

EGYPT

EVALUATION OF THE NETHERLANDS DEVELOPMENT PROGRAMME WITH EGYPT 1975-1996

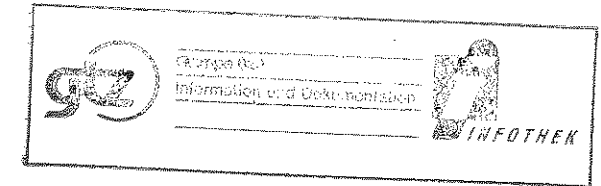


Netherlands development assistance

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EGYPT

EVALUATION OF THE NETHERLANDS
DEVELOPMENT PROGRAMME WITH
EGYPT, 1975-1996



Preface

This report presents the findings of the evaluation of the Netherlands development co-operation with Egypt. It is one of a series of three country evaluation studies carried out by the Policy and Operations Evaluation Department. The other two cover the development co-operation with Bangladesh and Bolivia.

The main objective of the study was to assess the policy relevance, effectiveness, efficiency and sustainability of the bilateral aid programme for Egypt. The study covers some twenty years of development assistance, i.e. since Egypt was selected as a priority country in 1975 and up to 1996. During this period a total of Dfl. 960 million has been disbursed as programme aid and project aid. In view of the wide scope of Netherlands aid to Egypt, activities have been grouped into five main clusters: programme aid, and project aid (including commodity import support) to main sectors, i.e. water management and drainage, agriculture and animal husbandry, drinking water and sanitation, and health and population. Separately, an assessment is made of aid to Fayoum Governorate, the concentration area of Netherlands aid in Egypt.

The report comprises three volumes. This volume (Volume 2) contains the main report. Volume 1 constitutes the Main Findings and Summary, whilst Volume 3 is a detailed study of the support to water management and drainage. The comment of the Egyptian Ministry of International Cooperation is included in this Volume (Annex 1).

IOB is an independent unit within the Ministry of Foreign Affairs, responsible for evaluating the Ministry's policies and operations. A more detailed description of IOB is presented in Annexe 2. The evaluation was directed and co-ordinated by Jan Sterkenburg (IOB) and Roland Rodts (Rodts BV), whilst advisory groups of external and internal experts in Egypt and the Netherlands advised on methodology and commented on draft reports. Although many individuals contributed to the evaluation study, IOB bears sole responsibility for the report.

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Contents

List of maps, figures and tables	ix
Abbreviations	xi
Currency equivalents and measures	xiii
MAIN FINDINGS	1
PART I CONTEXT	
1 Objectives and approach of the study	13
1 Background	13
2 Objective and key questions	13
3 Scope of the study	15
4 Approach and methods of data collection	16
5 Structure of the report	17
2 Egypt: country background	19
1 Geography and population	19
2 Political history	21
3 Development strategy	22
4 Main sectors	26
5 Human development	30
6 Women and development	33
7 Environment	35
3 Bilateral relations between Egypt and the Netherlands	39
1 The history of diplomatic relations	39
2 The peace process in the Middle East	40
3 Political relations	41
4 Commercial relations	43
5 Other relations	46
6 Conclusion	47

PART II BILATERAL AID PROGRAMME EVALUATION

4 Policy and programme characteristics	51
1 Development aid to Egypt	51
2 Netherlands aid policy	53
3 Country policy	54
4 Main programme characteristics	57
5 Conclusion	65
5 Programme aid	67
1 Background	67
2 Netherlands programme aid	73
3 Assessment	75
4 Conclusion	78
6 Water management and drainage	79
1 Background	79
2 Netherlands assistance	82
3 The advisory panel on land drainage	86
4 Water management and drainage research	88
5 Drainage execution	92
6 Fayoum water management	95
7 Assessment	99
8 Conclusion	104
7 Agriculture and animal husbandry	107
1 Background	107
2 Netherlands assistance	111
3 Poultry	115
4 Dairy	117
5 Horticulture	119
6 Other activities	123
7 Assessment	125
8 Conclusion	129
8 Drinking water and sanitation	131
1 Background	131
2 Netherlands assistance	134
3 Drinking water supply	137
4 Sanitation	145

5 Other activities	149
6 Assessment	150
7 Conclusion	155
9 Health and population	157
1 Background	157
2 Netherlands assistance	161
3 Supply of materials and equipment	164
4 Primary health care	168
5 Tuberculosis control	173
6 Assessment	174
7 Conclusion	179
10 Geographical concentration: aid to Fayoum governorate	181
1 Background	181
2 Profile of Fayoum Governorate	182
3 Netherlands assistance	184
4 Aid effectiveness	187
5 Perceptions of recipients	189
6 Geographical concentration	193
PART III CONCLUSIONS	
11 Conclusions	199
1 Foreign policy context	199
2 Trends in the aid programme	200
3 Policy orientation	201
4 Effectiveness	203
5 Efficiency	208
6 Sustainability	210
7 Progress towards strategic objectives	211
8 General assessment of the aid programme	216
ANNEXES	
1 Comment of the Egyptian Ministry of International Cooperaton	221
2 The Policy and Operations Evaluation Department (IOB)	229
3 Organisaton of the study	231
4 Netherlands bilateral co-operation programme: programme and project aid, 1975-96	237
5 Selected bibliography	247

List of maps, figures and tables

Maps:

1	Egypt: general map	18
2	Egypt: administrative map	20
3	Fayoum Governorate—general map	180
4	Fayoum Governorate—irrigation and drainage system	186

Figures:

1	Total aid to main sectors	4
2.1	Distribution of Gross Domestic Product (%)	29
4.1	Total net ODA to Egypt 1970–96	52
4.2	Total Netherlands project and programme aid to Egypt and types of programme aid, 1975–96	58
4.3	Total Netherlands project and programme aid to Egypt and distribution of project aid over main sectors, 1975–96	61
4.4	Total aid to main sectors 1975–96	62
6.1	Support to water management and drainage, 1975–96	85
6.2	Support to research institutes in water management and drainage, 1975–96	89
7.1	Support to the agricultural sector 1975–96	115
8.1	Support to drinking water and sanitation sector, 1975–96	137
9.1	Support to the health sector, 1975–96	164

Tables:

1	Netherlands bilateral aid programme for Egypt, 1975–96	3
2.1	Main macro-economic performance indicators 1990–95 (fiscal years)	25
2.2	Sources of GDP growth (in %)	27
3.1	Trade between the Netherlands and Egypt (annual average)	44
3.2	Composition of Netherlands exports to Egypt (% of total value)	44
4.1	Total ODA to Egypt 1970–96	51
4.2	Official Development Aid to Egypt: main donors 1970–94	53
4.3	Volume of programme and project aid, 1975–96	58
4.4	Programme aid: distribution of commodity import support over sectors, 1975–96	59
4.5	Project aid: distribution over sectors, 1975–96	60
4.6	Distribution of project aid and commodity import support over sectors, 1975–96	62
5.1	Egypt—Medium- and long term public and public-guaranteed external debt (excluding military debt, private non-guaranteed debt and arrears)	69
5.2	Egypt: Social Fund for Development—Financial commitments (1991–96)	71

5.3	Netherlands programme aid to Egypt 1975-96	73
6.1	Netherlands contribution to water management and drainage, 1975-96	84
7.1	Assistance to agricultural/animal husbandry sector, 1975-96	114
8.1	Netherlands aid contribution in the drinking water and sanitation sector 1975-96	136
8.2	AWGA water production and revenue performance (by fiscal year)	141
8.3	El Azab water production and revenues (by fiscal year)	143
9.1	Disbursements to the health sector, 1975-96	164
10.1	Netherlands development aid to Fayoum Governorate 1975-96	185

Abbreviations

AWGA	- Alexandria Water General Authority
APLDP	- Advisory Panel on Land Drainage Project
CMRI	- Channel Maintenance Research Institute
DAC	- Development Assistance Committee (of the OECD)
DGIS	- Directorate-General of International Co-operation
DRI	- Drainage Research Institute
EEAA	- Egyptian Environmental Affairs Agency
EPADP	- Egyptian Public Authority for Drainage Projects
ERSAP	- Economic Reform and Structural Adjustment Programme
EU	- European Union
FAO	- Food and Agricultural Organisation
FID	- Fayoum Irrigation Department
GDP	- Gross Domestic Product
GNP	- Gross National Product
GOSD	- General Organisation for Sanitary Drainage
HRI	- Hydraulics Research Institute
IMF	- International Monetary Fund
IOB	- Policy and Operations Evaluation Department (formerly IOV)
IOV	- Operations Review Unit
MPWWR	- Ministry of Public Works and Water Resources
MOH	- Ministry of Health
NGO	- Non-Governmental Organisation
NOPWASD	- National Organisation for Potable Water and Sanitary Drainage
NWRC	- National Water Research Centre
ODA	- Official Development Assistance
OECD	- Organisation for Economic Co-operation and Development
PHC	- Primary Health Care
RIGW	- Research Institute for Groundwater
RNE	- Royal Netherlands Embassy
SFD	- Social Fund for Development

UNDP	-	United Nations Development Programme
UNFPA	-	United Nations Fund for Population Activities
UNICEF	-	United Nations Children's Fund
USAID	-	United States Agency for International Development
USoS	-	Under-Secretary of State

Currency equivalents and measures

CURRENCY EQUIVALENTS

Year	1 US\$ = LE	1 LE = US\$	1 Dh = LE
1975	0.39	2.56	0.15
1976	0.45	2.21	0.17
1977	0.48	2.07	0.20
1978	0.54	1.85	0.25
1979	0.70	1.43	0.35
1980/81	0.74	1.35	0.37
1981/82	0.81	1.23	0.32
1982/83	0.86	1.16	0.32
1983/84	0.93	1.08	0.33
1984/85	0.84	1.19	0.26
1985/86	0.84	0.84	0.25
1986/87	1.37	0.73	0.56
1987/88	1.54	0.65	0.76
1988/89	2.23	0.45	1.13
1989/90	2.56	0.39	1.21
1990/91	2.57	0.39	1.41
1991/92	3.30	0.30	1.76
1992/93	3.33	0.30	1.89
1993/94	3.35	0.30	1.90
1994/95	3.40	0.29	1.95
1995/96	3.40	0.29	1.95
1996/97	3.40	0.29	1.95

MEASURES

1 feddan = 0.42 hectare (ha) = 1.037 acres

1 hectare (ha) = 2.38 feddan = 2.47 acres

Main findings

The objective of this study was to evaluate the policy relevance, effectiveness, efficiency and sustainability of Netherlands development co-operation with Egypt, which started in 1975. During the period 1975-96 aid totalled about Dfl. 960 million, an annual average of Dfl. 44 million. This level of disbursements represented less than 1 per cent of all donor aid to Egypt.

Netherlands assistance has mainly been provided in the form of project aid, totalling about two-thirds of disbursements and spread over a series of some 300 quite diverse projects. About one-third was for programme aid, some 40 per cent of which consisted of commodity import support to the main sectors of project aid and was sometimes linked to specific projects. The remainder was largely used for debt relief.

If project aid is combined with commodity import support for specific sectors, Netherlands aid was disbursed for activities in five main sectors. Three of these received two-thirds of expenditure: water management and drainage, agriculture and animal husbandry, and economic infrastructure and transport. One-quarter was disbursed for improvements in social services, in almost equal proportions to drinking water and sanitation, and health and population.

1 Overall assessment

Development assistance to Egypt was part of the Netherlands foreign policy of the early 1970s to improve relations with Arab countries in general and Egypt as a leading nation in the Middle East in particular. Since then, political relations with Egypt have intensified and improved. Trade relations have also expanded: exports to Egypt have increased considerably, and so did Egyptian exports to the Netherlands. Netherlands development aid contributed positively to intensifying and improving relations between the two countries.

Netherlands aid was oriented principally towards Egypt's economic growth and self-reliance. Programme aid helped to stabilise the Egyptian economy and to restore economic growth. Support to the Social Fund for Development helped to increase employment opportunities. Part of the project support to water management and drainage and to the agricultural sector also contributed to economic growth.

Indirectly, several activities helped to improve production and living conditions and were thus also beneficial to the lower income groups. This applies particularly to low income groups in the main cities who have profited from improvements in drinking water supply and in sanitation.

The main achievements in the aid programme were the increase in production and provision of services through the supply of technologically-advanced commodities to public institutions and state enterprises and the training of substantial numbers of their staff. Commodities supplied under the aid programme were generally of good quality, and in high demand in Egypt. The training enhanced the technical capabilities of organisations involved. Usually, technical assistance helped to improve the effectiveness of commodity supplies.

Commodity supplies and technical training did not result in the more effective functioning of government institutions in general, mainly because structural problems of the public sector could not be addressed effectively at the level of individual projects. A minor part of the aid (representing about one-fifth of disbursements) was marginally successful in the sense that objectives were achieved only to a limited extent or not at all. The main causes for this lack of success were the orientation towards ineffective public institutions and deficiencies in project preparation.

Results were best in cases where public agencies oriented their activities towards clients' demand and had sufficient financial autonomy to raise additional revenue, enabling them to offer better employment conditions and to finance other operations and maintenance costs.

The efficiency of project aid was rather low due to ad-hoc programme development and problematic project cycle management, which was largely caused by differences in priorities between Egypt and the Netherlands.

The sustainability of project aid achievements has improved as a result of the introduction of the economic reform policy and renewed economic growth. The principal factors that enhanced the sustainability of project aid achievements were a favourable government policy, the orientation towards client demand, and the degree of financial autonomy of public institutions.

Tackling environmental concerns has always been an implicit part of the aid programme for Egypt. In supporting water management and drainage in particular, the aid programme addressed one of Egypt's most fundamental problems of waterlogging and salinisation of scarce land and water resources. None of the activities had adverse environmental effects.

There were few opportunities to incorporate the improvement of the position of women in the aid programme, due to the relatively low priority that this was given in Egypt's policy, the technical orientation of the aid programme and its focus on the public sector. The issue of women and development was most explicitly addressed in the health sector, while improved drinking water supplies also had a favourable effect on their situation.

2 Trends in the aid programme

Total annual disbursements increased during the period 1975-90 and subsequently decreased during the 1990s. This decrease was mainly the effect of the reduction in programme aid, which in turn was related to the improvement of Egypt's foreign exchange position.

Table 1 Netherlands bilateral aid programme for Egypt, 1975-96, in Dfl. millions

Aid form/sector	1975/80	1981/86	1986/90	1991/96	Total
<i>Programme aid</i>					
Commodity Import Support	22.0	7.0	77.3	18.3	124.6
Debt relief	3.7	0	47.1	64.8	115.6
Other	16.4	0	59.7	16.6	92.7
<i>Project aid</i>					
Water management and drainage	19.7	23.3	36.5	61.7	141.2
Agriculture/animal husbandry	30.2	53.0	28.0	16.4	127.6
Drinking water and sanitation	2.0	32.5	0.1	12.2	46.8
Health and population	5.6	6.0	40.8	29.1	81.5
Infrastructure and transport	10.2	83.8	21.7	4.5	120.2
Miscellaneous	12.2	23.7	35.4	37.7	109.0
Total	122.0	229.3	346.6	261.3	959.2

Within programme aid a shift occurred from commodity import support in the 1980s to debt relief in the late 1980s and early 1990s. Commodity import support had a strong emphasis on capital goods for social services (drinking water and health).

There were also considerable sectoral shifts in project aid. Disbursements for agriculture and infrastructure/transport decreased sharply in the mid-1980s, whereas those for water

management and drainage increased. Aid disbursements to drinking water and health went up substantially during the 1980s and stagnated again during the 1990s. Changes in project aid were the effect of lessons learnt during the execution of the aid programme, the incorporation of Netherlands policy priorities and different requests for aid from Egypt.

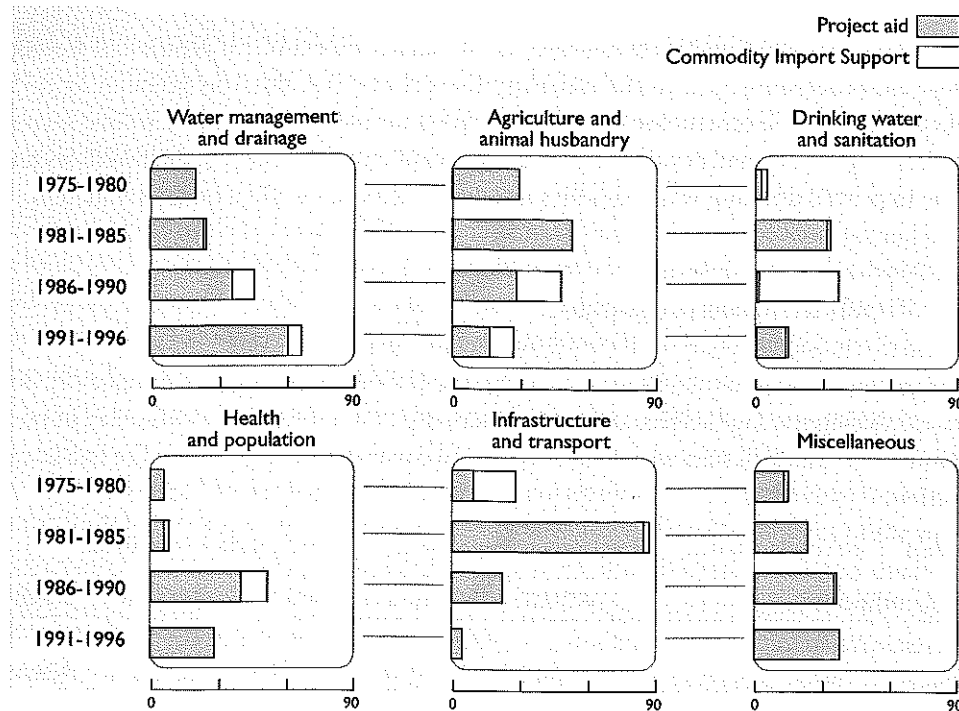


Figure 1 Total aid to main sectors (Dfl. million)

The shift to technical assistance during the second half of the 1980s was due to the disappointing results that had been achieved with part of the commodity supplies. In most cases, technical assistance enhanced their effectiveness by raising capacity utilisation. The increase in technical assistance also coincided with growing attention for Netherlands policy priorities such as institutional development, women and development, and the environment. At first, institutional development was interpreted as improving the technical capabilities of government organisations. Recently, however, activities have focused more and more on general institutional strengthening.

Finally, the aid programme showed an increase in expenditure for governorate-level activities due to the selection of Fayoum as a concentration area for Netherlands aid.

3 Policy orientation

Netherlands development aid for Egypt over the past twenty years has been oriented towards several crucial development problems. In its programme aid, the Netherlands focused on the need for economic stabilisation, the reduction of the balance of payments deficit, and the improvement of social conditions under structural adjustment. In project aid, the Netherlands chiefly addressed problems related to the scarcity and declining quality of Egypt's water resources, a crucial issue for the Egyptian economy in terms of food production and the living conditions of its population. The aid for drinking water and sanitation concentrated at first on the urban centres, where a large proportion of the population lives and where water and sewerage problems are most visible. Starting in the 1990s, the even more alarming drinking water and sanitation problems of the rural areas have been addressed in Fayoum Governorate.

During the first decade of the aid programme the Netherlands did not work out its development aid policy for Egypt at strategic and sectoral levels, and discussions between the two countries were restricted to the project level. Projects were characterised by the supply of technologically-advanced commodities, that were in high demand by Egypt. Since the mid-1980s the Netherlands and Egypt have exchanged views on policy issues during bilateral consultations, particularly about the need for economic reform and the priorities of Netherlands development aid policy.

Although both Egypt and the Netherlands considered economic growth and poverty alleviation as their main objectives, the relative importance of each objective and the approaches towards their realisation differed. Egypt considered economic growth as the main route by which to reduce poverty and preferred programme aid and commodity supplies. The Netherlands preferred more direct poverty alleviation through giving support to specific target groups. Priorities of Netherlands aid, such as poverty alleviation, promotion of gender equality and institutional development were often not shared by Egypt. Differences of opinion were usually settled in accordance with Egypt's priorities and the aid programme consequently had a strong orientation towards economic growth and self-reliance.

4 Effectiveness

Representing less than 1 per cent of total macro-economic aid to Egypt, the effectiveness of Netherlands programme aid must be assessed in the wider framework of donor support. The effect of donor aid on Egypt's balance of payments was highly positive. In the 1980s commodity import support helped in overcoming the foreign exchange crisis. In

the 1990s, the debt service reduction helped to stabilise the Egyptian economy and to restore economic growth. Activities financed under the Social Fund for Development proved positive in terms of employment generation, improvement of infrastructure and expansion of private enterprise.

Project aid had focused strongly on government institutions which dominated the Egyptian economy and society. The Netherlands considered the improved performance of these institutions to be a necessary and effective means towards better production and living conditions for the country's population. However, the structural problems of the public sector could not be addressed effectively at the level of individual projects. Results were best in cases where public agencies oriented their activities towards clients' demand and had sufficient financial autonomy to raise additional revenue to ensure better employment conditions and other operations and maintenance costs. Projects whose objectives were mainly technical were often more effective than those that combined technical, social and institutional objectives.

The effectiveness of project aid varied considerably over the sectors. In water management and drainage, assistance has been instrumental in training substantial numbers of staff and strengthening the technical capabilities of recipient organisations. Research support has provided further insight into the country's potential and current problems; but some two-thirds of the research was insufficiently user-oriented, however, and thus reduced its applicability. Technical assistance by the Netherlands contributed to the recent increase in the implementation rate of field drainage, largely due to massive investment in equipment supported by other donors. It also brought about greater irrigation efficiency in Fayoum. Several studies, together with farmers' demand for drainage indicate increased yields and farm incomes in areas under field drainage. The effects for individual types of farmers are not known due to the lack of basic social and economic information.

In the assistance to drinking water and sanitation the effectiveness of commodity supplies was high. Aid contributed to the rehabilitation and expansion of the utilities, strengthening of recipient organisations, and improvement of services. Aid also led to better living conditions, particularly in the urban areas of Cairo and Alexandria. The impact of assistance on creating financially-viable water utilities was hampered by a problematic institutional and policy environment, which has only recently started to improve.

The effectiveness of support to the health sector was mixed. The supply of equipment to specialised hospitals and for vaccine production was effective: the equipment was intensively used in treating patients and producing crucial vaccines. The effectiveness of the supply of raw materials for anti-biotics production and of equipment for rehabilitation centres for the handicapped was marginal. The former did not contribute to the necessary

changes in high levels of drug use, in the preference for expensive brand names, and inefficient production. The latter mainly provided sheltered employment for a limited number of handicapped people. The effectiveness of basic health projects was high in terms of the rehabilitation of infrastructure and the training of staff. There is little or no information about the impact of the basic health assistance in terms of the more intensive use of renovated public health units, increase of family planning methods and improvement of the people's health.

The effectiveness of support to agriculture and animal husbandry was disappointing. It was strongly oriented towards larger farms and state enterprises, and one-third of the activities, representing over 40 per cent of disbursements only marginally achieved their objectives, if at all. This applied in particular to support for the dairy industry, primarily due to weak performance by the public sector agencies involved. Support to the poultry industry was effective mainly because of a favourable government policy and the supply of good quality commodities. Horticultural activities supported in Fayoum and in potato cultivation were also successful, largely due to adequate technical assistance and limited government intervention in production and marketing.

5 Efficiency

In general, efficiency in the aid programme for Egypt was affected by ad-hoc programme development, and problematic project cycle management, which was to a large extent caused by differences in priorities between the donor and the recipient country. Egypt has clear-cut ideas and expectations about the role of aid in the development of the country. The increased emphasis on social and institutional objectives and the shift to technical assistance on the part of the donor often differed from Egyptian priorities. Differences of opinion prolonged project preparation and implementation, and reduced efficiency.

From the beginning the aid programme was characterised by a predominance of project aid and a rather diverse package of projects in response to a wide range of Egyptian proposals. The country policy plans introduced by the Netherlands in the second half of the 1980s did not lead to a joint design of sector-specific strategies. Moreover, the policy plans incorporated a gradually increasing number of donor priorities which broadened the aid programme and placed a high demand on aid management. However, the concentration of aid in Fayoum governorate had a positive effect on efficiency.

Aid management was problematic in all stages of the project cycle. Project preparation was often prolonged over several years, took a substantial amount of time and manpower and was largely a donor activity. Objectives were often phrased in rather general terms and

were not operationalised in concrete targets to be realised within specific time frames. Most projects were not appraised in terms of alternative solutions and approaches. In project implementation delays often occurred in tendering and procurement. Delays in supplies, over-sized equipment orders and frequent project extensions raised cost levels. Monitoring was weak up to the mid-1980s, after which it improved, partly due to the deployment of sector specialists at the Netherlands Embassy. Throughout, monitoring remained focused on the use of inputs and on the financial aspects of project implementation, with little attention for output and results for target groups. Evaluations were carried out systematically after the mid-1980s. They were mostly oriented towards input aspects and problems of project management and gave little attention to effectiveness and impact.

6 Sustainability

The Netherlands started its aid to Egypt during a period of overriding domination by the public sector over the country's economy. Since the introduction of the economic reform programme the role of the public sector has changed affecting positively the sustainability of Netherlands support.

Macro-economic support was part of an international donor effort in the framework of the economic reform programme, and made a useful contribution towards the longer-term stabilisation of the economy. In general, this enhanced the sustainability of project achievements.

At the project level, the principal factor that favourably affected institutional and financial sustainability appeared to be the priority given to the various aid activities in government policy, including arrangements for cost recovery. Successful orientation towards client-demand, and the degree of financial autonomy and management capabilities of relevant public institutions, were also of crucial importance. These conditions varied for the different organisations supported under the aid programme.

The sustainability of the results of the national drainage programme is fairly secure: it has high priority in government policy and the investment costs of field drainage are now almost wholly recovered from farmers. Prospects for research are best for those institutes that have started to develop structural links with clients and have secured a more solid financial basis on which to recruit and retain motivated staff.

For drinking water and sanitation, utilities have recently been allowed to retain collected tariffs and to utilise them to meet operations and maintenance costs. The process is likely to take some time in the face of strong opposition, however. With regard to drinking water,

cost recovery is high for the Alexandria utility and still low for Fayoum. The outlook for sanitation is less auspicious: full cost recovery would require a tenfold increase of current tariffs.

The sustainability of achievements in the agricultural sector hinges on demand for the products and services offered, on the possibility to charge realistic prices, and on the financial autonomy of pertinent organisations to use revenues for offering attractive employment conditions. In the health sector prospects are relatively good for specialised hospital services, and highly uncertain for basic public health facilities.

Technical sustainability has generally been good insofar as recipient organisations were capable of handling the technology provided. The provision of after-sales services by commodity suppliers and adequate technical assistance have had a positive effect on sustainability.

PART I CONTEXT

1 Objectives and approach of the study

1 Background

In 1991 the Policy and Operations Evaluation Department (IOB, then Operations Review Unit/IOV) started a series of country evaluation studies of the Netherlands bilateral aid programme. Three countries were selected, namely India, Mali and Tanzania. The main arguments for these country programme evaluations were: the share of Netherlands development assistance channelled through country programmes, the combination of various aid instruments with which to realise Netherlands policy objectives and priorities, and the opportunity to assess the organisation and management of aid. The three country reports were published in 1994 and a synthesis of main findings for the three countries was presented in a separate publication in 1995.

In 1995, IOB was requested to embark upon another series of such studies, which would cover the bilateral aid programmes for Bangladesh, Bolivia and Egypt. The present series differs in several respects from the previous one. Following recent policy changes, notably the integration of development co-operation into the broader foreign policy framework, the aid effort is placed in the wider context of bilateral relations between two countries. Moreover, two priority themes of Netherlands development assistance, environment and women in development, and the changes in the programme during the period 1975-96 are given more explicit attention. And finally, the recipient countries have been involved more intensively in the evaluation. Conversely, the organisation and management of aid has not been a specific theme of study since it received ample attention in the previous series of country programme evaluations. Aspects of organisation and management at the level of activities and sectors have been included in the efficiency analysis.

2 Objective and key questions

The general objective of this study is to evaluate the policy relevance, effectiveness, efficiency and sustainability of the Netherlands bilateral development co-operation programme with Egypt.

This objective is specified by the following key questions:

1. How does the Netherlands aid programme relate to the recipient country's main development problems and to Egyptian and Netherlands policies?
2. What were the results of the aid programme and how did activities contribute to the main objectives and priorities of Netherlands development assistance?
3. How efficiently were the activities organised and carried out?
4. To what extent are the results of Netherlands development assistance sustainable?

These key questions have been elaborated in a series of sub-questions and relevant indicators by which to assess aid performance. The main concepts included in the general objective were defined as follows:

Policy relevance refers to the degree to which the aid programme reflects the priorities of the recipient country and of the donor. The extent to which the programme addresses crucial development problems is also taken into account.

Effectiveness pertains to the extent to which project, programme and policy objectives have been achieved. The judgement on effectiveness is based on analysis of the direct output and effects of an activity and a comparison with objectives. Effectiveness differs from impact, which refers to the degree to which a process of further development is brought about, i.e. over a longer time perspective and with reference to certain target groups.

Effectiveness is measured in the first instance at the level of projects and programmes. Subsequently, it is assessed at the level of sectors and of the country programme with regard to the main objectives and priorities of Netherlands development co-operation: economic self-reliance, poverty alleviation, environmental conservation and improvement of the position of women.

Efficiency concerns the choice of instruments and the ways in which resources have been used. It examines the choice of instruments in achieving objectives, the use of resources wherever possible in terms of benefits and costs, and management of the project cycle.

Sustainability refers to the potential to retain the achievements of development aid after major financial, managerial, and technical assistance from the donor comes to an end. The principal aspects on which sustainability is assessed have been obtained from the DAC/OECD study on sustainability (DAC/OECD, 1989). Emphasis was placed on financial viability (including policy support), the appropriateness of technology and the capacity of local institutions to manage activities.

3 Scope of the study

The country evaluation study covers some two decades of Netherlands aid to Egypt, i.e. from 1975 when Egypt was selected as a priority country upto and including 1996. Although the full period is covered in the study, the main emphasis is on the period 1986–96. The evaluation includes aid made available through the regular bilateral programme and that provided through special programmes. The aid channelled through the co-financing programme for Non-Governmental Organisations (some 3.6 per cent of disbursements) has not been included.

An inventory of all activities and programmes financed over the past twenty years has revealed the wide scope of the Netherlands aid programme in Egypt. This has entailed that it was virtually impossible to examine all supported activities in detail, and a selection therefore had to be made of those to be included in the evaluation. First, activities were grouped into two main categories of aid form: non-project aid or programme aid and project aid. Subsequently, programme aid was sub-divided into commodity import support and financial programme aid. Commodity import support was classified according to main sectors and combined with project aid in those sectors in order to obtain an overall picture of Netherlands assistance to a particular sector. Financial programme aid was evaluated separately on the basis of available secondary sources, in particular evaluation and completion reports.

Finally, project aid was clustered into five main categories: (1) water management and drainage; (2) agriculture and animal husbandry; (3) drinking water and sanitation; (4) health and population; and (5) infrastructure and transport. Activities that did not fit into these five categories were classified under miscellaneous. The first four categories were included in the evaluation on the basis of two criteria: their importance in financial terms and their relevance for the programme in the period 1986–96. The evaluation included both project aid and import support to the four sectors. As disbursements for infrastructure and transport were low during the period 1986–96, activities supported in this sector have not been included in the study.

In each sector included in the evaluation projects were selected for more detailed assessment of their policy relevance, effectiveness, efficiency and sustainability. The evaluation study included both ongoing projects and activities already terminated. The latter group was of special importance in the assessment of sustainability.

Activities evaluated in the selected sectors represent 60 per cent of all disbursements for the full period of Netherlands aid and 75 per cent of support during the last decade. If macro-economic support is included, the evaluation study refers to 70 per cent of all disbursements under the Netherlands aid programme for the period 1975–96.

A separate study has been made of Netherlands aid to the Fayoum Governorate, a concentration area which now receives some 30 per cent of bilateral project aid. The Fayoum field study focused on the value added of geographical concentration and the perception of the relevance and effects of Netherlands aid at governorate and community level. The results of the activities carried out in Fayoum and assessed in the sector studies have been used as an input.

4 Approach and methods of data collection

Four main methods of data collection have been applied to obtain the information with which to deal with the key questions:

1. A review of relevant literature regarding Egyptian economy and society, the selected sectors and relevant themes;
2. A desk study of policy documents on Netherlands development aid, project files, progress reports and evaluation studies;
3. Interviews with Egyptian officials, staff of the Netherlands Ministry of Foreign Affairs and the Netherlands Embassy, representatives of other donor organisations, project staff and intended beneficiaries;
4. Field studies of the main sectors of Netherlands aid to Egypt.

Desk studies culminated in project profiles for all major activities (i.e. those over Dfl. 0.1 million in disbursements), written according to a standard format. These profiles contained information concerning a project's justification, history and implementation record, objectives and approach, results and bottlenecks. In addition, they included a tentative assessment of effectiveness and efficiency based on previous evaluations.

The project profiles were an input in the field studies, which were contracted-out to specialised consultant teams consisting of Egyptian and European experts. For each field study separate Terms of Reference were formulated, which included more detailed key questions, main aspects of evaluation and indicators with which to measure effectiveness.

Consultant reports were discussed in two advisory groups, one in Egypt and one in the Netherlands. Comments made by these advisory groups, consultants reports and other data provided the information for the draft final report, which has been submitted for comment to most Egyptian organisations involved, the advisory groups and staff concerned at the Netherlands Ministry of Foreign Affairs and the Netherlands Embassy in Egypt. If comments referred to inaccuracies in the draft or to information not earlier available to the evaluation team appropriate adjustments have been made, and assessments were rephrased accordingly.

5 Structure of the report

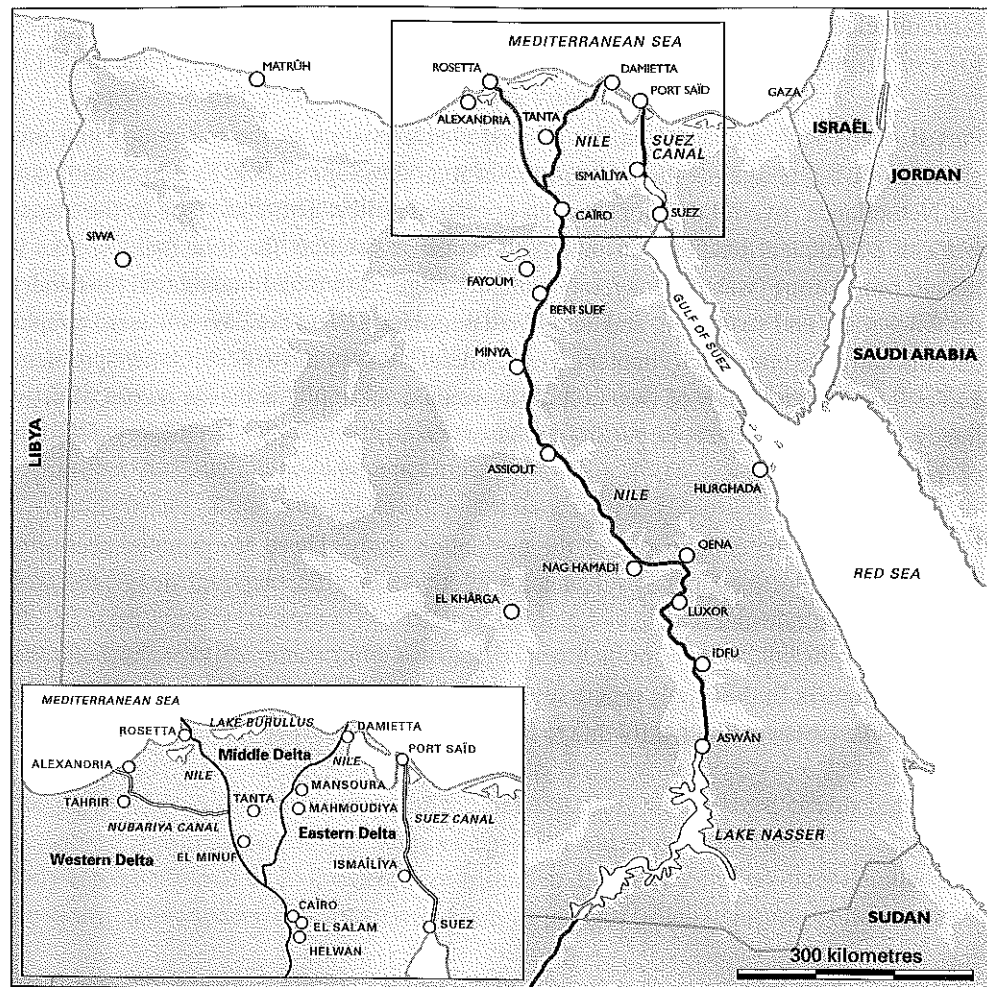
The report opens with the general background of development co-operation between Egypt and the Netherlands. Part I consists of three chapters: one on the objectives and approach of the evaluation; a chapter about Egypt, providing information on the country and its population, its development strategy and socio-economic situation; and one on bilateral relations between Egypt and the Netherlands. These chapters provide the context for a subsequent description and evaluation of the Netherlands aid programme in Part II.

Part II opens with a chapter on the general characteristics of the aid policy and programme for Egypt against the background of total development aid to that country and the Netherlands' overall development co-operation policy. This functions as the framework of subsequent chapters on macro-economic assistance, the four main sectors in the aid programme (water management and drainage, agriculture and animal husbandry, drinking water and sanitation, and health and population), and the Fayoum as geographical concentration area. Each chapter gives a general background to development problems and policies, an overview of Netherlands assistance, an implementation record of activities, a description of concrete results and an assessment with regard to the key questions of the study.

Part III presents the conclusions of the evaluation study. These are grouped according to evaluation objectives: policy relevance, effectiveness, efficiency and sustainability. It also focuses on relevant issues.

Note: All figures in the report refer to current prices except where mentioned otherwise. Totals in the tables may not tally due to rounding.

2 Egypt—country background



Map 1 Egypt: general map

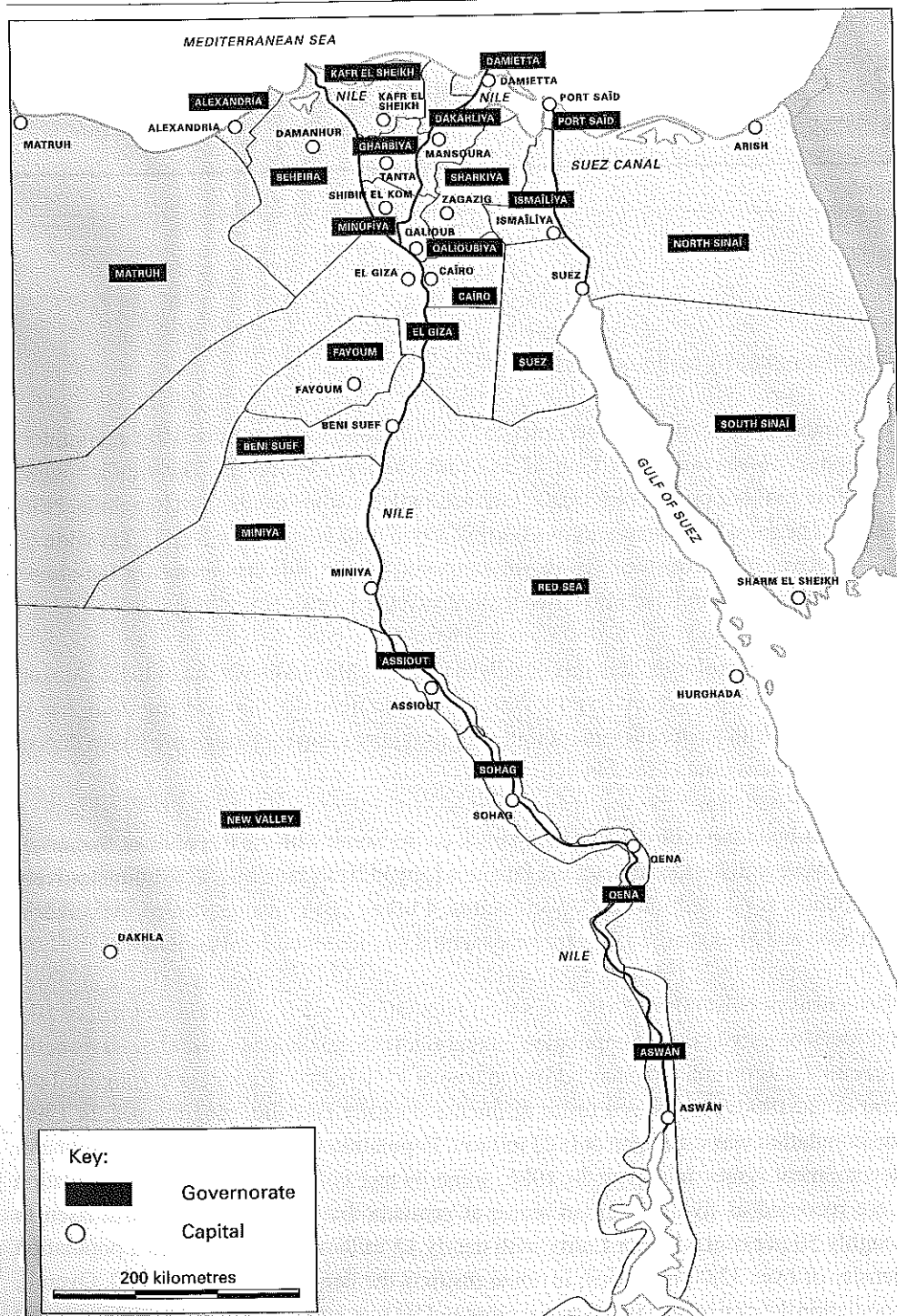
2.1 Geography and population

The Arab Republic of Egypt occupies the north-eastern corner of the African continent, with an extension across the Gulf of Suez into the Sinai Peninsula. The area is roughly 1 million km² but only about 35,200 km² are settled and cultivated, the remainder being desert. The most important part is a narrow, troughlike valley from 3 to 15 km wide cut by the River Nile. North of Cairo, silt deposited by the Nile has formed a fan-shaped Delta region through which flow two main distributary branches of the river.

The country's development is profoundly affected by the aridity of the climate. Alexandria, the wettest part, receives only 200 mm of rain annually; most of the south has 80 mm or less. With such deficient rainfall over the entire country, human life has to depend closely on the waters of the Nile.

Egypt has boundaries on the east with Israel, on the South with the Republic of Sudan and on the West with the Great Socialist People's Libyan Arab Jamahiriya. Administratively, the country is divided into 26 Governorates: 4 urban Governorates (Cairo, Alexandria, Port Said and Suez) and 22 Governorates with a mixed urban-rural population.

The census of November 1986 gave a total population, both resident and abroad, of 50.5 million. The annual rate of population increase, after following an upward trend from the early 1970s, is estimated to have dropped from a 1986 high of 3 per cent to roughly 2 per cent in the 1990s chiefly as a result of intensive family planning programmes. In 1996, the population was estimated at 60.2 million. Population density and land use are major development issues in Egypt. In 1986, some 44 per cent of the country's population were recorded as living in urban areas; at presents that is estimated to have risen to roughly 50 per cent. Greater Cairo, with nearly 15 million inhabitants, has a population density of over 32,000 per km²; in some districts the density reaches 100,000. Overall, population density in inhabited areas is close to 1500 per km². Demographic and economic conditions have combined to make foreign employment an attractive proposition. In



Map 2 Egypt: administrative map

1993, Egyptians working overseas were estimated to total 2.6 million. Migration relieved pressure on scarce domestic jobs, but intensified shortages of certain skills that were in high demand, especially managerial. The economic effects of migration have been significant in that it has provided a source of much-needed foreign exchange and an opportunity to acquire skills and experience that were either limited or unavailable within Egypt (EIU, 1994–96; Handoussa and Potter, 1991).

2.2 Political history

Egypt occupies a significant place as a region where, in all probability, the earliest developments of civilisation and organised government took place. Its present borders are almost identical to those in the pharaonic era, which lasted for around 30 centuries. In BC 525, Persian warriors dethroned the last pharaoh. The country then remained a Persian province until it was conquered by Alexander the Great in BC 332. The Ptolomaic line ended in BC 30, after which Roman control lasted for almost seven centuries. Arab armies conquered Egypt in 624. A process of Arabisation and Islamisation ensued, although a Christian minority continued to exist. For the next 1300 years, a succession of Turkish, Arabic, Mameluke and Ottoman caliphs, beys and sultans ruled the country until, in the early 19th century, the Albanian army general Mohammed Ali took control. He imported elements of European culture and technology, introduced the state organisation of Egypt’s economic life, and improved education. Under his successors the Suez Canal was constructed and opened in 1869. In 1882, a British expeditionary force invasion marked the beginning of British occupation. This lasted until 1922 when, in deference to growing nationalist feelings, Britain unilaterally declared Egyptian independence and the reigning sultan Fuad I became the first King of Egypt.

In 1952, the regime was overthrown by a bloodless military coup led by Gamal Abdel Nasser. The establishment of military rule (Revolution Command Council—RCC) was accompanied by wide-ranging reforms, including the redistribution of land, the promotion of state industrial development and the expansion of social welfare services. Dependent on Soviet economic and military support, as the West, particularly the USA, intensified its backing of Israel, Egypt fought two wars in 1956 and 1967 which left Israel in control of the Gaza strip and the Sinai Peninsula.

On his death in 1970 President Nasser was succeeded by President Anwar Sadat. The need to atone for the 1967 defeat dominated Egyptian concerns leading to another war against Israel in October 1973. This brought the USA into action to broker a solution, which eventually led to the signature of the Camp David agreements in 1978 and to a Peace Treaty in 1979. Many Arab countries opposed the peace initiative; the Arab

League expelled Egypt and imposed political and economic sanctions. At home, a more liberal economic and political regime was introduced. New laws were passed to allow private sector participation in former state preserves, such as exporting and importing and transport. Political parties, which had been banned since 1953, were legalised but power remained with Sadat's own National Democratic Party.

President Sadat was assassinated in 1981 by a group of Islamic fundamentalists and succeeded by his Vice-President, Hosni Mubarak. On assuming power, the new President made a priority of extracting Egypt from its relative isolation within the Arab world. The approach meant an occasional diplomatic distancing from the USA, which nevertheless remained Egypt's chief ally and source of foreign aid. In November 1987 the Arab League voted to restore relations with Egypt and it rejoined in 1989. Eventually, Egypt emerged from the 1990 conflict in the Gulf with its international reputation enhanced as it forged a special role for itself as a mediator, a role assisted by its ability to preserve close relations with Western powers, particularly the USA and Middle East and with African and other developing countries. During subsequent years, Egyptian foreign policy continued to focus on the twin themes of Arab reconciliation and settlement of the Arab-Israeli dispute, with particular emphasis given to the Palestinian question. In domestic policies, emphasis was placed on economic reform, the maintenance of law and order, and controlling rising Islamic militancy (Europa Publications, 1994; EIU, 1996).

2.3 Development strategy

Egypt's socio-economic history of the last 45 years can be subdivided into three distinct periods: a period of state socialism, a transition period of cautious liberalisation, and one of economic reform.

State socialism: 1952–73

In 1952, the Revolutionary Command Council (RCC) inherited an economic base that was essentially private sector-oriented: the private sector accounted for almost 90 per cent of total value added and 95 per cent of total civilian employment. The public sector's role was limited to the provision of basic services. Following a transition period of roughly four years, beginning in 1956, Egypt witnessed the emergence of a public sector that, through a series of nationalisations, gradually assumed control over a large part of production activities. By 1964, the state was in control of a considerable portion of the non-agricultural sector of the economy.

The state also intervened in agriculture but indirectly. The basic objective was to use this sector as a resource base for financing public investment in industry and infrastructure. Through state-controlled co-operatives the Government reorganised agricultural production by introducing a system of land consolidation and of crop rotation.

The impact was mixed. Up to 1965, Egypt achieved significant economic progress (with GDP growing on average 6 per cent per annum), but the period 1966–70 was characterised by difficult economic circumstances. GDP growth dropped to an average of 2.7 per cent, barely matching the population growth rate. From 1966 onwards, the balance of payments situation started to deteriorate seriously; manufactured exports grew only marginally, and the import substitution objective was only partially achieved. In addition, the 1967 and 1973 wars with Israel imposed a heavy burden on resources and the economy showed increasing strains of weak management and inefficiency in the bulging public enterprise sector (Europa Publications, 1994; World Bank, 1978).

Open Door and cautious liberalisation: 1974–85

Growing economic difficulties motivated a shift in Egypt's development strategy in late 1973, when President Sadat announced his policy of 'El-Infitah' (open-door). The basic philosophy was to shift from an inward-looking towards an outward-oriented strategy, taking advantage of international finance, technology and markets. A period of strong economic growth followed (9 per cent per annum on average between 1974 and 1980), fuelled by more foreign investments and an extraordinary increase in foreign earnings. The main sources of external income were oil exports, workers' remittances, Suez Canal earnings and tourist receipts which grew from US\$ 700 million in 1972 to US\$ 8.8 billion in 1980/81, then representing some 70 per cent of total export earnings. Egypt's fiscal and monetary situation improved over this period for essentially the same reasons. The surpluses of the Petroleum Corporation and Suez Canal Authority flowed into Government revenues. Significant social progress was also achieved as a result of substantial and relatively widespread per capita income increases and investments in the physical and social infrastructure. A food subsidy and ration system served as the last safety net for the poor and as an additional income transfer source for the better-off. While Egypt's external earnings improved dramatically, the domestic economy suffered from growing inefficiencies. Despite rapid growth, it provided insufficient employment opportunities since two of the most important activities (oil and Suez Canal fees), representing about 16 per cent of GDP, employed less than 1 per cent of the labour force. Rapid inflation abroad, combined with fixed prices imposed on the public sector and many other parts of the domestic economy, created growing inefficiencies in the use of economic resources. Problems were compounded by the traditionally inward orientation of the manufacturing

sector (largely public-owned) which became increasingly dependent on imports of raw materials, spare parts and equipment, while earning very little foreign exchange.

Starting in 1980, external revenues dropped considerably and Egypt's economic growth began to slow. Despite efforts to reduce imports, the widening gap between foreign exchange earnings and needs led to an untenable foreign debt situation and to growing arrears. The factors that caused the worsening balance of payments performance also affected the public finance situation. Government revenues, which were closely linked to petroleum and Suez Canal revenues, fell from 43 per cent of GDP in 1980 to a little under 24 per cent in 1985. Government expenditures also declined but not enough to permit a reduction in the unsustainably high budget deficit of 20 per cent of GDP. As a result, annual inflation accelerated to more than 20 per cent and, by the end of 1985, growth in real GDP had become negative (World Bank, 1986).

Structural adjustment and economic reform: 1986–present

After having accumulated some US\$ 11 billion in external debts, and under pressure from its main donor (the USA) and the International Monetary Fund (IMF), the Government adopted a series of corrective policies in 1986/87, including a depreciation of the Egyptian pound, selective production decontrol and price adjustments, and a tightening of fiscal and financial policies. The adjustment programme was supported by a Stand-By arrangement with the IMF and a rescheduling of a portion of Egypt's external debt service obligations. These reform measures, while in the right direction, did not sufficiently address the deep structural weaknesses of the economy and in 1988, Egypt again had to approach its creditors for a rescheduling of payments. Negotiations with the IMF dragged on through 1989 and 1990. By that time, the economy was still constrained by annual fiscal deficits of close to 20 per cent of GDP, by controls on many aspects of production and investment, by price distortions and by the existence of public sector monopolies. Economic growth, ranging between 1.5–2 per cent, remained well below the rate of population increase (World Bank, 1995 and 1997).

An analysis of economic developments in the period 1990–96 is complicated by data deficiencies, particularly on national income accounts and external trade. The latest actual national accounts data published by the Central Agency for Public Mobilisation and Statistics (CAPMAS) are for 1989/90. Since that date, only World Bank and IMF estimates are available. These are summarised in Table 2.1.

In mid-1990, the country's economic situation and foreign debt position became precarious when the Gulf crisis erupted and earnings from tourism and workers' remittances

Table 2.1 Main macro-economic performance indicators 1990–95 (fiscal years)

	1990	1991	1992	1993	1994	1995
Population (million)	51.9	53.0	54.1	55.2	57.9	59.1
GDP growth at factor cost % (1)	2.1	0.3	0.5	2.9	3.2	n.a.
GDP growth at market prices % (2)	3.6	1.9	2.9	3.9	4.7	5.0
GOVERNMENT BUDGET (LE million) (2)						
Current revenues	17,047	25,608	37,834	43,503	49,418	52,925
Current expenditures	-22,446	-29,679	-36,198	-40,886	-46,097	-47,633
Current balance	-5,399	-4,071	1,636	2,617	3,321	5,292
Capital expenditures balance	-14,517	-12,880	-7,793	-7,929	-7,018	-7,820
Overall deficit	-9,118	-16,951	-6,517	-5,310	-3,697	-2,538
BALANCE OF PAYMENTS (US\$ million) (2)						
<i>Exports</i>						
Merchandise	4,374	5,710	4,791	6,302	4,574	4,854
Services	6,082	6,715	7,371	6,532	7,605	8,280
<i>Imports</i>						
Merchandise	11,441	11,424	10,039	10,728	8,488	11,279
Services	2,920	3,553	4,191	3,829	6,595	4,631
Resource balance	-3,904	-2,553	-2,068	-1,724	-2,905	-2,776
Current account	-1,727	-114	2,679	209	-622	-288
Net international reserves	8,230	15,219	20,360	24,034	26,578	28,128
EXTERNAL DEBT (US\$ million) (2)						
Total debt	34,024	25,706	32,386	31,509	32,593	35,273
Total debt service	3,803	3,380	2,595	2,421	2,155	2,166
INFLATION (%) (2)	14.7	21.1	11.1	9.0	9.4	7.2

Sources: (1) IMF; (2) World Bank.

dropped to an all-time low. The crisis transformed Egypt's situation. Vast cash infusions through the Gulf Financial Crisis Co-ordinating Group (led by Saudi Arabia and Kuwait) and a major USA military debt cancellation, largely compensated for current account losses and gave the Government the confidence to introduce a new series of trade and price liberalisation measures. The 1990–93 Economic Reform and Structural Adjustment Programme (ERSAP-I) involved the removal of many distortions in the price system, interest rate decontrol and public enterprise reform. The reform programme was supported by an IMF Stand-By Arrangement, a World Bank Structural Adjustment Loan and a debt relief agreement covering an estimated US\$ 10 billion of the US\$ 20 billion owed by Egypt to Western creditor nations. The provision of exceptional aid was a major factor in the turnaround of the balance of payments. In all, payment arrears amounting to US\$ 11 billion in June 1990 were virtually eliminated by June 1992. Other factors contributing to the strong balance of payments outcome were few imports, and resumed growth in tourism and remittance receipts. The strong balance of payments outcome was

associated with a significant tightening of financial and fiscal policies. The Government budget deficit was brought down from 17 per cent of GDP in 1990 to 2.5 per cent in 1995. Inflation was reduced from 20 per cent in the pre-adjustment period to around 7 per cent in 1995. Public sector reform stalled early in 1994 and measures agreed to liberalise and streamline the investment regime and other structural reform measures were implemented slowly or not at all.

However, the country continued to witness weak output growth, high and rising unemployment, and sluggish exports and private investment performance. According to IMF data, real GDP growth rose to an estimated 3.2 per cent in 1994, and remained below the level deemed necessary to allow a reduction in unemployment. World Bank data point at higher growth rates. While growth resumed, investments (as shares of GDP) did not return to their pre-1990 levels, indicating the existence of large spare capacity at the beginning of the recovery. Aggregate gross domestic investments grew moderately, reflecting contracting public investment and a significant recovery of private investment, by almost 3 per cent between 1994 and 1996. The decrease of public investment resulted mostly from a reduction of public involvement in the commercial sphere.

The pace of structural reform accelerated following the formation of a new Government in January 1996. Procedures for investment approval were further liberalised, restrictions on foreign majority ownership of joint-ventures were lifted, and new impetus was given to the privatisation programme. Negotiations on an association agreement with the European Union were initiated and served as a stepping-stone toward greater multilateral co-operation. Broadly speaking, current policies are consistent with a gradual increase in output growth to about 6 per cent by the turn of the century—a rate that would lead to higher per capita incomes and facilitate a moderate decrease in unemployment over the medium term (World Bank, 1996).

2.4 Main sectors

A breakdown of the origins of GDP shows changes in the relative importance of economic sectors in the last 20-year period (see Table 2.2).

The most significant feature of sectoral GDP is the declining share of agriculture. In 1976, agriculture was by far the largest sector but with a real average growth rate of not more than 2–2.5 per cent, it substantially underperformed compared to the rest of the economy.

Table 2.2 Sources of GDP growth (in %)

	1976	1980	1988	1995
Commodity sectors	54	54	51	50
Agriculture	26	20	17	16
Industry/mining	14	13	16	17
Energy	9	16	13	12
Construction	5	5	5	5
Service sectors	46	46	49	50
Suez Canal	2	3	5	4
Trade/finance/insurance	14	17	20	21
Tourism	2	2	2	2
Other services	28	24	22	23

Source: World Bank.

Agriculture

With annual dependable rainfall close to zero, Egypt is unique in having a substantial agricultural sector. Agriculture is totally dependent on irrigation and only 4 per cent of Egypt's area is cultivated. The vast majority of the country is desert and the limited availability of water resources seriously reduces the development possibilities of desert areas.

From being self-sufficient in food and a net exporter of agricultural commodities in the early 1970s, by the early 1980s Egypt was running an annual net deficit of US\$3 billion on agricultural trade. Agriculture's decline was primarily the result of extensive state intervention. The Government determined the areas to be allocated to major crops and compulsory delivery quotas were imposed at prices fixed to just cover production costs. Enforcement was erratic and with farmer disinterest in unprofitable crops, output of the main controlled crops stagnated or declined. To counter the steadily worsening agricultural trade balance, the Government launched an ambitious 'new land reclamation' programme. In time, land reclamation proved to be both an expensive and slow means of raising agricultural production.

By 1986 there was broad consensus that the major obstacles to more rapid growth in agricultural output were policy-based. During subsequent years almost all Government controls were removed, and in the early 1990s, agricultural production started to react to this relaxation. The increased output of crops on which restrictions had been removed became apparent in both cropping seasons: in summer, there was a significant shift away

from the traditional cotton crop to rice and maize, while winter production switched even more dramatically from berseem (Egyptian clover) to wheat (whose production more than doubled). Eventually, cotton production also picked up during the last year or so when remaining state trading monopolies were abolished. Most foodgrain and other production gains were absorbed by growing domestic demand preventing the country's food import bill from deteriorating any further. Whereas the private sector now makes practically all crop and livestock production decisions based on price signals by a free market, the provision of water and drainage of surplus water remains a state activity (World Bank, 1997).

Industry

From the 1950s onwards industrialisation was stimulated by the possibility of attracting investment from the Soviet Union and wealthy states in the Gulf. By and large, Egyptian authorities sought to foster industrial development mainly through public enterprises, a legacy of nationalisations of the early 1960s. Investments were sustained through a policy of distorted incentives. High rates of effective protection were accorded to activities in which Egypt lacked competitive advantage. In this environment, there was a tendency for industrial enterprises to shift away from basic consumer goods towards intermediate goods (spinning and weaving, cement, metals, chemicals) and, to a lesser extent, investment goods and consumer durables (such as car assemblage) which are capital-intensive and require modern technology.

Returns to these investments were disappointingly low. Over the years, public companies continued to dominate the industrial sector. As part of the structural reforms and in a major effort to improve efficiency and restore sector financial viability, public enterprises were re-organised in 1993 into seventeen diversified, financially-autonomous holding companies, which were then cut-off from the fiscal budget. The objective was to subject the sector to free market conditions and privatise many of them, but the pace of implementation was slow. By the end of 1996, Government still controlled two-thirds of the manufacturing sector and the expected gains in productivity that commercial competition and new management could foster, had only partly materialised (World Bank, 1997).

Energy

Egypt is an energy surplus country which has encouraged the rapid growth of domestic consumption through low and falling real energy prices. Hydroelectric production from

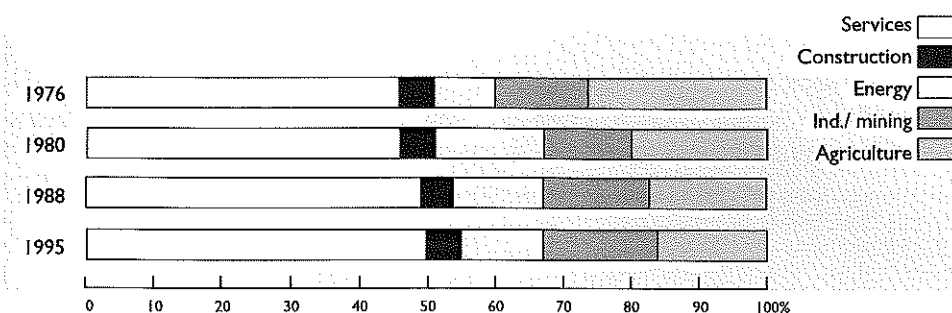


Figure 2.1 Distribution of Gross Domestic Product (%)

the Aswan High Dam exceeded Egypt's power needs until the mid-1970s. Development of the hydrocarbon sector had a major impact on the economy. Although Egypt has been producing oil since early this century, it only became a net exporter in 1976. Exploitation of the major fields in the Gulf of Suez, all discovered between 1955 and 1978, was stepped up and by 1980 production reached 600,000 barrels/day, almost three times the level of domestic consumption. The open-door policy under President Sadat resulted in some 125 production sharing agreements being signed with foreign contractors and output reached a peak of 930,000 barrels/day in 1985. During this period, crude oil and petroleum products accounted for about two-thirds of the country's merchandise exports. The share dropped to roughly 60 per cent in the 1990s due to a decline in prices and stagnation of production.

In the late 1970s, Egypt began to exploit its very substantial reserves of natural gas, which substitute for oil products in many uses. About 60 per cent of produced natural gas is now used for power generation with the balance used by large industrial consumers and domestic users in Cairo.

For most of the late 1970s and 1980s, the Government maintained low domestic energy prices that encouraged rapid consumption growth. As a result, per capita energy consumption reached the equivalent of 500 kgs of oil by the mid-1980s, or 30 per cent above average for countries in the US\$ 500–1,500 GDP per capita range. The Government then recognised the high costs of its energy policy and started to evolve a pricing strategy with which to encourage the economic use of resources and the development of indigenous natural gas supplies. Energy prices were increased by almost 500 per cent in current terms during the period 1986–96. The progress made in price adjustment was eroded by the rapid rate of inflation, however, and further price adjustments remain a critical issue in the economic readjustment programme even today. Without further re-adjustment, the country is expected to become a net importer of energy by the year 2002 (World Bank, 1996).

Services

The service sector has experienced higher growth than the commodity sectors during the last 20 year period. Apart from representing as much as 45–50 per cent of GDP, the services sector plays a crucial role in employing the bulk of the population. Two components, tourism and the Suez Canal, provide nearly two-thirds of foreign exchange earnings.

For a long time, growth of the tourist industry was hampered by outbreaks of violence in the Middle East as well as by the inadequacy of tourism facilities and lacklustre promotional campaigns. In 1987, all this began to change and tourism became one of the bright spots in Egypt's economic landscape. Several factors were responsible: primary among them was the depreciation of the Egyptian pound, but longer-term trends were also encouraging, i.e. the wide availability of charter flights, a vigorous drive to upgrade and expand tourist facilities, and a more sophisticated promotion campaign. In addition, tourism was progressively deregulated with the private sector playing a more prominent role. In 1989, tourist numbers, reached a record high at over two million and foreign currency earnings were estimated at some US\$ 2 billion. The 1990 Gulf crisis put a halt to this promising trend; in 1991 tourism revenues fell below the US\$ 1 billion level. In a major effort to reverse the decline, Government launched a series of high-profile public relation campaigns which restored tourist activity to its pre-1990 level, although attacks by Muslim militants continue to threaten the industry.

Following tourism and oil, the Suez Canal is the country's third important source of foreign exchange. The financial loss to Egypt caused by its closure after the 1967 war with Israel was offset by Arab subsidies. Revenues experienced a pronounced upward trend from the reopening of the Canal in 1975 through 1983/84. Up to 1980, this growth was almost entirely attributable to the increased flow of traffic as tariff rates remained virtually unchanged. Following completion of an expansion programme in late 1980, toll revenues were raised substantially and revenues broke through the US\$ 1 billion barrier in 1985. Since then, a carefully structured programme of selective tariff increases/discounts has kept the Canal competitive with rival shipping routes, allowing it to maintain transit traffic levels and to boost revenues up to the US\$ 2 billion level.

2.5 Human development

Over the years, Egyptian leadership has placed much emphasis on social development in order to foster greater equality and increased wealth. Following widespread land distribution and business nationalisation in the early 1950s, Egypt was transformed from a



View of modern Cairo (photograph: Linear)

standard case of surplus-labour economy to a full employment economy. The Government policy of guaranteed employment for graduates of secondary schools and universities meant that the workforce in central and local government doubled twice over a 30-year period, from 250,000 in 1952 to 1.4 million in 1977 and then to almost three million in 1989/90.

The stagnation of the economy in the 1980s made it increasingly difficult to sustain these policies. In time, Government was forced to abandon its policy of guaranteed employment and labour force growth started to outpace the creation of employment. By 1990, official open unemployment had risen to 12 per cent and real wages were falling, with the sharpest declines (up to 25 per cent) for Government employees. As the economic crisis deepened multiple job-holding became a necessity for financial survival. New labour force entrants also developed survival techniques, for example by registering as unemployed but working in the informal sector while waiting for a Government job.

The unemployment rate did not basically change under the economic reform programme. Economic growth remained insufficient to absorb the annual 500,000–600,000 new entrants in the labour force. Estimates of current unemployment vary considerably, from the official figure of nearly 10 per cent of the labour force to 22 per cent estimated by the Social Fund for Development. The formal unemployment problem is compounded

by widespread informal sector under-employment at earnings near or below subsistence levels. Most of the formally unemployed hold a secondary school diploma (INP, 1996).

Since the 1950s, ensuring food security for the population has been a major priority. In time, the Government established an extensive food subsidy system which guaranteed ration card holders a fixed monthly quota of essentials such as rice, oil, sugar, tea and soap. A second level of subsidy operated through state-owned co-operatives which distributed commodities at prices lower than open market prices. By far the biggest portion of the food subsidy budget, however, represented bread and wheat flour subsidies. Food subsidies were complemented with energy, public transportation and public utilities subsidies.

Under the structural adjustment programme (ERSAP), the old social safety net system of consumer subsidies was replaced by new mechanisms with which to assist the poor. The Social Fund for Development (SFD) was established in January 1991. Other initiatives to mitigate the adverse effects of structural adjustment on low income population groups were the national programme for integrated rural development (Shorouk) and the Mubarak Takafol (Solidarity) Programme.

Despite efforts to promote social equity and progress among the population, poverty was not eliminated. The latest 1995 Poverty Assessment Survey (PAS) reported roughly 25 per cent of the country's population (against 40 per cent in the mid-1970s) as living below the poverty line, almost 70 per cent of whom subsisted on an annual household income of less than LE 4000 per household or LE 2 (US\$ 0.6) per capita per day. The incidence of poverty varies significantly from one Governorate to another. Upper Egypt remains the region with the highest incidence. In the rural areas, the poor are either farmers with little or no land or agricultural workers. In the cities, poverty is linked to industrial employment and services, with government employees accounting for a significant share. For the urban self-employed, poverty is dominant among people in low-skilled and marginal activities (INP, 1996).

With respect to social services, significant achievements have been made in education and health care. Primary school intake increased from roughly 60 per cent in the 1960s to over 90 per cent in the mid-1980s. Over the period, the share of female primary school enrolment increased from 38 per cent to 45 per cent. In addition, an extensive rural health network was built. Under ERSAP, the ratio of social spending to GDP increased, but real per capita Government expenditure on health fell by 10 per cent and that on education per student by 25 per cent. The most striking feature linked to the impact of budgetary constraint was the growing share of salaries in total spending, to the detriment of other categories of expenditure. The direct implication of this imbalance was that the Ministries of Education and Health were not adequately funded to purchase the supplies needed for

normal operations and to carry out the maintenance and repair activities necessary to prevent further deterioration of the physical infrastructure.

In spite of impressive achievements in expanding the network of social services, the need for further improvement of actual social conditions is reflected in some of the human development indicators. With almost complete primary school intake, 50 per cent of the population aged 15 and over is illiterate. And with theoretically full health service coverage and one of the highest doctor/patient ratios in the world, basic health indicators compare unfavourably with those in other countries at similar income levels.

2.6 Women and development

There are striking disparities between men and women. Female participation in formal employment is low. In 1993 the proportion of women in paid employment was about 20 per cent of the labour force, but there had been a significant increase since the 1960s when the employment rate stood at about 8 per cent. Formal paid employment does not properly reflect women's participation in the economy. More than 60 per cent are classified as unpaid family workers; in the rural areas this may be as high as 74 per cent. In other words, many more women are economically active than is indicated by official statistics. Moreover, the unemployment rate of females is three times as high as for men.

Apart from the high percentage of unpaid family workers, women are chiefly employed in the public sector and as wage earners and self-employed in the informal sector. Work in the public sector is characterised by low salaries; in the informal sector the main features are low pay, long working hours, a lack of social insurance and of minimal sanitary and safety regulations. That women are willing to accept such conditions reflects the need for additional household income (INP 1996).

Female illiteracy in Egypt is one of the highest of the Middle East: more than 60 per cent for females of 15 years-and-over, against 34 per cent for men. At 77 per cent, female illiteracy is particularly high in rural areas. The increase enrolment of girls has not yet drastically reduced overall illiteracy rates for women.

Maternal mortality (174 per 100,000) is relatively high. Women of reproductive age are exposed to the incidence of death as a result of pregnancy and childbirth complications. In certain areas and social segments, the pattern of food distribution in the household is unfavourable for the mother. This explains the higher incidence of malnutrition among women. This pattern is also responsible for the rather high percentage of anaemia among pregnant women (between 20 and 25 per cent). Female circumcision is still widely

practised (INP, 1996). Women in Egypt are exposed to higher risks of death and morbidity than men, mainly because of their disadvantaged position in society. Risks are increased by high illiteracy rates, heavy workloads, repeated pregnancies, scarce economic resources, and obstacles for access to good health care.

Organisations for improvement of the position of women in Egyptian society date back to the beginning of this century. In 1923 the Egyptian Feminist Union was established, an organisation supported by men and women of the urban elite. In the 1930s another strand of feminism was established based on Islamic ideas and pursuing the improvement of their position within the framework of religion. In the 1940s, feminism in Egypt broadened its outreach and new organisations emerged that were also led by middle-class women. These organisations undertook campaigns for literacy and hygiene among the poor, reform of the Personal Status Law, education of women and their working rights (Badran 1991).

The evolution of the women's movement is reflected in the type of organisations that now operate in Egypt: (i) those that developed during the 1980s out of concern for the empowerment of women and gender equality, and which operate in the framework of universal human rights; (ii) those that consider Islam to be more than a religion and see feminism as an irrelevant western concept, perceiving the discrimination of women as a consequence of their not living according to Koranic principles; and (iii) muslim-feminists who consider the Koran an important instrument for the emancipation of women in addition to other sources of inspiration such as the UN Declaration of Human Rights. Several sources mentioned that these organisations have not been very effective in improving women's position, because they operate in isolation of one another and their activities are constrained by a tight institutional and legal framework (Jensen 1994; Slutzky 1997).

The Egyptian Constitution grants equal rights to men and women. Gender inequality seems to be related primarily to deep-rooted traditions and value systems. Yet, the Personal Status Law, which was first enacted in 1929, distinguishes between men and women regarding the right to divorce and the custody over children after divorce. Attempts of women's organisations in Egypt for amending the Personal Status Law have largely been unsuccessful.

Development policy under the Nasser administration included equal rights for men and women and efforts were made to promote women's participation at the social, economic and political level. The Labour Laws that were amended after the 1952 Revolution in conformity with conventions of the International Labour Organisation, give women certain privileges and require employers to provide them with special services such as maternity

leave and child care facilities. Later, a number of government or government-related organisations were formed to improve their status in Egyptian society. The establishment of these organisations indicates awareness of the disadvantaged position of women. In practice, they focus on women's participation in the development process. Prominent examples of these are the National Commission for Women, created in 1978 and re-established in 1993 under the auspices of the National Council for Childhood and Motherhood (NCCM); a Policy and Co-ordination Unit for Women in Agriculture established in 1992 in the Ministry of Agriculture; the Ministry of Population and Family Affairs created in 1993 and merged with the Ministry of Health in 1996 to form the Ministry of Health and Population; and a Gender Planning and Co-ordination Unit set up in 1994 within the Institute of National Planning.

2.7 Environment

Over the years, Egypt has faced a rapidly increasing deterioration of its environment including land and water resources, and air pollution. Although the water situation is not as constrained as in many countries in the region, quantities are limited and quality is a problem. In the over-crowded Nile Delta in particular, untreated or poorly treated urban and industrial effluent discharged into the Nile River increasingly threatens the health and welfare of hundreds of thousands of people. In addition, poor water management in agricultural areas has led to the salinisation of agricultural land and to waterlogging, thus reducing its productivity and requiring large investments for drainage or rehabilitation. Aquifers are threatened with salinisation and general pollution. Irrigation canals and drains increasingly suffer from eutrophication, the accumulation of pesticides and biological pollution. Even though the discharge of nutrients and chemicals to the sea meets international standards, it has begun to have a negative effect on Egypt's shores and coastal fisheries as well as on the potential for tourism. Urban areas, archaeological sites and historic districts are affected by increases in the water table due to over-irrigation and poor drainage. Industrial wastewater and urban sewage is discharged into drains with little or no treatment because of a shortage of wastewater treatment capacity and operation and maintenance problems. Highly inadequate solid waste management further contributes to water pollution.

Air pollution has become a priority environmental concern, second only to degradation of the country's land and water resources. In the heavily-populated and industrialised areas of Cairo and Alexandria, in particular where one-third of Egypt's population resides, concentrations of carbon monoxide, lead and sulphur dioxide have increased dramatically. Superimposed on high natural deposits of dust originating from the desert, air pollutants have risen well above acceptable thresholds (World Bank, 1992).



Impression of urban Egypt (photograph: Linear)

In Egypt as in other countries, the Government introduced legislative instruments and set standards, rules and procedures that were generally spurred by international environmental agreements. Egypt has ratified a large array of these agreements, and has perhaps the most comprehensive environmental legislation amongst Arab countries. The pre-eminence of land, water and energy management issues led to the establishment in 1982 of a central Egyptian Environmental Affairs Agency (EEAA). However, environmental legislation proved to be practically unenforceable or was enforced only sporadically because of weak linkages with powerful line ministries and a lack of technical and managerial capacities (World Bank, 1992).

Over the last five years, the Egyptian Government has launched a number of important initiatives in the effort to strengthen the management of environmental affairs in Egypt. In 1992, a comprehensive National Environmental Action Plan (NEAP) was published, providing a framework for dealing with many of the issues mentioned above, including appropriate legislation and enforcement measures, institutional responsibilities and economic aspects of environmental degradation. This was followed in 1994 by the introduction of the first consolidated Act on Environmental Protection, strengthening the EEAA in its capacity as co-ordinating authority. The decrees necessary for implementation of the Act were passed in 1995. In addition, the Government signed several international environmental conventions, such as the Barcelona Convention and the Montreal Protocol.

Egypt is also a participant and one of the eight donor/recipient countries of the Global Environment Facility (GEF). Passage of the Act on Environmental Protection and signing the conventions were essential first steps and are now being backed-up by policy and institutional actions with which to enforce the new legislation and the conventions and to create positive incentives for better compliance.

3 Bilateral relations between Egypt and the Netherlands

3.1 The history of diplomatic relations

The Netherlands has had *de facto* diplomatic relations with Egypt since the 17th century. In 1612 the Republic of the Seven United Provinces signed a treaty with the Ottoman Empire—of which Egypt was officially part—which allowed Dutch merchants to trade under their own flag in all Ottoman harbours. Subsequently the Republic appointed an Ambassador to Constantinople and established trade consulates in the most important ports. In 1633 the consulate in Alexandria was opened. The majority of consuls were European merchants who did not necessarily originate in the Low countries.

The Netherlands representation in Egypt expanded during the 19th century when steamer services to Alexandria started, trade and shipping between the Netherlands and Egypt intensified and the number of Dutch visitors increased. The consulate at Alexandria was up-graded to Consulate-General in 1834. After the opening of the Suez Canal in 1869, Dutch shipping to the region and through the Canal grew considerably. Consulates were then opened at Suez, Port Said and (for a brief period) Ismailia. In 1874 the status of the Consulate-General was raised to that of Diplomatic Agency. When Cairo became the centre of political gravity in Egypt, the Diplomatic Agency was transferred there from Alexandria (1884). It was up-graded to a Legation in 1922 when Egypt formally became independent. In 1955 the Netherlands raised the status of its diplomatic representation to that of an Embassy. In 1985 a development co-operation section was established in the embassy. The recent policy of integrating of development co-operation and external economic relations into overall foreign policy has been accompanied by a delegation of tasks and responsibilities to the Embassy and by expansion of its staff.

When Egypt became independent in 1922 it began to establish diplomatic relations with various European countries. Its representation in the Netherlands has had the status of Embassy since it was established in 1928. Its staff has gradually expanded, especially since relations between the two countries began to intensify in the middle of the 1970s.

3.2 The peace process in the Middle East

Relations between Egypt and the Netherlands must be interpreted in the wider context of Netherlands policy towards the Middle East, the Arab–Israeli conflict and the peace process which has taken shape since the mid-1970s. Egypt's open-door policy of the early 1970s stimulated peace negotiations with Israel; these culminated in the Camp David accords of 1978 and the peace treaty of 1979. Since the early 1990s this peace process also involves other countries in the region. The negotiations with Jordan resulted in a peace treaty signed in 1994.

The Middle East peace process now has a bilateral and a multilateral dimension. The former comprises the peace negotiations between Israel on the one side and the Palestinians, Lebanon and Syria on the other. The multilateral dimension attempts to commit the parties in the region involved and countries outside the region to the peace process by means of joint consultations on relevant issues in five working groups (water, environment, arms limitations and regional security, refugees, and regional economic development). The United States and the Soviet Union/Russia are co-sponsoring the peace process. In the wake of multilateral activities during the 1990s, the USA took the initiative for a series of annual Middle East and North Africa economic conferences: in 1994 in Casablanca, in 1995 in Amman and in 1996 in Cairo. These conferences have focused on regional economic co-operation and development, which should ultimately result in an economic community. An important reason for economic integration is the boost it would give to the peace process.

The European Union (EU) plays a role in the Middle East peace process alongside the United States and Russia. The first meeting of the Euro-Arab dialogue was held in 1975 in Cairo. It was the beginning of a wider dialogue between the EU and the Arab countries and also the origin of a common EU policy towards the Middle East which was worked out in detail in the Venice Declaration of 1980. The main characteristics of this policy include a balanced approach to all parties in the effort to achieve a comprehensive, just and permanent peace, the importance of the international legal framework of UN Security Council Resolutions in the peace process, and the right of self-determination of the Palestinian people.

The EU supplements its political support for the peace process with economic assistance. At first, agreements were entered into on a country-by-country basis. Since 1990, however, there has been a comprehensive framework of EU co-operation for the Mediterranean region, covering Egypt, Tunisia, the Palestinian Autonomous Authority, Jordan, Morocco, Algeria, Turkey, Lebanon, Syria, Cyprus, Malta and Israel. In 1990 also, the EU introduced the New Mediterranean Policy and substantially increased the budget for the period

1991–95. In 1995 the European Council agreed on a new Euro-Mediterranean Partnership and allocated increased funds for the years up to 2000 (commitments had increased from 223 million Ecu in 1986 to 823 million in 1995). Until now the main recipient of EU support in the region has been Egypt, which received about one-fifth of the total amount committed to the region, mainly in food aid and special funds for its stand in the Gulf War (COWI, 1997).

Since the mid-1990s, economic co-operation with the Mediterranean countries has been discussed at special conferences. In 1995 the first Euro-Mediterranean conference was held in Barcelona; followed in 1997 by a second one held on Malta. These conferences focus on three important fields or *volets*: economic, political and cultural co-operation. Trade liberalisation and the establishment of a free trade zone is an essential element of the programme adopted at the Barcelona conference (Cleveland, 1994; Dessouki, 1991; Tibi, 1993).

3.3 Political relations

Netherlands development assistance to Egypt started in the mid-1970s in a period when relations between the Netherlands and the Arab countries were strained. In the wake of the October 1973 war between Israel and the Arab countries, the Netherlands was hit by an oil embargo by the Organisation of Arab Petroleum Exporting Countries. Since then the Netherlands has embarked upon a policy of improving its relations with the Arab countries.

Two closely related principles were the basis of this policy: support to the resolution of the Arab–Israeli conflict and assistance to the region's socio-economic development. The view of the Netherlands is that socio-economic development improves the living conditions of the population and, as such, strengthens the basis for the peace process.

Over the past two decades Netherlands foreign policy towards the Middle East has increasingly been embedded in the EU policy. Consequently, its main policy objectives for the region are in harmony with EU policy, i.e. to contribute to a comprehensive, just and permanent peace, and balanced socio-economic development, and to enhance respect for human rights, democratisation and good governance. In addition, it aims to strengthen the position of Dutch commercial interests, and to promote cultural relations and cultural exchange.

In 1977 the Netherlands supported an EU declaration affirming the legitimate rights of the Palestinian people to express their national identity and the need of a Palestinian homeland. In 1980 the Netherlands signed the EU's Venice Declaration, and in 1982 it

started to participate with several other European countries in the Multinational Force and made available observers for the Sinai within the framework of the Camp David Agreement. Since the beginning of the 1990s the Netherlands has supported the Middle East Conference of Madrid (1991), the implementation of the Declaration of Principles (Oslo/Washington 1993), the Gaza–Jericho Agreement (1994) and the Interim-Agreement (1995). During that period it also embarked upon a programme of development assistance to the Occupied Territories/Palestinian Autonomous Authority for which it became one of the main donors. Total disbursements amounted to Dfl. 25–30 million per annum in 1994–95, and increased to almost Dfl. 60 million in 1996 (Kuitenbrouwer, 1994; DGIS, 1992 and 1997).

After a more active policy towards the Middle East was initiated in the early 1970s, Egypt became a target country for the Netherlands in the region. This focus was based on Egypt's pivotal position, based on its large population, the size of its economy, its industrial strength, its crucial location near one of the world's main transportation routes (the Suez Canal), and its role in the peace negotiations. Since the mid-1970s the Netherlands has had intensive although not institutionalised consultations with Egypt about the political dimensions of the peace process. Also, the economic support from the EU and the access of Egyptian exports to the EU have been the subject of regular discussions between the two countries. Mutual trade relations have constituted a third field of consultation.

Regular formal bilateral consultations between the Netherlands and Egypt focus on development co-operation. Delegations meet on average once a year to discuss the volume of allocations, the type of activities selected for assistance, and problems in implementation. Since the middle of the 1980s these bilateral consultations have given increasing attention to policy aspects. Issues are sometimes raised, such as human rights, and the position of non-governmental organisations. The outcome of the consultations is laid down in Agreed Minutes that are signed by both parties.

The Ministry of Foreign Affairs regularly reports to Parliament about its policy towards the Middle East. In the annual Explanatory Notes to the Budget, a separate section on the Middle East specifies Netherlands foreign policy in the region. The improvement of bilateral relations with individual countries in the region and the special position of Egypt are also mentioned.

Questions in the Netherlands Parliament with regard to relations with Egypt over the past two decades have been limited in number and focused on human rights and military relations. Human rights issues have been discussed between the two countries during both formal and informal meetings. During several bilateral consultations on development co-operation in the 1990s, the Netherlands delegation brought up the extension of the 1981

Emergency Law and the treatment of prisoners, expressing the hope that in handling the problem of increasing fundamentalism and terrorism, the Egyptian government would ensure that democratic principles were adhered to and human rights respected. In its reaction, Egypt emphasised that the constitution and the legal system guarantee that this is done.

Questions on military relations referred to the Netherlands' participation in the Multinational Force in the Sinai, and an arms sale in 1994 when some 600 armoured cars were sold to Egypt with a value of almost Dfl. 250 million (US\$ 125 million). The transaction was duly reported to Parliament as being in accordance with the criteria for exports of arms, and was officially approved.

Relations between Egypt and the Netherlands have been formalised in a number of bilateral agreements. These include a trade agreement (signed in 1953), a cultural agreement (1960), an agreement on the mutual promotion and protection of investments (1977 and renewed in 1996), and an agreement arranging for regular air services between the two countries (1980). In addition, two agreements have been signed concerning economic and technical co-operation. The first one (1975) provides a general framework for this co-operation. It arranges for the execution of projects and works of common interest, the establishment of joint enterprises, the exchange of know-how and joint research, and the arranging of consultations and conferences of specialists. The second agreement (1977) specifies the conditions and facilities for the execution of joint projects, more especially for Netherlands personnel involved in technical assistance.

3.4 Commercial relations

Commercial relations between two countries comprise the trade in commodities, the provision of services, and the level and type of investments. Egypt and the Netherlands are not important trading partners. At present, commodity exports to Egypt are in the order of Dfl. 600 million per year (US\$ 300 million), i.e. about fifteen times the annual volume of official development assistance. Egyptian exports to the Netherlands are in the order of Dfl. 120–150 million (US\$ 60–75 million). For the Netherlands, exports to Egypt represent less than 0.3 per cent of its total exports; its imports from Egypt less than 0.1 per cent of total imports. For Egypt the percentages are somewhat higher, its trade with the Netherlands represents 3 per cent of its exports and also 3 per cent of its imports.

There has always been a substantial gap in trade between the Netherlands and Egypt, with the latter importing 3–4 times as much as it exported to the Netherlands. Egypt also has such a trade gap with most other European countries.

The Netherlands has strongly expanded its exports to Egypt from Dfl. 250 million in the early 1970s to Dfl. 1165 million in 1985. This coincided with a period of spectacular growth of the Egyptian economy, an increase in imports, and a re-orientation of its external trade towards the West. After the mid-1980s the Netherlands saw its exports reduced to Dfl. 500–600 million, which was in line with an overall decrease in Egyptian imports due to its stagnating economy. Egypt's debt crisis, the devaluation of the Egyptian pound, a decrease of EU subsidies on agricultural products (which made these products more expensive for Egypt) and a stricter policy of Dutch export credit insurance influenced this decline in trade. Recent economic growth in Egypt caused an increase in imports from the Netherlands in 1995–96 (EVD, 1993; EVD, 1996).

Egyptian exports to the Netherlands showed a rising trend up to the mid-1980s and then a fall to about one-third of the level in the peak period. Details are provided in Table 3.1.

Table 3.1 Trade between the Netherlands and Egypt
(annual average, in Dfl. mln)

Exports to Egypt		Imports from Egypt	
1965–73	68	1965–87	46
1974–80	308	1979–85	347
1981–88	900	1986–95	123
1989–95	583		

Source: CBS, 1996.

Three categories of products dominate exports to Egypt: food, chemical products, and machines and transport, together representing 70–80 per cent of total Dutch exports. Egypt's export to the Netherlands are of two main types: oil products (50–75 per cent of the total) and manufactures (almost 25 per cent). Changes in the volume and value of Egyptian exports to the Netherlands have been determined almost exclusively by fluctuations in the value of oil exports.

Table 3.2 Composition of Netherlands exports to Egypt (% of total value)

	Food	Chemical products	Machines/Transport	Total
1975	17	32	18	67
1980	28	18	37	83
1985	37	13	23	73
1990	34	17	26	77
1995	35	23	25	83

Source: CBS, 1996.

Trade between the Netherlands and Egypt has been hindered by several kinds of barrier. Up to the mid-1970s the Egyptian government owned or controlled the main sectors

of the economy, including the export–import trade: foreign exchange allocations and licenses were used to regulate imports. The open-door policy of the mid-1970s brought a gradual liberalisation of external trade. In the mid-1980s Egypt's customs regime was streamlined and the number of tariffs drastically reduced. Since 1990, Egypt has further reduced its tariffs and gradually removed non-tariff barriers. Quality control procedures and bureaucratic regulations remain obstacles to trade expansion, however.

Egypt's exports to the Netherlands are subject to EU regulations, i.e. Egypt's exports to the EU are unrestricted apart from quota for textiles and agricultural products. For the latter, the EU applies reduced tariffs, seasonal restrictions and (annually increased) quota. Egypt's actual agricultural exports lag behind its quota. Regulations for agricultural exports to the EU are now reconsidered within the framework of the association agreement with Egypt.

Tourism is a major source of foreign exchange, employment and income for Egypt. The number of tourists from the Netherlands is rather low, however, totalling some 30,000 in 1995, or less than 1 per cent of Dutch tourists going abroad and also less than 1 per cent of all foreign tourists visiting Egypt.

Egypt is an important destination for Dutch air and shipping lines. There have been regular air services to Cairo since 1945. The number of flights has gradually increased during the past 20 years from three per week in 1975 to seven per week at present. The Egyptian national airline flies four times per week to Amsterdam. Relations between the two national airlines have been characterised by occasional friction about the intensity of services and about shares in volume of passenger traffic.

Sea traffic, which was at the root of relations between the Netherlands and Egypt, is still of considerable importance. Dutch shipping companies maintain direct freight services with Alexandria (weekly) and Port Said (1x per fortnight). Egyptian shipping lines also visit the port of Rotterdam (1x per fortnight). Damietta is an important container port for the transshipment of goods to and from the Far East and the western Mediterranean. Furthermore, bulk goods such as oil products and seed potatoes are shipped by charter.

Accumulated investment by firms based in the Netherlands (including revaluation) amounted to Dfl. 800 million in 1995, according to the Netherlands Central Bank. About 40 per cent of that amount is invested in joint ventures and 60 per cent in subsidiaries of some 30 Dutch companies, principally in telecommunication, transport, energy, construction, electronics, food processing, pharmaceuticals, tourism and chemicals. In 1996 Egypt and the Netherlands renewed their Investment Protection Agreement.

After a long period of discouraging foreign investments, the Egyptian government changed its policy quite drastically at the end of the 1980s. Law 230 of 1989 unifies and streamlines previous legislation, eliminates discrimination between Egyptian and foreign investors, improves tax exemptions, grants all investors the right to buy land and property, and forbids nationalisation or confiscation of investments without judicial procedures. Further measures in the 1990s included a negative list for investments, with automatic approval for projects not mentioned, and removal of local content regulations. Sole responsibility for approval rests with the General Authority for Investments (EIU, 1994/95).

3.5 Other relations

These include cultural activities and exchange, university co-operation, and relations between non-governmental organisations.

In 1960 Egypt and the Netherlands signed a cultural agreement but contacts and cultural exchange were not very intensive until 1975. When the Netherlands signed a cultural agreement with Israel in that year, attempts were made to re-vitalise cultural relations with Egypt. These were not very successful, however, mainly due to the complex regulations of the Egyptian bureaucracy and to the limited financial means made available for the purpose. Since the mid-1980s cultural activities have also been financed under the bilateral aid programme. The most important have been the restoration of Coptic icons, the conservation of Coptic monuments, and archaeological research. Conditions have further improved when financial resources were recently increased under a special Cultural Fund budget.

University co-operation is channelled partly through the Netherlands Institute for Archaeology and Arabic Studies at Cairo. Established in 1971, this institute offers facilities for research and education. It has a well-equipped library, collaborates in publications, offers logistical services to archaeological expeditions, and gives courses in Arabic and Dutch. At present some 10–15 Dutch students of Arabic languages per annum make use of the facilities. Since 1979 the Universities of Cairo and Amsterdam have undertaken joint research in three main fields: virology, bilharzia radiotherapy and anaesthesia. The agreement also offers facilities for post-graduate studies for Egyptian staff at the University of Amsterdam.

Most of the links between non-governmental organisations (NGOs) in the Netherlands and Egypt concern Christian organisations. Prominent among these are the co-financing organisations *Icco* and *Bilance* and Egyptian NGOs connected with the Coptic church.

Funds originate from the development co-operation co-financing programme (on average Dfl. 2 million per annum over the past 20 years) and private donations. Co-operation with the Egyptian NGOs focuses on activities in the field of nutrition, education and medical care for women and children. The Netherlands' branch of Foster Parents supports some 10,000 Egyptian children, reportedly involving an annual expenditure in the order of some Dfl. 3.8 million.

3.6 Conclusion

Bilateral relations between Egypt and the Netherlands have intensified over the past two decades. Political relations between the two countries have been dominated by discussions regarding the Arab–Israeli conflict and the peace process. Foreign policy of the Netherlands towards the Middle East has increasingly been embedded in EU policy. Both EU and Netherlands policy are based on two closely related principles: support to the peace process and to the region's socio-economic development. In the multilateral support for the peace process, the Netherlands has participated actively in several working groups and it operated in close contact with Egypt.

Commercial relations have expanded since the mid-1970s, and the volume of trade has fluctuated with the growth rate of the Egyptian economy. There has been a stagnant trend since the mid-1980s, but recently there are again indications of some improvement. Throughout the period the Netherlands had a surplus on its trade balance with Egypt. Several type of commodities provided under the aid programme were also supplied commercially (e.g. fertilisers, hatchery equipment, pumps) but aid did not result in an immediate expansion of commercial transactions.

Recent improvements in Egypt's investment climate have not yet led to any substantial increase in investments from the Netherlands. Cultural and scientific relations have intensified during the past 20 years, also with support from the aid budget.

Key informants on both the Egyptian and Netherlands side consider that relations between the two countries have not only intensified but have also been improved. Two factors were mentioned in this respect: the support to the Middle East peace process and the role of development assistance. The latter has intensified contacts between government officers and consultants on both sides and Egypt's appreciation of the support has had a positive impact on overall bilateral relations.