insurance and curative care organisations.

Despite improvements in **gender indicators**, a gap remains between men and women in the field of primary enrolment (100%/93%), literacy (65%/54%), labour force participation (30% for women) and unemployment (female rate is double the average). Enrolment of girls is low at secondary and university level (23%) but increasing at preparatory and secondary stages. In the latest local elections (2002), women represented only 1.7% of the candidates and they obtained only 1.6% of available posts. In civic life, women represent 16% of legislative and managerial staff and 41% of professional and technical staff.

3.1.5. *Sustainable development*

Egypt does not have a national strategy on **sustainable development**. Sustainable development principles are, however, integrated in the National Urban Development Strategy

for Egypt, up to the year 2017, as well as in various urban and regional strategies and policies. The Ministry of Environmental Affairs has pursued activities to promote integration of environment considerations into other policy sectors even if no specific national strategy exists.

The National Committee on Human Settlements is the national body in charge of coordinating these strategies. It is composed of various stakeholders, including Ministries, non-governmental organisations, private sector, universities and the National Council of Women.

3.2. Structural reforms and progress towards a functioning and competitive market economy

The new government has embarked upon a thorough reform agenda particularly in order to eliminate administrative and economic inefficiencies and impediments to growth and employment. Customs tariffs have been restructured and substantially cut. Banking sector reform, including privatisation and strengthening of the financial supervision, is progressing. Some important subsidies have also been cut, and tax reform is underway.

3.2.1. State involvement in the economy and privatisation

General government expenditure and lending will increase by 1.1% to 31.7% of GDP in FY05. The government employs 29.1% of the workforce, and public enterprises or government owned companies account for an additional 4.9% of the workforce. The private sector is contributing about 60% of GDP, mainly in the areas of agriculture, tourism, food-processing, petrochemical and textile. The State still owns many companies in different sectors from metalworking and pharmaceuticals to banking and energy. With the exception of the Suez Canal Authority and the Egyptian General Petroleum Corporation (EGPC), most state-owned companies are not profitable.

The **privatization** programme, one of the pillars of the economic reform programme, was launched in 1991 and in the initial impressive drive disposed of 194 companies out of 314 public sector enterprises and 518 public joint venture companies. Since 2000, the process slowed down due partly to valuation problems and partly to the restructuring of poorly performing companies before privatization. The programme has received a fresh impulse under the new government which is planning to privatise all 172 public companies and shares in 695 joint-ventures. The Ministry of Investments has already announced the sale of 14 public companies, while ten more are currently under evaluation.

Egypt maintains burdensome price controls for goods such as petroleum products and pharmaceuticals. The government also heavily subsidises basic foodstuffs and other goods, to compensate for price increases, not least due to the pound depreciation. Major steps have, however, been taken to reduce subsidies on water, gas and diesel. In September, the government raised diesel prices by 50%, a measure estimated to decrease the subsidies allocated to diesel by EGP 1 billion per annum.

Many regulations regarding manufacture and registration are opaque. However, in the banking sector no restriction exists on equity participation in Egyptian banks since a 1996 law which permits 100% ownership by foreign banks. The ongoing reform of public banks allows private and foreign investors to purchase assets of public banks.

Land ownership by foreigners is governed by three main laws and their amendments which *inter alia* excludes foreign ownership of agricultural land. Only 53% of 7.5 million *feddans* (acres) of agricultural land have been registered by the Egyptian Survey Authority (ESA) responsible for Egypt's national cadastre. ESA plans to register additional 3.1 million *feddans* by the end of 2005.

Completion of the agriculture cadaster is a national priority but inadequate funding, inappropriate technology and the lack of technical staff make the achievement of this objective difficult.

3.2.2. Regulatory framework and private sector development

Egypt has no specific **competition** law, although the Law of Supplies and Commerce forbids competition-reducing activities such as collusion and hoarding. A Law on Competition and Anti-monopoly is in the process of being approved by the Parliament. The draft law prohibits several forms of practices and agreements including price fixing and manipulation, restrictions on the production, distribution or marketing of goods and services and market sharing, as well as abuse of a dominant position. The definition of dominance is based on a market share of more than 35%, together with other factors such as market structure. The draft law requires the establishment of an independent Anti-Trust and Competition Protection Council (ACPC), headed by the Minister of Foreign Trade and affiliated to his Ministry. The ACPC will be empowered to act against the emergence of monopolies and will be entitled to impose heavy fines ranging between EGP 30,000 to 1 million if it finds any violation of the law. It will also be responsible for issuing licences for mergers.

State aids are not covered by the draft law, and Egypt does not appear to have a uniform state aid surveillance or control regime comparable with that of the EU.

After a decade-long debate, a **Unified Labour Law** was enacted in 2003 which provides a comprehensive framework for the functioning of the labour market. The law was subsequently refined by more than 20 decrees by the Minister of Manpower and Migration and although it allows private sector companies to invest in the field of job services, no private initiatives have developed to date.

3.2.3. Financial sector

The financial sector is at the centre of the new government's reform agenda and is expected to become more privatised and deregulated, in particular against the backdrop of a five year reform plan for the banking industry. The **Banking** Sector represents around 80%-90% of the total Egyptian financial sector. Total domestic lending amounted to 103.5% of GDP at the end of June 2004, and the difference between deposit and lending rates was 5.3%. The banking system has suffered from political interference, bad management and an economic slowdown at the beginning of the new millennium. Profitability is low (about 0.5% on assets over the last years), nonperforming loans officially exceeded 20% of total loans in FY04 and less than 2/3 was provisioned. But the government and the Central Bank have recently started to address these issues more actively. Recently, a new scheme was introduced to address bad loan problems. In addition, a US\$ interbank market was launched.

At the end of 2004, the Central Bank of Egypt had listed 27 commercial banks in operation (four public-sector banks and 23 private banks). There are also 11 private-sector joint-ventures banks, which are classified as business and investment banks, and 14 foreign bank

branches. In addition, there are three public-sector specialized banks. More than 60% of the market is controlled by the State, through direct ownership or participation. The 2003 unified Banking Law is a comprehensive platform for regulating the monetary and banking sector. With this Law, the government seeks the modernization of the sector, towards a more competitive banking system, strengthening financial soundness, the quality of the risk management and moving closer to international standards. In order to achieve these objectives, the role of the Central Bank in controlling, restructuring and upgrading banks and setting up systems for credit management and risk assessment has been enhanced and deepened. The CBE is working with banks to comply with Basle II standards by 2006.

The **insurance** market, open to foreign companies since 1998, is still relatively small and constrained by the dominance of four public-sector companies. Gross premiums were rising rapidly but in 2003 amounted to less than 0.7% of GDP. The three main companies accounted for 74% of premiums (excluding reinsurance). The sector consists of 16 insurance companies, one specialized reinsurance company, 606 private pension funds, Co-operative Insurance Society for Small Enterprises, the Government Insurance Fund, Insurance Pools, Cargo Supervision and Surveying Office of Egypt, and the Insurance Studies Institute. Insurance companies in Egypt consist of one state-owned reinsurance company, three public sector companies and there are 12 local private companies which started transacting business at the beginning of 2002 (including some foreign firms). The Egyptian Insurance Supervisory Agency - EISA (under the Ministry of Planning) supervises the activity of the insurance sector. In 1995 and 1996, new laws were passed to regulate the insurance sector, and since 1996 tariffs on insurance have been almost eliminated, thereby significantly reducing insurance premiums. Laws were promulgated in 1998 and 1999 to establish a comprehensive legal framework for the supervision and control of the insurance sector in Egypt. The main provisions establish *inter alia* minimum capital requirements for licensing purposes. All insurance companies are required to publish regular financial positions approved by accredited financial auditors.

The Cairo and Alexandria Stock Exchange celebrated its 100th anniversary in 2004 and is the second biggest in Africa. It has been strongly modernised over the last decade, as a prelude to the privatisation of state-owned enterprises and the transformation of Egypt into a regional financial hub. However, only about 100 stocks trade actively. The number of listed companies (which need to be traded at least once every six months) fell to 803 by June 2004, from 1151 in December 2002. At the end of June 2004, the average price earnings-ratio stood at 11.8% and the price index in pounds at 900.6 (1992=100). There are no restrictions on foreign investment in the stock exchange but foreign-exchange restrictions and the lack of economic reform have deterred foreign investors. A significant number of the companies listed on the exchange are family-owned or -dominated conglomerates, and free trading of shares in many of these ventures, while increasing, remains limited. The new Law on Capital Markets aims at creating a balance between enhancing supervisory powers and simplifying participation. It deals with several major aspects including the Capital Market Authority (CMA) as the supervisory authority over the Cairo and Alexandria Stock Exchange (CASE). The law stresses the CMA's independence and paves the way for the Cairo and Alexandria Stock Exchange to develop into a self-regulating organisation.

3.2.4. *Relations with the IFIs and other donors*

Member States have donated substantial financial assistance for projects in Egypt, particularly Denmark, Spain, France, Germany, Italy, the Netherlands and the UK. The main areas of cooperation are: promoting economic development and reduce poverty, supporting

democratisation processes, NGOs, gender and human rights, sustaining environment and natural resources, developing the sectors of agriculture, health; transport and energy, education, training and cultural heritage. Environment and natural resources are also considered as a major sustainability theme by most of Member States.

Egypt completed the last two-year Stand-By Arrangement with the **IMF** in 1998. Currently Egypt does not use Fund credit or loans. The IMF conducts regular Article IV consultations with Egypt; the latest of which took place in May 2004. Egypt's new reform drive is reflected by its acceptance of the IMF's Article VIII obligations and its subscription to the Special Data Dissemination Standard in January 2005.

The **World Bank** (WB) has traditionally been active in Egypt. As of September 2004, the WB portfolio included 17 active projects worth over US\$1 billion. The objective of the WB Country Assistance Strategy for Egypt is to reduce poverty and unemployment through three main interventions: targeted interventions for poverty reduction, interventions with an indirect impact on poverty reduction and interventions to support higher and sustained growth. The **International Finance Corporation** (IFC) is also actively involved, with 23 operations in its portfolio. The Total value of IFC open loans in 2003 amounted to US\$204.6 million in addition to US\$81.9 million in equity investments. The IFC established a main regional office in Cairo in 2002.

The African Development Bank (ADB) maintains a significant portfolio of projects. It contains a US\$ 150 million loan to the Export Development Bank of Egypt and to the National Bank of Egypt to finance export oriented SMEs and a US\$12 million loan to the Ministry of Education to strengthen university education and rationalise scientific research. The ADB recently approved a US\$50 million loan for the Power Authority of Cairo to build two electric generation facilities.

The single biggest donor is the **US** government with more than US\$25 billion in economic assistance since 1975. The US budget for 2004 amounts to US\$575 million and will be reduced by US\$40 million per year until it reaches US\$407.5 million in 2009. This assistance concentrates on developing trade and investment.

3.3. Trade-related issues, market and regulatory reform

Despite Egypt's adoption of an "open-door" policy since the 1970s and a rapid expansion of world trade in recent decades, the openness indicator [(exports + imports of goods/GDP)] nearly halved from 1980 (46%) to 2000 (24%), with the same trend recorded for services. This development was reversed in FY04 when the openness indicator attained about 35%. Since 2001, a number of trade liberalisation and reform measures, although falling short of opening Egypt's protected market, contributed to enhancing exports to the global marketplace. The pace of liberalization received a boost with the new government's reinforcement of export-oriented policies.

Egypt's longstanding trade deficit is almost offset by a surplus in the services balance, accounted for by tourism receipts, Suez Canal revenues and workers' remittances.

With nearly €10 billion in EU-Egypt bilateral trade in 2002 and 2003, the EU represents some 35% of Egypt's total trade with the world (€28 billion in 2002), while Egypt accounts for only 0.5% of the EU's world trade. As Egypt's first trading partner (followed by the US, with 17%), the EU saw a decreasing bilateral trade surplus over the last five years due both to

increasing imports (€3.5 billion in 2003) and decreasing exports (€6.2 billion). The EU mainly exports machinery and transport equipment, chemicals and manufactured products to Egypt, while it imports mineral fuels and some manufactured goods.

Under the **EU-Egypt Association Agreement**, Egypt started dismantling tariffs on half of industrial imports from the EU for progressive liberalisation over the first three years from entry into force. The rest will be gradually liberalised over the transitional period of 12 years, while bilateral preferences in agriculture, with major concessions from the EU, are already implemented and will be further extended under the protocol adapting the Association Agreement to EU enlargement. Correct implementation of tariff dismantling, in connection with Egypt's ongoing customs tariff reform and transparency efforts, will require particular attention.

Egypt joined the WTO in 1995 and adhered to all its agreements except for the Government Procurement Agreement. It is an active partner in the Doha negotiation round. Egypt is a member of a number of regional and bilateral preferential agreements, such as the Pan Arab Free Trade Area (PAFTA) since 1997, the Common Market for East and South Africa (COMESA) since 2001, the Agadir Free Trade Agreement since 2004, and a series of bilateral trade agreements with Algeria, Lebanon, Libya and Syria. Egypt is negotiating an FTA with EFTA and the Economic and Monetary Union of West Africa (EMUWA), as well as with Turkey and South Africa. In December 2004, Egypt signed a Qualifying Industrial Zones (QIZ) arrangement for duty-free access to the US market, following the example of Jordan.

The General Organization for Veterinary Services (GOVS) and the Plant Quarantine Department in the Ministry of Agriculture and Land Reclamation (MoALR) are the main bodies in the **veterinary and phyto-sanitary** areas. They perform (with average staff numbers) regulatory, inspection, testing and certification functions, in particular through a network of affiliated laboratories. The Ministry of Health, jointly with the GOVS, is responsible for food safety-related sanitary issues, while other agencies might be involved whenever a specific risk profile is involved (Food Control Agency, Atomic Energy Agency for radiations, etc). Mandatory requirements on foodstuffs are often detailed and specific, and emanate from more than one regulatory ministry. There is no food safety legislation based upon hazard analysis. Attention should be given to monitoring the potato brown rot disease and to ensuring efficient control mechanism for potatoes trade. Egypt is a member of the WTO, the Food and Agriculture Organisation (FAO), World Health Organisation (WHO), Codex Alimentarius Commission, International Office for Epizootics (OIE) and is a signatory to the International Plant Protection Convention (IPPC).

Customs legislation on tariffs, customs regimes and procedures are based on a 1963 Law, as amended. A new customs code is under development, while the customs tariff has recently been modernized and simplified. Since 1994, Egypt applies the Harmonised System. The Customs Authority, operating under the Ministry of Finance, is the central governing body for customs administration. Despite efforts in the context of a comprehensive reform plan launched in 2002, the customs administration still needs further restructuring in order to simplify procedures and to find a right balance between customs enforcement and trade facilitation. Stringent deadlines for sampling procedures and release of goods have been established, and complaints against customs officers' decisions can be lodged at the Customs Complaint Office. In 2003, a Model Customs and Tax Centre (MCTC) was created to act as an automated one-stop-shop for fiscal purposes, implementing operational coordination between the three revenue departments - income tax, sales tax and customs - and simplifying

customs clearance and tax payment controls. Still at a pilot level, the MCTC model should eventually be rolled out to the entire country.

A major customs tariffs reform took place in September 2004, fundamentally reforming the structure of the Egyptian tariff in the context of a comprehensive customs reform. Tariff bands and items have been substantially reduced, administrative and WTO-incompatible ad valorem service fees eliminated and the average tariff rate has been substantially reduced (from 14.6% to 9.1%).

Customs valuation remains a recurrent problem in terms of transparency and application. In line with its WTO obligations, Egypt adopted measures to implement the principle of the transaction/invoice value for customs valuation, however, due to discretionary application by customs officials, problems remain in relation to overpricing and price lists practice.

Eight public free zones operate in Egypt, as well as a number of private ones, under the responsibility of the General Authority for Investments and Free Zones (GAFI). They are located within the national territory but considered to be outside Egypt's customs territory. Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods. Concerning information to the public, the customs website contains information and samples of the application forms to be submitted by companies for the customs clearance process (only in Arabic). The Single Administrative Document (SAD) is in use in Egypt.

In July 2003, Egypt, as a partner to the Barcelona Process, endorsed the new Protocol on rules of origin allowing the extension of the Pan-European system of cumulation of origin to the Barcelona partners. The next stage aims at amending the origin protocol in the relevant Euro-Mediterranean Agreement in order to insert the changes necessary for the application of diagonal cumulation. This could help fostering economic integration and allow for a better use of the complementarities and the economics of scale in the Euro-Mediterranean area.

Taxes in Egypt may be divided into two categories. The first one concerns direct taxation of individuals and legal entities on their income or profit. The second involves indirect taxation of goods and services. Taxation revenue represented 13.9% of GDP in 2002-03.

In May 2004, the People's Assembly approved a law amending the 1991 Sales Tax law, imposing higher sales tax on a number of services, including hotel and tourist restaurant bills (10%), tourist transportation services (10%), fixed telephones and local telegraph services (5%), local and international cellular communication services (15%), and international communication services through fixed phones (10%). The existing corporate income tax standard rate is 40%. The industrial sector is taxed at 32%, while the rate for the oil sector is 40.55%. The law foresees several exemptions and deductions, including those granted under the 1997 investment law which grant tax holidays for 5, 10 or 20 years for companies in 20 different sectors operating in industrial zones or new communities. The People's Assembly will discuss and possibly approve soon a new income and corporate tax which would reduce the standard rate to 20%. The government also intends to improve tax administration through simplification of procedures and improved trust between the business community and tax authorities. A general amnesty for tax evaders in order to try to legitimize the large percentage of undeclared business in the informal sector is also being considered.

Egypt has concluded treaties for the prevention of double taxation with nearly 30 countries (including 9 Member States), some of which are not yet ratified. It should be noted that since

Egypt does not levy withholding tax on dividends, its tax treaties provide reduced withholding tax rates only for interest and royalties.

Egypt being party to the WTO/ Technical Barriers to Trade Agreement, its **technical regulations, standards and conformity assessment procedures** should follow the principles of non-discrimination, harmonisation to international standards and transparency. This is sometimes not the case, although a genuine effort is under way to bring mandatory regulations into conformity with such principles. As a result of product-specific mandatory rules, imports are subject to burdensome quality standards and inspections. Under the Barcelona process, Egypt has confirmed its intention to harmonise its approach to product regulation with EC legislation and practice.

The Egyptian Organisation for Standardisation and quality control (EOS) is the only official and competent national authority on standard-making, under the supervision of the Ministry of Industry and Foreign Trade. In Egypt there are more than 5600 standards, 95% of which are voluntary, but regulatory ministries can adopt technical regulations when health and safety are involved. Verification of compliance is the responsibility of agencies affiliated with several ministries, including the Ministry of Health, Agriculture and, for imported goods, the General Organization for Import and Export Control (GOIEC) responsible to the Ministry of Industry and Foreign Trade. Administration of standards is made more complicated by the fact that their enforcement is carried out by different ministries, with little or no inter-agency coordination. An effort to harmonize all Egyptian standards with international standardization is under way by EOS, whereby most of them should be in line and publicly available by the end of 2004. Egypt has also established an Egyptian Accreditation Council (EGAC).

Egypt is a signatory to the WTO Trade-Related Aspects of **Intellectual Property Rights** (TRIPS) Agreement, the Bern Copyright Convention, the Paris Patent Convention, the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the classification of goods and services. Egypt also ratified the World Intellectual Property Organization (WIPO) Patent Cooperation Treaty in 2003. In 2002 Egypt enacted a new comprehensive Intellectual Property Rights law, which meets certain key TRIPS requirements but falls short of addressing those concerning patents and enforcement. Although more than two years have passed since the Law was promulgated, the Executive Regulations for copyrights and neighbouring rights have not been approved yet. Despite the legal framework being in place, the main problem is enforcement. High copyright-piracy levels continue to affect many categories of intellectual property, particularly book publishing, entertainment software, music recordings and motion pictures. Infringement of trademark, data protection, textile design and industrial designs also remains problematic. Jurisdictional recourse is possible but the court system is slow and weak in specific IPR competence.

The Central Administration for Public Mobilization and **Statistics** (CAPMAS) provides both national bodies and international organizations with data, statistics and reports. CAPMAS is the main producer of demographic statistics (together with the Ministry of Health) and price index statistics.

Concerning foreign trade statistics, Customs and CAPMAS run duplicate systems for the collection and storage of data. Apart from customs declarations, CAPMAS also uses secondary sources to complete or replace the data provided by the Customs administration on goods such as raw cotton, crude oil and free zone imports and exports. Moreover, customs statistics do not cover a fairly large group of goods and equipment such as aeronautical

machinery, as well as equipment for the oil or mineral extracting industry or railway locomotive and apparatus purchased with tax and duty exemption, or under temporary importation or suspensive regime. This causes large bilateral discrepancies between Egyptian and EU Member States' foreign trade statistics. Moreover, delays in receiving custom declarations can slow the process of dissemination for up to seven months.

Two bodies are responsible for national accounts: CAPMAS and Ministry of Planning. GDP is calculated according to the production approach. No studies are made on the informal sector. The Central Bank compiles monetary statistics and is the responsible organisation for producing the Balance of Payments (BOP). BOP is calculated according to IMF methodology. Although there are several institutions involved directly or indirectly in environmental information, environment is not covered as such by CAPMAS.

In Egypt, the **public internal financial control** is performed by the Central Auditing Organization (CAO) which is a member in the governing board of the International Organization of Supreme Auditing Institutions (INTOSAI). The CAO is an independent institution reporting to the President of the Republic, and has its own budget. According to a 1998 law, it covers financial control including both accounting and legal aspects, performance control and plan implementation follow-up as well as legal control of resolutions concerning financial violations. In addition, the CAO assists the People's Assembly in performing its control functions over the state budget and any other public entities.

Public Procurement in Egypt is regulated by a 1983 law, according to which tendering should be subject to the principles of publicity, equality and freedom of competition. In 1998 the government passed an amendment to the Tenders and Bidding Law of 1983 to improve equality and transparency in government procurement. Key provisions of the law include *inter alia* a prohibition on re-opening negotiations after final bids have been received, more transparency in the criteria for bid acceptance and rejection, equality among bidders, contractors and government agencies, and the establishment of a Central Complaints Resolution Office at the Ministry of Finance. Since most procurement is based on the lowest bid price, the 15% preference (to Egyptian bidders) may represent a substantial advantage over foreign suppliers. Egypt is not a signatory to the WTO Agreement on Government Procurement (GPA).

As regards **provision of services and the right of establishment**, the two key elements governing Egypt's investment framework are the 1997 Investment Law and the General Authority for Free Zones and Investment (GAFI), which is the administrative body responsible for promoting and regulating foreign investment. The law allows 100% foreign ownership of ventures and guarantees the right to remit income earned in Egypt and to repatriate capital. In 2004, the People's Assembly issued a new law which introduces additional incentives for new and existing economic activities and transforms GAFI into a "one-stop shop" for foreign investors.

The 1998 Companies Law also has an important role governing investments, as it covers investors in any other sector not covered by the 1997 Investment Law. The 1999 Commercial Law covers commercial contracts, banking transactions and bankruptcy. The business environment in Egypt needs improvement, whilst FDI potential is not sufficiently exploited, due to heavy administrative procedures, bureaucracy, lack of transparency, inefficiency of the judiciary and a weak representation of SMEs in policy and law-making. Egypt has a long record of company registration, but the system is heavy and needs streamlining.

Despite Egypt being party to International Conventions for the settlement of investment disputes, dispute settlement remains a significant problem for investors.

Discrimination against foreign entities by restricting employment in a branch/subsidiary of non-nationals as a ratio to hired nationals (one to nine) - often embodied in the labour or contract law -, coupled with the economic needs test carried out by the authorities before approving the establishment of subsidiaries or new businesses, affects a number of services sectors, such as professional/consulting and financial services, insurance and tourism.

In October 2004, Egypt adopted the Euro-Mediterranean Charter for Enterprise, by which it committed to improving conditions for doing business on the basis of the Charter principles. The ambition of the Charter is to create an environment conducive to investment and enterprise development as well as to define common strategies and projects, both at national and regional level.

Services account for around 50% of Egypt's GDP, with tourism and Suez Canal revenues being particularly important. Egypt has only partially opened its service sector through commitments under the WTO GATS Agreement on construction and related engineering services, tourism and travel related services, financial services and maritime transport services, with several limitations on market access and national treatment. The Government is gradually opening up some infrastructure services to private and foreign investment. The Government has been slower in reducing its role in the sector, notably due to the role played by the Economic and Service Authorities, most of which are not currently subject to privatization.

Egypt agreed to endorse the Framework Protocol on services liberalisation under the Barcelona Process which will form the basis for the negotiation of bilateral agreements between Euromed partners.

3.4. Transport, Energy, Information Society, Environment, and Research and Innovation

The Ministry of **Transport**, which has been reorganized in 2002, has for many years pursued a policy of gradual liberalisation and privatization of the sector. According to the Master Plan for the transport sector, the aim is to achieve a more balanced development of transport modes with an increased role for rail and (inland waterway) transport. The Ministry of Transport is in charge of land and maritime transport and oversees a number of public sector holding companies as well as the Port Authorities. The Ministry of Civil Aviation (MCA) was created in 2002 and is entrusted with overall responsibility for the country's airports and civil aviation matters. MCA oversees Egypt Air and its subsidiaries, as well as the Egyptian Holding Companies for Airports and Air Navigation.

In the **road** sector, inter-urban road freight and passenger operations have been fully liberalized, while urban transport is shared by public sector transport companies ('holding companies') and private companies. Road is the dominant mode of internal transport, both in passenger and freight operations. Policy in this sector aims at increasing standards and operating performance. Road safety is a major issue of concern, with one of the highest incidences of traffic fatalities in the world. Egypt is party to a very limited number of international conventions in the sector.

In the **railway** sector, the policy goal is a revitalisation of the sector and the development of better service quality by Egyptian National Railways (ENR), which is government-owned and highly subsidised. While rail has a high share of domestic passenger market, its share of the freight market is very low. ENR is presently undertaking significant investment in order to modernise and upgrade the railways as well as to extend the network.. The instrument of contracting-out rail track and locomotive maintenance is widely used. Multimodal transport is in need of further development, with a great potential for higher traffic volumes on the Nile and canals. The Ministry of Transport is planning to develop a policy to promote inland waterways.

In the **aviation** sector, the main regulatory institution is the Egyptian Civil Aviation Authority (ECAA), affiliated to the Ministry of Civil Aviation. In addition to air traffic management, air safety, and civil aviation security in all airports (including privatized airports), ECAA is responsible for setting, controlling, and revising civil aviation fees and charges. ECAA is also granted the authority to negotiate with concessionaires and monitor compliance with the terms of the concession contracts. Its functions include both operational and regulatory activities but it is neither financially nor institutionally independent. As part of an airport development program to improve and expand airport infrastructure over the next years, the main international airports have been reorganised under one holding company. Egypt Air, the state-owned national carrier, is by far the dominant Egyptian player and is the sole operator on most domestic routes. Egypt Air controls the main concessions in the airports such as ground handling and catering. Preliminary contacts between the European Commission and the Egyptian authorities have taken place with a view to negotiating a horizontal air transport agreement.

In light of the importance of **maritime** transport for external trade, the improvement of the efficiency of sea ports and maritime operations is a major policy goal as reflected also in the adoption of a 2001-2017 port restructuring master plan. In order to achieve this goal, port authorities will be strengthened and the regulatory and commercial functions be clearly separated. Emphasis is being put on the development of existing port infrastructure, construction of new third generation ports, the introduction of EDI systems in ports and the extension of VTS. The most important sea ports are Alexandria, Damiette, Port Suez, El Sokhna and Port Saïd. While some ports are well connected with the road and rail networks, others suffer from inadequate hinterland connections. Maritime transport policy also aims at developing the fleet, strengthening maritime safety and promoting foreign private investment. The liberalisation and privatisation of port services has begun and first licenses for port services were issued in 1998. Since then, private participation in port investment and operation has been legalised, leading to the launch of a number of projects such as the new container port in East Port Said and the port of El Sokhna at the southern end of the Suez Canal. Maritime safety remains an area of concern.

In satellite navigation, Egypt participates actively in regional co-operation on GALILEO and EGNOS. The Egyptian Ministry for Civil Aviation in Cairo hosts the Galileo Euromed co-operation office, which focuses, *inter alia* on training and demonstration and awareness raising activities in liaison with Euromed cooperation activities.

Energy contributes substantially to the economy. Declining oil exports account for 40% of export earnings and the oil and electricity sectors for 20% of GDP. Egypt is a rapidly expanding natural gas producer, thanks to sizeable discoveries which offer significant opportunities for increased exports. The country has large hydropower capacity and some coal reserves. The Government's gas development policy is key to meeting surging energy

demand, increasing revenues and improving the environment. Egypt's strategic energy role is furthermore marked by the Suez Canal and the Sumed (Suez-Mediterranean) pipeline, transiting Persian Gulf energy resources to markets.

Egypt is, with Jordan, Syria and Lebanon, a partner in the Arab Natural Gas Pipeline. This is already bringing Egyptian gas into Jordan and, as it develops further, will progressively bring Egyptian and Syrian gas to the region and, further, to the EU. In December 2004, the four countries signed a Euro-Med Declaration of Intent on Euro-Mashrek cooperation in the field of natural gas, under which a regional Gas Master Plan should be designed. The Arab pipeline could, at a later stage, be connected not only to Cyprus and Turkey but also to Greece and Central Europe once the Turkey-Greece, the Trans-Balkan (from Greece to Austria) and "Nabucco" (from Turkey to Austria) pipelines are completed. Construction of LNG export facilities is ongoing and there are plans for gas interconnections between Egypt, Libya and Tunisia. These developments contribute to a future Mediterranean gas ring and to enhanced supply security in the region and the EU.

The Ministry of Petroleum and the Ministry of Electricity and Energy (MOEE) are the main governmental bodies in the sector. Under the MOEE, the Organization for Energy Planning is competent for policy issues, planning, data collection and analysis. Foreign companies are active mainly in the oil and gas sectors, although state companies remain the key actors. The Egyptian Electric Holding Company (EEHC) owns, after the 2001 unbundling, five electricity generators, the transmission company and the eight distributors. Independent power producers are also active. The Egyptian General Petroleum Company (EGPC) controls the petroleum sector. The Natural Gas Holding Company is responsible for the production, transport and distribution assets of EGPC. Egypt's (costly) energy subsidies system keeps prices artificially low. The Government and EEHC set electricity prices. The Egyptian Electric Utilities and Consumer Protection Regulatory Agency, under the MOEE, regulates the sector.

EEHC's generation expansion plan foresees construction of 4,500 MW capacity during 2002-2007 and 8,375 MW for the period 2008-2012. Egypt is looking increasingly to private investments, but without increasing public debt. The pace of privatisation remains slow. Egypt's generating plants have switched largely from oil to natural gas. The electricity networks are interconnected with Jordan, Libya and Syria. The interconnection between Syria and Turkey is complete and will be operational once the appropriate technical and stability tests have been undertaken. Upgrading the link with Jordan as an element of the Mashrek sub-ring and integration of the Maghreb-Mashrek electric sub-rings by upgrading and harmonising the Egypt-Libya interconnection is also ongoing. Egypt has set a target of meeting 3% of its primary energy needs from renewable energy by the year 2010. Most promising are hydro, wind and solar. The main body in this area is the New and Renewable Energy Authority. Energy efficiency is low. An Energy Efficiency Council, comprising of public and private energy stakeholders, is operational. A National Energy Efficiency Strategy was adopted in 2001. In the 1980s Egypt abandoned plans to build nuclear power plants but has a small research reactor at Inshas.

In the field of the **Information Society**, the Ministry of Communications and Information Technology (MCIT) is responsible for setting the policy and the strategy of the sector since its establishment in 1999. The Telecommunication Regulatory Authority, responsible for the granting of licenses and the monitoring of competition, is financially and structurally separate from the Ministry. Since May 2004, the IT Development Agency is the regulatory authority responsible for the mutual recognition of e-signatures. In order to develop the IT sector, Egypt intends to introduce the necessary regulatory framework and has set a policy for the

strengthening of the communication infrastructure and promoting IT use, to be implemented through a number of programmes. These include the introduction of subscription-free use of Internet in January 2002, the starting of the “PC for every home” project in November 2002, the broadband-initiative of May 2004 aiming to significantly increase the high speed connections and finally the IT Club Model, ensuring internet access in rural areas.

In the fixed telephony market, Egypt Telecom will have the monopoly until 31 December 2005. The partial privatisation of Egypt Telecom failed in 2002 but is still on the government’s agenda. In the mobile telephony market there are two operators and a third network will start in 2005. There are about 50 Internet Service Providers, but broadband access is still limited. By September 2004, the penetration rates for internet were 6% (about 3.7 million users), for fixed telephony 12.7 % at the end of 2003 (8.7 Mio. subscribers) and for mobile telephony 9% in April 2004 (about 6 million subscribers).

Regarding the **audiovisual sector**, Egypt’s television system, established in 1960, comprises two national channels, five local channels and a foreign national network, Nile TV. Television is owned, operated and supervised by the government. Regarding culture, Egypt’s Pharaonic heritage as well as those of minorities, are key assets for cultural dialogue and exchanges as well as for boosting tourism. Cairo is an important centre *inter alia* for TV and other media and hosts key international events (e.g book fairs, film festivals and experimental theatre festivals). Egypt benefits from the Euro-Med Audiovisual and Euro-Med Heritage programmes.

As regards **environment**, the first national environment action plan was prepared in 1992. The current plan extends from 2003 until 2007 and comprises 14 issue-specific sub-programmes according to which reduction of pollution, minimisation of health hazards and improvement of quality of life are Egypt’s short-term environment objectives, while preservation of the natural resource base, national heritage and biodiversity are regarded as medium-term objectives. Integration of environment considerations into all relevant national policies, plans and programmes is considered as an overall strategic objective of the Egyptian environment policy.

In 1994, Egypt adopted an Environmental Protection Law to serve as the basic legal framework for environment protection. It came into effect in 1998, and combined existing legislation and penalties with new provisions on hazardous wastes and environmental management. It also provides for the possibility to adopt sector and issue specific Presidential Decrees. In addition, it enhanced the powers of the Environmental Affairs Agency as well as made environmental impact assessments mandatory, even if these are to be introduced only gradually due to shortages in administrative capacities.

In 1997, the Ministry of Environmental Affairs was established. The Egyptian Environmental Affairs Agency represents the executive arm of the Ministry as well as ensuring enforcement of regulatory standards through a network of eight regional branch offices and environmental management units within the governorates and a National Environment Protection Fund. A number of other Ministries are involved in environmental matters, such as the Ministry of Health and Population and the Ministry of Agriculture and Land Reclamation.

Egypt has adopted several sector-specific plans and programmes such as on air quality, integrated solid waste management, desertification and protected areas as tourist attractions. Egypt has also a programme in place on NGO and civil society participation in environment

activities. A national programme on addressing pollution of the Nile from industrial, domestic and agricultural sources is currently being developed.

Egypt benefits from Community support under MEDA, SMAP and LIFE-Third Countries programmes. It has ratified several international and regional environment conventions to which it is party, including in particular the Kyoto Protocol on climate change. Egypt has not ratified the amendments to the Land-Based Sources Protocol to the Barcelona Convention. Egypt has not signed the new Emergency Protocol to the Barcelona Convention.

The present level of **Research and Innovation (R&I)** activities in Egypt is estimated at 0.5% GDP per annum, but with plans for an increase to 1% over the next five years.

The Egyptian national system for scientific and technological research is under the mandate of the Ministry of Higher Education and the Ministry of State for Scientific Research and Technology, under which the Academy of Scientific Research and Technology is in charge of planning and coordinating research activities. This national RTD system includes a large number of institutions and universities, but long-term funding for infrastructure, lack of qualified technical staff and the attractiveness of scientific careers at national level pose challenges. Programmes funded by the government have been focusing on agriculture, health, and, to a lesser extent, on the manufacturing sector. The Higher Education sector provides a fair number of science and technology graduates, but there is very little connection between academia and industry; moreover the delayed entry into force of the 2002 IPR “Intellectual Property Rights” law limits technology transfer and has a negative effect on local research and innovation transfer.

Nevertheless, Egypt is active in international scientific cooperation and is the second largest producer of international scientific publications in Africa. Egypt participated, since 1992, in all activities supporting the Euro-Mediterranean scientific cooperation. In the 6th RTD Framework Programme, more than 140 Egyptian entities participated in research proposals in 2003 and 2004 and 36 were selected to be funded, in 24 research projects under the specific measures for MPC “Mediterranean Partner Countries”. An Agreement on Scientific and Technological Co-operation between the EU and Egypt has been initialled in March 2004 and its signature and conclusion should take place in early 2005. This agreement will facilitate Egypt’s participation in the EU Research and Development Framework Programme and will progressively integrate Egypt into the European Research Area.

The **education system** foresees nine years of basic education up to the age of 15 (including preparatory vocational education for 12-15 year olds), followed by secondary education (including vocational and technical secondary schools) and higher education. The higher education system comprises public and private universities as well as the Al-Azhar Islamic university. Because of demographic trends and previous education policy, the higher education system is overcrowded with students, putting a heavy burden on universities staff. Enrolment rates are very high at basic and secondary levels. Public education, in which the vast majority of children are enrolled, is free, except kindergarten. However direct and indirect costs (supplies, transport etc.) put a strain on children from poor families, leading to lower enrolment, particularly at kindergarten and higher education level. Formal post-secondary Vocational Education Training (VET) is provided by middle technical institutes under the responsibility of the Ministry of Education and sector-specific institutes offering 2-year post-secondary qualifications. Informal VET is provided by a variety of public and private sectoral, enterprise and community based training centres. The VET system is highly fragmented, involving a large number of Ministries. Challenges regarding education include

issues such as quality; governance; institutional organisation, the lack of financial means, not least for improving infrastructure and equipment, the need to further improve enrolment rates including for girls, for the poor and for those living in rural areas and to reduce dropouts in particular of children from poor families and less privileged areas. Egypt's education and training has a key role to play in the country's economic and social future, especially in alleviating poverty, increasing literacy and promoting employment. Egypt makes important efforts to addressing these challenges. Education reform is one among the three pillars of the Poverty Reduction Strategy. Reform strategies are being implemented across the board. Egypt participates in the Tempus programme for the modernisation of higher education through bottom-up exchange projects and structural measures that aim at reinforcing local reform capacities. The Supreme Council for Youth and Sports coordinates youth policy, which supports youth in various sectors including housing, employment, education and industry. Egypt devotes special attention to disabled youth, rural youth as well as youth in areas with particular difficulties. Egypt participates in the Euro-Med Youth Programme which enhances cooperation in the field of non-formal education for young people through, in particular, multilateral youth exchanges, trans-national European voluntary service as well as training for youth workers and capacity building for youth NGOs. Current visa requirements and procedures create certain difficulties for youth mobility.

The Ministry of Health and Populations is the major provider of **public health** care in Egypt, maintaining clinics and hospitals throughout the country. Drawing from compulsory contributions mainly from government employees and industrial workers, a Health Insurance Organisation (HIO), established in 1964, as well as Curative Care Organisations are further sources of funding. Since the establishment of the School Health Insurance Programme in 1992, the country's ten million plus school children are automatically included by the health insurance system. However, universal coverage has remained elusive, and over half of medical expenses are borne privately through patients' out-of-pocket payments. Inequities in health care persist between income groups as well as geographic regions, with serious shortages of healthcare professionals outside urban agglomerations.

The fragmentation of healthcare funding often results in a sub-efficient utilisation of healthcare institutions that work in parallel, contributing to a rather low sectoral performance compared to similar lower-middle income countries. The quality of care generally also leaves room for improvement. Over the past decade, progress has been made in such areas as children's and reproductive health, including the reduction of fertility rates. In 1997, the Egyptian administration launched an ambitious Health Sector Reform Programme (HRSP) aimed at modernising the system. This reform is based on Family Health Units (FHU) providing integrated services to all family members under the same roof. They improve the outreach and quality of primary health care that had been in the shadows of specialised care. Family Health Funds (FHF) have been created at gubernatorial level to purchase defined services for the non-insured from accredited FHUs.

However, erratic funding puts their sustainability in question. Under the HRSP, the authorities draw up health plans for each district of the country. Having started as pilot projects in three Governorates (one each in Alexandria, Lower and Upper Egypt, representing the diversity of the health care system), where over one hundred FHUs have been accredited to deliver standard health services, a further eight Governorates are to be included in the HRSP as of 2005/06.

The absence of a comprehensive action plan for the reform programme remains a constraint on implementing the HRSP. The HRSP also aims at reforming health care financing and

institutional set-up; regarding some of its goals, it is undertaking surveys (drug availability etc.); it has also resulted in numerous new primary health care centres. The HRSP is supported by funding from the European Community, the World Bank, USAID and other donors. The disease profile is changing, with infectious diseases typical of farming backgrounds being replaced by non-communicable diseases associated with lifestyle, and already half the deaths of Egyptian adults are due to cardiovascular diseases. Overall, the reform process has still some way to go, and particular efforts regarding its funding structures need to be made to sustain the results of reform.