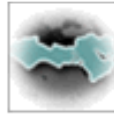




C O U N T R Y B R I E F



Middle East & North Africa Region (MENA) - Egypt

Egypt Airports Development Project

In March 2004, the World Bank's Executive Board of Directors approved a loan of US\$335 million for the Airports Development Project in Egypt. The project will assist the Government of Egypt in enhancing the efficiency of airport management and doubling the capacity of passenger terminals at Cairo and Sharm El Sheikh International Airports by financing new passenger terminals. In addition, the project aims at improving airport service quality in line with international standards and promoting private sector participation in airport management and service delivery in a competitive market.

With nearly fifty percent of Egypt's passenger traffic passing through Cairo International Airport, and actual passenger traffic close to the maximum capacity of nine million passengers, Cairo International Airport is not equipped to absorb additional traffic without a rapid deterioration in service standards. This is especially critical since three-quarters of passengers arrive from international destinations. The expansion of cargo traffic is also being constrained by congested facilities.

Similarly, rapid growth in passenger traffic due to increased tourism in the Red Sea resort of Sharm El Sheikh, has made the expansion program for the airport in the southern tip of the Sinai peninsula vital for meeting international air transport demand and boosting foreign exchange earnings.

Development Progress

During the past three decades, Egypt has considerably improved the well-being of its people. In terms of social indicators, the education and health service provision for its population has dramatically improved. Between the early 1970s and 2002, life expectancy at birth increased from 53 to 69 years, and the number of children dying before one declined from 110 to 33 (per 1,000 live births). Net primary school enrollment increased from 63 to 92 percent. During the same period, Egypt's population increased from 36 million to 70 million people. From 1980 to 2002, however, the fertility rate fell from 5.1 to 3 children per woman, and subsequently the population growth rate declined from 2.5 to 1.98 percent.

Egypt's rapid growth from 1976-1986 ended because of the collapse of oil prices, and the country was caught in an economic slowdown that affected the entire region. After a period of inward-oriented policies and heavy borrowing, Egypt reversed course in the early 1990s, with prudent stabilization efforts and structural reforms. The fiscal balance, foreign reserves, and external debt have also improved compared to the late 1980s. The country's increase in domestic production as measured by the GDP growth rate accelerated from 1.9 percent per year in 1991/92 to 5.1 percent in 1994/1995 – 1999/2000. In 2000/01 per capita gross national income had risen to \$1,530, which categorized Egypt as a middle-income country. However, during 2000/2001-2002/2003 the Egyptian economy slowed down and growth rate was hovering around 3 percent. The float of the Egyptian pound in January 2003 has helped the external sector and the economic growth rate has increased to 4 percent.

Current challenges

With the Egyptian economy on the road to recovery and the recent appointment of a reform-minded prime minister and a group of young ministers, Egypt is better positioned to achieve sustained economic growth and to tackle the challenges of poverty and unemployment.

Poverty reduction remains Egypt's most compelling challenge. With an average income per person of \$1,530 in 2000/2001, there was widespread agreement that poverty had fallen in the last decade. However, in the absence of a rigorous, systematic poverty assessment, the exact incidence of poverty has been hotly contested. This changed in 2002, when the government joined the World Bank in completing a Poverty Reduction Strategy, the most in-depth analysis ever of the country's poverty situation.

The results—which promise to establish a firm foundation for more targeted poverty-alleviation efforts—show that poverty incidence in Egypt fell from 19.4 percent in 1995/96 to 16.7 percent in 1999/2000. Although poverty had decreased in Egypt's four metropolitan cities and Lower Egypt, it was on the rise in the Upper Egypt. However, the slowdown of the economy since end-1999/2000 raises some concern about a possible increase in poverty incidence.

Egypt's poverty, as measured in non-income indicators such as health and education, also poses a significant challenge. Despite a 2001 net primary enrollment rate of 88

also pose a significant challenge. Despite a 2001 net primary enrollment rate of 88 percent, adult illiteracy is still high at almost 35 percent. Even with almost universal access to health care, the number of children dying before age five is 39 (per 1,000 live births), still higher than in comparator countries

Whereas some gender indicators have improved from 1993-2002—such as literacy for women, which increased from 34 to 54 percent, and girls' share in primary school enrollment, which increased from 46.6 to 48.6 percent—the overall picture remains one of stark inequality. Official unemployment statistics indicate that female unemployment is almost three times that of men. Although women's participation in the labor force increased five times faster than men's during 1980-1996, the participation rate in 1996 was 25 percent for women compared to 73 percent for men.

Water scarcity will remain a critical challenge for Egypt in the future. Per capita water availability is about 950 cubic meters per year, lower than even the regional average of 1,200 cubic meters per year. Compounding the problem of water quantity are issues related to quality, because of water-logging, salinity, and degradation by pollution.

Egypt's economic growth is imperative for poverty reduction. Tackling unemployment by providing jobs for Egypt's growing working age population is equally vital—not only for growth, but also for social stability. Current official estimates place unemployment at 9.9 percent (although it is widely believed to be higher), and labor-force growth at around 3 percent annually, or about 550,000 new entrants per year. Egypt will need to achieve a sustained real GDP growth rate of 5.5 -6 percent annually for unemployment to decline to more manageable levels. To achieve and sustain these levels of economic growth, the country needs to spur more domestic savings and investment, and increase efficiency and competition. It is essential for the country to improve export performance and rely less on external resources that are vulnerable to shocks, especially tourism. Also, if Egypt can attract increased levels of foreign direct investment, it will facilitate the country's integration into global trade patterns and technology transfers.

World Bank Assistance


The overarching objective of the World Bank Group's Country Assistance Strategy for Egypt is to reduce poverty and unemployment. The strategy provides the framework for analytical work, lending operations, and dialogue with other groups focused on Egypt's development goals. Working closely with the authorities, the World Bank is focusing on three main interventions:

Targeted interventions for poverty reduction. Reflecting the objective of fighting poverty, most of the World Bank's focus is devoted to activities in this category. This is also where the World Bank has a solid experience in Egypt and the analytical underpinnings for deepening involvement. Specific areas of work include: basic education, social protection, and social safety net promotion; reforming the health sector, including a strengthened insurance system and improvements in management and decentralization; concentrated projects in rural areas and Upper Egypt in all dimensions of human indicator improvements; new strategies to tackle constraints on water and wastewater services

Interventions with indirect impact on poverty reduction. The World Bank's assistance in this area supports interventions that may have major indirect benefits for the poor in terms of promoting broad-based growth, developing poor areas, or building effective institutions. Specific operations focus on improvements in higher education, skills development, and irrigation and drainage.

Interventions that support higher and sustained growth. This entails providing support for macroeconomic stability, phased restructuring of the banking and corporate sectors, and improved infrastructure for greater competitiveness. It also involves the gradual integration of Egypt into global markets, particularly in the context of the Association Agreement with the European Union.

Recently the Government has requested larger financial and technical support in selected infrastructure sectors. In particular, in March 2004 the World Bank Board approved a US\$ 335 million loan for the construction of two terminals in Cairo and Sharm El Sheikh. The



Government has also requested similar operations in energy, ports development and water sectors.

A new Country Assistance Strategy is being prepared in close coordination with the government and civil society.

All dollar figures are in US dollar equivalents.

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