

# Exchanging Debt for Development:

Lessons from  
the Egyptian Debt-for-Development  
Swap Experience

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# Exchanging Debt for Development:

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Swap Experience

Sherif Kamel and Eskandar A.Tooma



This report highlights various approaches to debt relief. It describes and evaluates one feasible approach in Egypt: the debt-for-development exchange, or debt swap.

The report is designed as a contribution to the discussions related to the feasibility and viability of using debt swaps for socio-economic development with an emphasis on implications and outcomes of emerging and innovative information and communication technology (ICT) projects. The report capitalizes on a decade of Egyptian experience; it compares and contrasts two models: the Egyptian-Italian Swap and the Egyptian-Swiss Swap. It summarizes the challenges, opportunities, lessons learned and implications for future domestic and international implementations.

## Abstract

The report is not intended to be an exhaustive analysis of what works when introducing ICT for development; however, it aims to point out and demonstrate the experiences of Egypt's ICT Trust Fund (established as a partnership between the Ministry of Communication and Information Technology (MCIT) and the United Nations Development Program (UNDP)). The main objectives of the ICT fund is to assist Egypt in its socio-economic development program through: (a) establishing public-private partnerships, (b) using ICT to further development, (c) increasing awareness of the developmental potential of ICT; and, (d) making ICT more accessible and affordable to all citizens.

The ICT program covers 5% of the total debt swap agreement between Egypt and Italy, with a total value of 48.5 million Egyptian pounds. It consists of five interrelated projects that are divided into two main categories. The first category includes two projects, the Smart Schools Network Project (SSNP) and the Mobile IT Clubs Project (MITC); it provides ICT access points to the local communities. The second category includes three projects, the Community Knowledge Generation and Electronic Library Project (CKGeL), the Illiteracy Eradication Project (IE) and the Community Portal Development Project (CDP); it provides applications support to the beneficiaries.

The report concludes that, even though the absolute amount of money released for development programs by debt swaps is modest, it has had noteworthy effects on socio-economic development in Egypt.

It is argued that the knowledge gained from the Italian and Swiss programs should greatly increase the chances for successful achievements, which should play a significant role in Egypt's overall future prosperity.

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*The report is not intended to be an exhaustive analysis of what works when introducing ICT for development; however, it aims to point out and demonstrate the experiences of Egypt's ICT Trust Fund*

### List of Abbreviations

AUC	The American University in Cairo
CBE	Central Bank of Egypt
CDP	Community Development Portal
CIB	Commercial International Bank
CKGeL	Community Knowledge Generation and Electronic Library
EEAA	Egyptian Environmental Affairs Agency
ERF	Economic Research Forum
ESDF	Egyptian-Swiss Development Fund
GALAE	General Authority for Literacy and Adult Education
HDI	Human Development Index
ICDL	International Computer Driving License
ICT	Information and Communication Technology
ICT4D	Information and Communication Technology for Development
IE	Illiteracy Eradication Project
IEDSP	Italian-Egyptian Debt for Development Swap Program
IMF	International Monetary Fund
MCIT	Ministry of Communication and Information Technology
MDGs	Millennium Development Goals
MIC	Ministry of International Cooperation
NCCM	National Council for Childhood and Motherhood
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
SRC	Social Research Center
SSNP	Smart Schools Network Project
UNDP	United Nations Developing Programs
UNESCO	United Nations Educational, Scientific and Cultural Organization
WBDC	Women's Business Development Center
WHO	World Health Organization
WSIS	World Summit on the Information Society

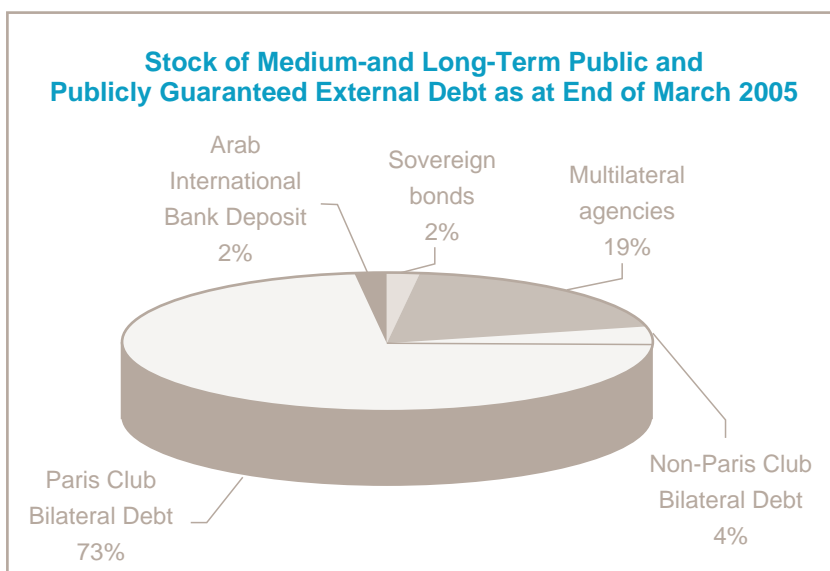
## Introduction

### i) Change in Donor Assistance

Of the several issues discussed at the “Pan –Arab Regional Dialogue: In Preparation to WSIS 2005 Conference” held in Cairo in May 2005, the Egyptian debt relief experience most captured the attention of the audience. Egypt’s total medium-and long-term external debt has been on the rise in the past few years; figures show that in the year 2000, total external debt was around \$27 billion, and by the end of 2004 this figure increased to \$31.1 billion. OECD **Paris Club**<sup>1</sup> member countries are the largest credit contributors to Egypt with around 73%, followed by Multilateral Agencies such as the IMF and the World Bank with 19% (see Figure 1).

*Egypt is one of the middle-income countries that have taken advantage of the growing international awareness for the debt relief of developing nations.*

FIGURE 1



Source: External Position of the Egyptian Economy, Quarterly Report, Central Bank of Egypt, July 2005

<sup>1</sup> All bolded terms are defined in the Glossary of Terms (Annex 1).

## *Introduction*

There is no better time to be discussing debt relief, a subject that has gained high-profile advocates such as United Nations Secretary General Kofi Annan. He wants “a special international working group representing a wide range of interests to be established to consider the question of a new international debt mechanism” (Johnson, 2004). Most of the creditor countries and organizations that have taken a stance on debt relief have also made sure to accompany it with a policy that promotes development. This, according to Norwegian Minister of International Development Hilde Johnson<sup>2</sup>, has been why “the debt relief process has been slower than desired.”

Egypt is one of the middle-income countries that have taken advantage of the growing international awareness for the debt relief of developing nations. Egypt has negotiated four bilateral Debt Swap<sup>3</sup> agreements, with the governments of France, Germany, Italy and Switzerland. In engaging in these agreements, the governments of Egypt and of these nations look to find practical ways to alleviate the bilateral debt. France, Germany, Italy and Switzerland’s total bilateral debt constitutes 30% of Egypt’s total external debt and 45% of Egypt’s Paris Club countries’ bilateral debt.<sup>4</sup> that constitutes a significant drain on Egypt’s resources.

The purpose of this report is to describe and assess one feasible approach to debt relief in Egypt: the debt-for-development exchange. Using the agreements of Italy and Switzerland<sup>5</sup> as examples, it assesses the past decade of experience with transactions that enhanced local economic progress with special emphasis on information technology (IT) for development. From this, Egypt can share with the international debt relief partners a set of lessons in debt-for-development that could be put to use elsewhere, and modified to suit the specific situation of each country.

### **ii) Why Focus on Development?**

A quick look at the evaluation of the Egyptian Human Development Index (HDI) with all its components reflects a general trend of improvement at the national level (see Figure 2). However, Egypt’s major problem has always been that there are major regional disparities at the governorate level.

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The latest Egyptian Human Development Report (EHDR 2004) shows that Egypt is still struggling with these disparities among its four main regions. The top performer continues to be the Urban governorate region with a 2002 HDI of 0.765, followed by the Frontier governorates with an HDI of 0.708, then the Lower Egypt governorates with an HDI of 0.666 and lastly, the Upper Egypt governorates with an HDI of 0.653.

Table 1 looks at the average HDI values for the major groups of governorates and shows a trend of improvement on the regional level and subsequently on the national level. Table 1 also points out the continuing huge gap in HDI between the Urban and Rural regions.

Observers view the present uneven urban/rural distribution as highly likely to cause obstructions to economic progress and political stability. Recognizing the magnitude of Egypt's disparity problem and its socio-economic implications, the governments of Egypt, the IMF, the World Bank and other development granting agencies such as the OECD have acknowledged the importance of narrowing this gap. The international community acknowledges that development needs financial support and the government of Egypt cannot simply do it on its own, especially with the high external debt that is increasing yearly. With this shared awareness and responsibility, it was proposed that arrangements be established whereby debt can be exchanged for investments in development that will target needy regions in Egypt.

*The purpose of this report is to describe and assess one feasible approach to debt relief in Egypt: the debt-for-development exchange.*

<sup>2</sup> Taken from, Norwegian Minister of International Development H.E. Hilde Johnson's speech on World Debt Day in Oslo, May 2004.

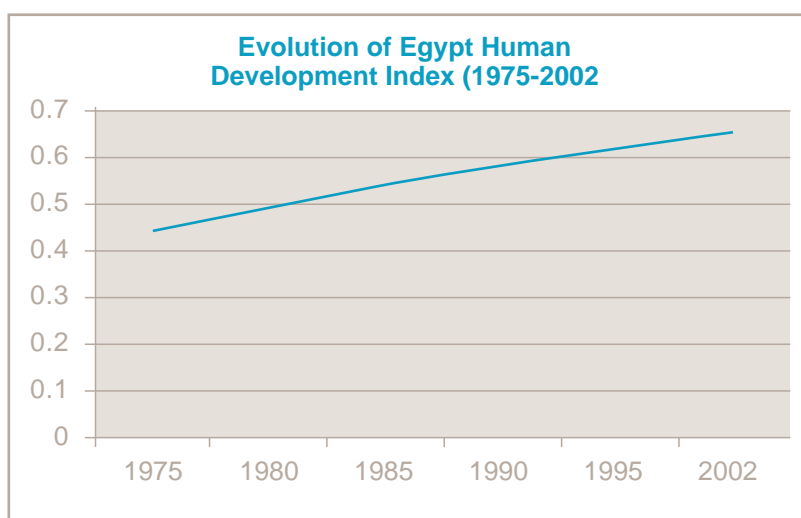
<sup>3</sup> "In a bilateral debt swap, a creditor government cancels debt owned by a debtor government in exchange for the debtor setting aside an agreed amount of the counterpart funds in local currency for a project" (UNDP 2003, p.2).

<sup>4</sup> France, Germany, Italy and Switzerland's total bilateral debt constitutes 30% of Egypt's total external debt and 45% of Egypt's Paris Club countries' bilateral debt. (Source: Quarterly Report, April 2005, Central Bank of Egypt)

<sup>5</sup> The German and French agreements will only be mentioned and not deeply analyzed, as they have yet to be implemented.

## Introduction

FIGURE 2



Source: UNDP Egypt Human Development Report, 2004, p.145

TABLE 1

### Average HDI Values for the Major Groups of Governorates: 1990- 2002

	1990	1992	1994	1996	1998	2000	2002
Urban Governorates	0.568	0.607	0.718	0.872	0.725	0.740	0.765
Lower Egypt Governorates	0.440	0.528	0.570	0.613	0.646	0.641	0.666
Upper Egypt Governorates	0.373	0.461	0.532	0.570	0.597	0.622	0.653
Frontier Governorates	0.442	0.543	0.636	0.700	N/A	N/A	0.708
Overall Egypt	0.425	0.524	0.589	0.631	0.648	0.665	0.687

Source: UNDP, Egypt Human Development Report 2004

### iii) Structure of the Report

The report is organized as follows. Section Two provides a comprehensive overview of debt swaps. Section Three outlines Egypt's debt swap partners and compares the Italian and Swiss models. Section Four presents a case study that focuses on ICT projects pertaining to the Italian debt swap agreement. Section Five discusses the lessons learned from the Egyptian debt swap agreements and implications of these lessons for other countries that may wish to undergo the same experience. Finally, concluding remarks are given in Section Six.

## II. Concepts of Debt Swap

### i) Debt Swap Mechanism

“Debt swap is shorthand for a transaction in which a government or organization in a creditor country retires a fraction of a developing country’s external debt, in exchange for a commitment by the debtor government to invest local currency in designated programs” (Rosen et al, 1999, p.3). In essence, the debt swap concept can also be viewed as a form of foreign assistance to a debtor country by its creditors, whether these creditors are commercial institutions or simply credit-granting governments.

Most of the writings on the topic outline different kinds of debt swaps. In this part there is an outline of the kinds and not types of debt swaps<sup>6</sup>, yet they all agree that most of these debt swaps are more or less similar in that in most transactions, the creditor<sup>7</sup> agrees to donate or sell a fraction or all of its outstanding debt. This is known in the literature as a bilateral debt swap, when the donation or sale is granted directly to the debtor government. A three-party debt swap is activated when a non-governmental third party buys the debt, usually at a discount, and later retires it. In return, debtor countries deposit a specified amount of domestic currency in a Counterpart Fund (CF) to pay for activities identified in the debt swap agreement. In Egypt’s case, programs in employment, the environment and social services at the local, grass-roots level are recipients of these funds.

There are several different ways to classify agreements<sup>8</sup> for debt swap; the authors of this report favor that of Rosen et al (1999). They place debt swaps into two categories: “private swaps (those including one or more NGOs as parties and the retirement is for commercial debt); and public swaps (those to which the parties are governments and bilateral or multilateral debt is retired Rosen el, (1999) borrowed the terms “private” and “public” from Deacon and Murphy (1997).

*In Egypt’s case, programs in employment, the environment and social services at the local, grass-roots level are recipients of these funds.*

<sup>6</sup> In this part there is an outline of the kinds and not types of debt swaps. According to Moye, (2003) there are several types of debt swap agreements among which are: debt-equity swaps, debt-for-development swaps, debt-for-nature swaps, debt-for-exports swaps, debt-for-offsets swaps. These agreement types do not pertain to the scope of this study, so we chose to just mention them.

<sup>7</sup> The creditor could be a commercial bank, an export company, a government, or a multinational institution.

## II. Concepts of Debt Swap

They are not perfectly accurate. “The term “private swaps” can involve public debt and “public swaps” can result in grants for NGOs, but they provide a generally useful distinction between swaps that are largely initiated and carried out by NGOs and those which are mainly governmental” (Rosen et al, 1999, footnote 5, p.3). (Rosen et al, 1999, p.4). In Egypt’s case, the signed agreements for debt swap fit under the umbrella of “public” swaps. As a result, this report deals only with the characteristics of public debt swaps, which are enumerated in Table 2.

TABLE 2

### Characteristics of Public Debt Swaps

Characteristic	Typical Public Swap
Parties to the transaction	The debtor and creditor country governments
Eligibility of debtor country	The creditor country sets criteria for participation, typically including satisfactory implementation of a structural reform program
Amount of debt retired	Usually large
Recipient of domestic currency funds	A counterpart fund
Oversight of use of funds	A board composed of debtor and creditor country representatives
Debt relief process	Debt is cancelled incrementally based on debtor country’s fulfillment of the terms of the contract

Source: Rosen et al. (1999)

<sup>8</sup> Rosen et al. (1999) borrowed the terms “private” and “public” from Deacon and Murphy (1997). They are not perfectly accurate. “The term “private swaps” can involve public debt and “public swaps” can result in grants for NGOs, but they provide a generally useful distinction between swaps that are largely initiated and carried out by NGOs and those which are mainly governmental” (Rosen et al, 1999, footnote 5, p.3).

## II. Concepts of Debt Swap

### ii) History of Debt Swaps

Chile was the first country to establish an institutionalized debt-equity swap program in 1985. In a typical debt-equity swap, commercial debt owed by a developing country's government (sovereign debtor) to a private sector creditor is purchased by an investor in the secondary debt market and is then converted into an equity investment in the debtor country. Debt-equity swaps have contributed to both debt reduction and increased investment in developing nations.

The debt swap mechanisms were also applied to the non-profit sector. In many developing countries, the combination of heavy debt and economic adjustments has placed severe pressure on natural resources. The first debt-for-nature swap was concluded in 1987 between Bolivia and Conservation International, "resulting in the designation of the Beni Biosphere in northeast Bolivia and the creation of a small endowment to cover its operating costs" (UNDP 2003, p.2). This soon led to the introduction of the debt-for-development swaps in other sectors such as child development, education and health.

Since the first debt swap carried out by Chile, there have been transactions involving a large number of debtor countries and a handful of creditor countries and organizations. Table 3 summarizes these transactions.

*Debt-equity swaps have contributed to both debt reduction and increased investment in developing nations.*

## II. Concepts of Debt Swap

TABLE 3

### A Variety of Debt-Swap Agreements Conducted Worldwide to Date

Instruments	Debtors	Creditors	Face value of debt retired	Pur-chase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
<b>Private Transactions</b>						
Private debt-for-nature swaps (45 commercial debt transactions by end of 1997)	Madagascar, Zambia, Ghana, Nigeria, and 11 others in Latin America, Asia, and Eastern Europe	U.S. NGOs	\$174 million by end of 1997	\$42 million (24%)	\$127 million (73%)	Nature conservation (usually parks)
Private debt-for-development exchanges negotiated by Finance for Development (FFD)	Nigeria, South Africa, Tanzania, Kenya, Ghana, and several countries in Latin American and Asia	U.S. and local NGOs and FFD	\$500 million			Various development projects
UNICEF debt-for-child-development swaps	Zambia, Madagascar, Senegal, Sudan, and several counties in Latin America and Asia	UNICEF national committees in OECD countries	\$199 million	\$29 million (14.5%)	\$53 million (27%)	UNICEF programs
<b>Bilateral Transactions</b>						
U.S. Enterprise for the Americas Initiative	7 Latin American and Caribbean countries	U.S.	\$875 million between 1991 and 1993	\$90 million (10%)	\$154 million (18%)	Environmental protection and child health and survival
USAID-funded debt-for-nature swaps in 1989-1990	Costa Rica, Honduras, Panama, Mexico, Jamaica, the Philippines, Indonesia, and Madagascar	U.S.	Un-known	\$95 million	\$146 million	Natural resource conservation

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Instruments	Debtors	Creditors	Face value of debt retired	Pur-chase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
Swiss Debt Reduction Facility	12 countries in Africa, Latin America and Asia	Switzerland	\$760 million	\$152 million (20%)	\$172 million	Projects in all development sectors
Belgian commercial debt-for-aid conversion	Least developing countries excluding Congo (Zaire)	Belgium				
Canadian International Development Agency Debt conversion Program	Honduras, El Salvador, Costa Rica, Nicaragua, Columbia, and Peru	Canada	\$86 million between 1992 and 1997	Un-known; up to \$145 million ceiling	\$45 million	Environmental protection and natural resource conservation
French Libreville fund	Cameroon, Congo, Gabon, Côt4te d'Ivoire	France		\$177 million as of the end of 1993 (\$706 million ceiling)		Priority development projects
				end of 1993 (\$706 million ceiling)		
German Rio Fund	14 eligible countries	Germany			(20% of face value)	Ecology and poverty alleviation projects
Netherlands debt swaps	Tunisia, Costa Rica, Chile, Pakistan, Jamaica, and Madagascar	Netherlands	\$45.5 million between 1990 and 1997			Nature conservation in Costa Rica; other uses unknown

## II. Concepts of Debt Swap

Instruments	Debtors	Creditors	Face value of debt retired	Pur-chase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
<b>Private Transactions</b>						
Poland/Finland debt-for-environment swap	Poland	Finland	\$14 million in 1990			
<b>Multilateral Transactions</b>						
Poland/Paris Club debt-for-environment swap	Poland	Paris Club countries	\$510.7 million as of 1998 (\$3.3 billion ceiling)		\$510.7 million (100%)	Polish environmental projects of international significance
Inter-American Development Band debt-for-nature swap	Mexico	IADB	\$121 million in 1992	\$100 million (83%)	\$121 million (100%)	Tree-planting in Mexico City
Heavily Indebted Poor Countries Initiative	Uganda (and other qualifying poor countries)	IMF and World Bank			\$40 million/year	In Uganda rural roads, primary health care, and education

Sources: World Bank (1998); Swiss Coalition (1997); OECD; U.S. Senate Committee on Foreign Relations (1998); Kaiser and Lambert (1996) and Rosen et al (1999)

## II. Concepts of Debt Swap

### iii) Advantages and Disadvantages of Debt Swaps

Debt swaps, like any other instrument, has positive as well as negative aspects. Moyer (2001) outlines the potential advantages and disadvantages for debtor nations such as Egypt. A more detailed discussion of how these affected Egypt and the lessons learned will be analyzed in later sections. The advantages of debt swaps from a debtor country's point of view are:

**Debt reduction:** The country's total debt obligation is reduced, and the debtor government benefits by investing the money (that would otherwise go to repayments) in development projects. Some bilateral debt swap agreements include a form of debt cancellation as a byproduct. For example, in Egypt's debt swap agreement with Switzerland, 40% of the sum agreed on was written off and was contributed to the Balance of Payments in an effort to reduce its deficit.

**Foreign exchange savings:** By definition, all debt swap agreements require the debtor nation to make repayments in local currency to the counterpart fund. This frees up a lot of the hard currency that would have been committed if the debtor country had paid its regular debt installments.

**Investment promotion:** "Debt swaps can be structured to favor investments in priority sectors. For example, in Argentina, debt-equity swaps were permitted if the local currency was invested in export-oriented investments and an equal amount of new foreign money was brought into the country. Other countries used debt-equity swaps as an incentive to encourage privatization or to facilitate the return of flight capital." (Moyer 2001 p.7).

**Improvement of the country's sovereign ratings:** Assuming that the debt relief program is a large percentage of the country's debt (which is not the case with Egypt; debt swaps only comprise 1.6% of total external debt), the debtor country can benefit from the decrease of debt and the high risks of default associated with it, which in turn improves the country's sovereign ratings.

On the other hand, a debtor country might dislike engaging in debt swap agreements for the following reasons:

*Debt swaps, like any other instrument, has positive as well as negative aspects.*

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**Budgetary impact:** Whereas debt swaps might provide an advantage from a foreign exchange perspective since repayments are made in local currency, it might be burdensome when a country has significant internal debt. Realistically, external debt is transformed into domestic debt. The budgetary impact of the debt conversion could be managed if payments are made over time (as in the Egyptian-Swiss Debt Swap)<sup>9</sup> and not as a lump sum payment (as in the Egyptian-Italian Debt Swap).

**Risk of inflation:** Another negative impact of debt swaps in some countries “has been the injection of excessive amounts of local currency into the national economy resulting in inflation. This is one reason why debt swap programs in Latin America were suspended. In order to mitigate any adverse inflationary impact, debtor governments can place a ceiling on the amount of local currency paid.” (Moye 2001 p. 8)

**Subsidization of investment by debtor government:** In the absence of additionality, the debtor government may be subsidizing investment that would have occurred anyway. The literature on debt swaps seems to suggest that debtor governments should always attempt to measure the degree of additionality of investments and development projects funded through debt swaps before and after engaging in the agreement.

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<sup>9</sup> Covered in more detail in the next section.

### III. Public Debt Swaps and the Egyptian Experience

The Arab Republic of Egypt has concluded bilateral debt-swap programs with four European countries: France, Germany, Switzerland and Italy. Each of these four models has two components: a “debt” component, which involves debt relief, and a “swap” component, according to Paris Club agreement, under which Egyptian pounds are allocated to development projects.

The Italian and the Swiss models will be described below since they have both been in place long enough to reveal important lessons worthy of sharing. The German<sup>10</sup> and the French<sup>11</sup> models will not be covered in this report, as they are still at their primary stages<sup>12</sup>

#### The Italian Debt-Swap Model

Egypt and Italy signed a debt-swap agreement on February 19, 2001, which allowed \$149.09 million of interest and principle payments owed by Egypt to Italy to be used instead to fund programs that benefit development and environmental programs in rural Egypt. The money is deposited in Egyptian pounds over a five-year period in a counterpart fund with the Central Bank of Egypt (CBE). The programs consist of 53 projects that address various sectors of the economy. Table 4 summarizes the Italian model.

*Egypt and Italy signed a debt-swap agreement on February 19, 2001, which allowed \$149.09 million of interest and principle payments owed by Egypt to Italy to be used instead to fund programs that benefit development and environmental programs in rural Egypt.*

<sup>10</sup> Based on the Agreement of 24 May 1992 between Germany and Egypt on the reduction and reorganization of Egypt's debt, both countries signed a series of debt-swap agreements (between 2001 and 2003) in which 204.5 million euros of Egypt interest payments for its German outstanding debt would be used for development and environment programs and to help with the balance of payments. The funds are equally divided with 50% for the development and environment programs and 50% for the balance of payments.

<sup>11</sup> Egypt and France signed a debt-swap agreement on 3/30/1993 stating that Egypt would deposit 58 million French francs in Egyptian currency (at current spot exchange rate of each installment), whereby French outstanding debt will decrease, by the installment amount, upon deposit in the local currency. The agreement dictates that the proceeds be used to aid the Social Fund.

<sup>12</sup> All bilateral swap models were summarized from the Ministry of International Cooperation memo number 175 to H.E. Minister Faiza Abulnaga dated February 24, 2005.

### III. Public Debt Swaps and the Egyptian Experience

TABLE 4

The Italian Debt-Swap Model	
<b>Country</b>	Italy
<b>Program</b>	Italian-Egyptian Debt for Development Swap Program (IEDSP)
<b>Eligibility</b>	The “Debt-for-Development Swap” agreement was signed in Rome on February 19, 2001 with the aim of converting eligible Official Development Assistance (ODA) bilateral debt owed by the Arab Republic of Egypt to the Italian Republic into financial resources to implement development projects in Egypt. The total amount of debt subject to swap operations under the Agreement is about \$149 million for a period of five years.
<b>Implementing agencies &amp; organizations Process</b>	<p>Egyptian Public Organizations, UN organizations, Egyptian or Italian NGOs.</p> <p>A Management Committee is responsible for projects selection. Projects selection is based upon the Agreement’s general criteria and occurs in two steps.</p> <p>The first step of the selection process is based upon review of a set of documents containing the following items:</p> <ul style="list-style-type: none"> <li>- Objectives and description of the project (according to the European Union procedures, i.e. Logical Framework);</li> <li>- Overall Working Plan (OWP);</li> <li>- Institutional framework and implementation modalities;</li> <li>- Budget.</li> </ul> <p>The second step of the selection process is based upon review of a set of documents containing the following items:</p> <ul style="list-style-type: none"> <li>- Objectives and description of the project according to the Logical Framework format adopted by the European Union (see IEDSP Annual Report);</li> <li>- Overall Working Plan (OWP) and first year Annual Working Plan (AWP), the summary of which to be presented in a standard format (see IEDSP Annual Report);</li> </ul>

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	<ul style="list-style-type: none"> <li>- Financial Plan and Budget, including a detailed yearly break-down of costs, the summary of which to be presented in a standard format (see IEDSP Annual Report);</li> <li>- Institutional framework and implementation modalities;</li> <li>- Technical Annexes.             <ul style="list-style-type: none"> <li>- Annex 1: Feasibility Study</li> <li>- Annex 2: Project Document</li> </ul> </li> </ul>
<p><b>Use of domestic currency generated</b></p>	<p>The projects funded through the Italian-Egyptian Debt for Development Swap Program shall aim to promote socio-economic development and/or environmental protection. Priority will be accorded to projects aimed to rural development, poverty alleviation and food security. The distribution of funds are as follows:</p> <ul style="list-style-type: none"> <li>• 26% Micro enterprises re-lending</li> <li>• 24% Rural development</li> <li>• 9% Water resources and water management</li> <li>• 16% Education</li> <li>• 8% Social development</li> <li>• 7% Poverty alleviation</li> <li>• 5% Health</li> <li>• 5% Environment</li> </ul>
<p><b>Grant-making procedure</b></p>	<p>According to Art. 2 of the Italian-Egyptian Debt Swap Agreement, the Egyptian Government shall deposit into the Counterpart Fund (CPF) the equivalent, in Egyptian pounds, of each installment of the Official Development Assistance (ODA) debt (principal and interest) due to the Italian Government at its maturity date, in the period between the entry into force of the Agreement and July 8, 2006.</p> <p>The mechanism of the transfer of funds into the CPF is directly linked to the process of projects selection since the outstanding amount of the CPF (that is, the total amount of the installments transferred into the CPF) should not exceed the total budget of selected projects</p>

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<b>Structure and oversight of funds</b>	IEDSP is managed by a bilateral committee and supported by a Technical Support Unit (TSU), acting as a management committee secretariat, to monitor and evaluate the results achieved by each project.
<b>Financial results</b>	Progress in the implementation of the agreement as of June 2005 shows that a total of 53 projects have been approved by the Italian-Egyptian Management Committee with a total expenditure of L.E. 836,846,974.01.
<b>Performance appraisal</b>	Every six months the applicant has to submit to the TSU a technical and financial progress report. A yearly budget of each selected project shall be allocated and disbursed according to the relevant annual financial plan. Within three months before the end of each financial year, the beneficiary shall submit to the management committee a financial report of the current year and a proposed next year's work plan and the relevant updated annual financial plan.
<b>Sources</b>	Italian-Egyptian Debt-for-Development Fund Annual Report and Debt-Swap Agreement between Government of Egypt and the Republic of Italy. Interviews: Mr. Marco Spada and Eng. Guido Benevento.

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#### The Swiss Debt-Swap Model

Egypt and Switzerland signed a debt-swap agreement on May 25, 1995 stating that 150.3 million CHF of Egypt's outstanding debt to Switzerland be partially reduced. The amount would be routed so that 40% of it is nominally deposited in Egypt's balance of payments account (actually, Egypt would be relieved of this 40%). The remaining 60% would be deposited in an Egyptian-Swiss Development Fund (ESDF) in local currency with the Commercial International Bank (CIB) in an effort to reduce poverty in Egypt. Table 5 summarizes the Swiss model.

*Egypt and Switzerland signed a debt-swap agreement on May 25, 1995 stating that 150.3 million CHF of Egypt's outstanding debt to Switzerland be partially reduced.*

TABLE 5

The Swiss Debt-Swap Model	
<b>Country</b>	Switzerland
<b>Program</b>	Egypt Swiss Development Fund ESDF
<b>Eligibility</b>	Eligible external debt consists of rescheduled non- Official Development Assistance debt originating from commercial transactions insured by the Swiss Export Risk Guarantee Agency. The eligible external debt to be released under the agreement is of 150,291, 381.89 CHF.
<b>Implementing agencies &amp; organizations</b>	<p>NGOs such as:</p> <ul style="list-style-type: none"> <li>• Catholic Relief Service</li> <li>• The Egyptian Family Planning Association</li> <li>• Parent Teacher Association</li> </ul> <p>Process</p> <ul style="list-style-type: none"> <li>• Proposals are submitted by NGOs to ESDF.</li> <li>• Project are approved by technical committee (TC) and forwarded to bilateral committee (BC)</li> <li>• The BC makes the decision for implementation.</li> <li>• ESDF encourages that a network of NGOs works on integrated development projects, which are beyond the capacity of one or two NGOs; this is called "cluster approach."</li> </ul>

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### A Variety of Debt-Swap Agreements Conducted Worldwide to Date

<p><b>Use of domestic currency generated</b></p>	<p>The amount in local currency shall be equivalent to 60% of the 150,291, 381.89 CHF. The remaining 40% will be contributed to the balance of payments account. The distribution of the 60% will be as follows:</p> <ul style="list-style-type: none"> <li>• 40% Income and employment generation</li> <li>• 40% Environment</li> <li>• 20% Enhancing social services</li> </ul>
<p><b>Grant-making procedure</b></p>	<p>The ESDF shall open an interest bearing account in Egyptian pounds with the CIB. Egypt shall deposit the amount in local currency (at the spot exchange rate) in this account. The capital plus the interest accrued will be utilized to fund the different projects.</p>
<p><b>Structure and oversight of funds</b></p>	<p>The ESDF is governed by a Bilateral Committee (BC), a Technical Committee (TC) and an Executive Secretariat (EXSEC).</p> <ul style="list-style-type: none"> <li>• The BC is the highest policy and decision-making body of the ESDF. It has a Coordinating Unit (CU) acting as an informal liaison between BC members and EXSEC.</li> <li>• The TC is the advisory body to the EXSEC and on request, to the BC. It reviews and comments on proposals and recommends these for ESDF funding.</li> <li>• The EXSEC is the program implementing office. EXSEC is responsible for the review, evaluation, implementation and monitoring of ESDF's projects and daily operations.</li> </ul>
<p><b>Financial results</b></p>	<p>91 projects in 21 governorates with a sum of LE. 474 million allocated to implement different projects in the fields of income generation and employment, environment, health, sanitation, capacity building and social services. Funds allocated by ESDF were given directly to 95 NGOs and indirectly to 323 sub-grantees.</p>
<p><b>Performance appraisal</b></p>	<p>The sound management of grants is assured through a financial procedure that stipulates that NGOs have to report their expenses on a quarterly basis. There is also midterm and final external auditing which provide an evaluation of the NGOs financial performance.</p>

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### The Swiss Debt-Swap Model

ESDF requests all projects to submit quarterly technical reports, which specify achievements, activities and results in comparison with the original work plan.

NGOs conduct self-evaluations on informal basis.

#### Sources

ESDF annual report 2004, Agreement between Government of Egypt and Swiss Confederation on the partial reduction of external debt and establishment of an Egyptian Swiss Development Fund, and interviews with Dr. Max Geiger.

A common element of both the Italian and the Swiss debt-swap programs was the creation of a counterpart fund in Egypt. The counterpart fund functions like a charitable foundation, making grants for projects according to guidelines within their respective agreements. The government of Egypt, as well as its Italian and Swiss counterparts, has gained a great deal of knowledge that can be drawn upon to improve future agreements. Some of the most important lessons learned from this experience will be summarized in the final section of this report.

A main distinction is that the IEDSP deals with government entities, while the ESDF does not. For example, IEDSP has contributed a decent portion of its proceeds to a number of ICT for development projects, namely the Smart Schools Network Project (SSNP), the Mobile IT Clubs Project (MITC), the Community Knowledge Generation and Electronic Library Project (CKGeL) Project, the Illiteracy Eradication Project (IE) and the Community Portal Development Project (CDP). The projects are underway in collaboration with the Italian government as well as a number of organizations in Egypt including government entities such as the MCIT, the ME and UNDP and WHO, in addition to local partners including the Women's Business Development Center (WBDC), the National Council for Childhood and Motherhood (NCCM), and the Egyptian Environmental Affairs Agency (EEAA). The next section assesses the ICT for development (ICT4D) projects funded by the IEDSP.

## *IV. ICT for Development (ICT4D) Projects: The Case of Italy*

### **1. Background**

The focus of this report is on the use of information technology (IT) penetration and diffusion projects in Egypt as part of the Italian Debt-Swap Model. IT is of key importance, because it plays a vital role in the implementation of a variety of issues, such as poverty reduction, healthcare delivery, trade facilitation, distance education, human capacity development, and knowledge dissemination. In the 21st century, these important elements of the economy will benefit from an efficient IT system.

Ideally, in the globally interconnected world of today, communication and access to information should not be a luxury, but rather a basic right that people must have in order to achieve human development goals. People can use the information-gathering and communicating tools of the Internet to acquire education, find jobs, trade commercially, enjoy leisure time and gain exposure to different cultures. Equal access to information is essential and best achieved through partnerships and collaborations with local stakeholders who have vested interests in having more users, such as IT companies. These stakeholders will benefit by gaining users and enhancing their stature in the communities by investing there, while the beneficiaries will profit from their increased information resources.

ICT and the “digital revolution” have drastically transformed the way people live and converse with their communities, both locally and globally. At the macro level, nations can collaborate; at the micro level, all aspects of a region’s economy can be affected: health, education, business and trade, agriculture, tourism and entertainment. ICT is an essential, driving force that spurs innovation, development, growth, and healthy competition. When developing nations are able to use effective ICT systems, they can leapfrog over earlier stages by accessing proven strategies and solutions to answer their needs more quickly.

Within a growing global marketplace, nations that fail to keep pace with the developments in the world’s networked community will fall behind, and the gap between them and the developed world will only get wider. Therefore, timely and accurate information acquisition and implementation across different societal levels is a must. According to

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a report from the World Bank Report in 2003, there is growing evidence that ICT is a powerful tool when used as part of an overall development strategy coupled with model partnerships among governments, business and social groups. According to Okpaku (2003) ICT coupled with knowledge management holds great potential for propelling the development process with reasonable promise of quantum achievement. The vital role ICT is playing is recognized by many industries and sectors, and affects both economic development and growth in many societies around the world. The resulting implications have had a major role in transforming such sectors and have both directly and indirectly affected the economic development process, especially in developing nations. With continuous global transformations, there is a constant need to adapt to such changes by achieving and then maintaining adequate standards in a country's infrastructure, technology, human capital investment, strategy formulation, financial management and resources allocation, to be able to capitalize on emerging ICT .

According to UN SecretaryGeneral Kofi Annan (2002), "Over the last few years, a wide consensus has emerged on the potential of information and communications technologies (ICT) to promote economic growth, combat poverty, and facilitate the integration of developing countries into the global economy. Seizing the opportunities of the digital revolution is one of the most pressing challenges we face." During the World Summit on Information Society (WSIS) meeting in December 2003 in Geneva, Switzerland, and according to its plan of action based on the UN Secretary General's request, a task force was created and led by the United Nations Development Program (UNDP) to study the issue of financial mechanisms for using ICT for development. A report was prepared to facilitate the discussions on the subject for the second WSIS meeting scheduled for November 2005 in Tunis.

During 2004, the task force conducted extensive consultations, research and reviews of information that demonstrated the role and effectiveness of financial mechanisms to support ICT. The basic objective of the task force was to identify sustainable ways to make ICT resources available to nations who need them.

The findings of the report indicated that financing ICT for development is of utmost importance, because it lets a nation and its

*People can use the information-gathering and communicating tools of the Internet to acquire education, find jobs, trade commercially, enjoy leisure time and gain exposure to different cultures.*

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citizens contribute to the global information society. ICT is a development enabler that helps to effectively achieve the goals outlined in the Millennium Declaration. The report also indicated that the deployment of ICT and the continuous emergence of new technology tools has increased the stakeholders in the community and led to an ever-growing role for partnerships among private sector, society and government groups in their efforts to find solutions for social and economic problems.

According to the report's findings, most developing nations depend on government budgets and/or donor and international sources for financing their ICT infrastructures. However, with the changes taking place in the global markets, and the transformational effects of emerging ICT innovations, a major shift in financial strategies and mechanisms among various stakeholders has led to a significantly greater reliance on private capital. This investment allows stakeholders to participate in the development of the new information-enhanced society as partners and as beneficiaries.

### 2. Global Developments and Trends in the ICT Sector

The ICT sector has been extremely dynamic. Rapid changes taking place there lower the cost of various ICT goods, expand the range of technology-based solutions and facilitate national strategies that entice new players, who with their sponsorship and involvement will realize a sense of ownership in the communities along with achievements in the empowerment of women, education, employment and healthcare.

The developments are taking place within an enabling environment in which the governments provide more efficient services and respond to public needs more directly. Such an environment, with incentives such as open entry, fair competition, market-oriented regulation and open access policies will attract more investment opportunities in the ICT sector. Since the early 1990s, such incentives have stimulated the private sector to invest in developing nations where adequate ICT is in place, because profitability is possible. With the involvement of new stakeholders, new local and regional investment partners have had an increasing role in spurring growth throughout the ICT sector. New partnerships and collaborations between the public and private sectors have been the catalysts for success.

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The task force report indicated that many donors began to shift their ICT program support towards development projects in areas such as health, education, and poverty reduction, while continuing to promote infrastructure development through ICT policy and regulatory reform. Moreover, these programs have been focusing on delivering information applications, services and content that are most relevant and adapted to the needs of developing nations. Additionally, although the overwhelming emphasis of ICT development and financing debate has been upon infrastructure investments, ICT facilities are as valuable as the information and knowledge that they deliver to the beneficiaries. However, the program support for health, education, and poverty reduction has developed far more slowly than the supply of technology infrastructure. The issues of information applications, services and content are expected to be widely recognized as priorities, and creative initiatives across the developing world will be designed to ensure that knowledge can be disseminated where it is needed most. Content that is adapted to the specific needs of the community will be developed.

Nationwide campaigns to build public awareness, basic education curricula and specialized training courses will realize the objectives of ICT, all programs that depend upon this fundamental premise: the investment in human resources is the most important, and indeed most effective, priority. Students, government employees and private-sector groups are all active participants in the development of the information society. People-centered communication is a core requirement for this development, and ICT is the tool that will make it happen.

**The report concludes that:**

a) cross-sector and cross-institutional coordination of financing with ICT development initiatives would improve effectiveness by identifying priorities and ensuring the participation of multiple sectors;

b) initiatives to support ICT development and financing should continue and expand; overall program coordination should be enhanced; diverse resources should be brought together to address challenges, including public-public and public-private partnerships that integrate ICT in health, education and other areas;

*The investment in human resources is the most important, and indeed most effective, priority. Students, government employees and private-sector groups are all active participants in the development of the information society.*

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*c) local financial mechanisms should be encouraged by encouraging governments, donors, and the private sector to provide more direct and creative support to microfinance instruments, ICT small business incubators, and community networking initiatives;*

*d) locally-developed applications and content should be supported by the private sector through contributions to competitions and awards, foundations, and programs that encourage creativity and help to disseminate ICT-related information services.*

In developing nations, ICT has increased the opportunities for local communities, civil society and the private sector to actively participate in emerging social and economic processes. Changes and transformation throughout the last few decades and the massive implications of the ICT infrastructure have resulted in major shifts in financial mechanisms towards greater reliance on private capital. Many of the initiatives were developed and implemented through public-private sector partnerships, enticing stakeholders at different levels to participate and contribute in the emerging information society. Following are the findings of a study that was conducted on the ICT Trust Fund and the development and implementation of a number of projects between the Cooperazione italiana ed il governo dell'Egitto (Italian Cooperation and the Government of Egypt)<sup>13</sup>

### 3. Egypt ICT Trust Fund

In 2002, Egypt ICT Trust Fund was established as a partnership between the Ministry of Communication and Information Technology (MCIT) and the UNDP<sup>14</sup> to assist Egypt in its socio-economic development program through a) establishing public-private partnerships, b) using ICT to further development, (c) increasing awareness of the developmental potential of ICT; and, (d) making ICT more accessible and affordable to all citizens.

Under the umbrella of the ICT Trust Fund and through the collaboration with the Italian government<sup>15</sup>, the "ICT to foster Egypt's sustainable human development program" was formulated and funded by the Italian Debt for Development Swap Program, covering 5% of the

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total debt swap agreement between Egypt and Italy with a total value of 48.5 million Egyptian pounds. The program has a triple motto: “Awareness, Access, Affordability,” and it includes a set of projects that demonstrates the commitment of the Italian government to support Egypt in promoting multi-sector development.

This will be achieved with a consistent strategy of technical assistance, capacity building, and training, with the primary objective the alleviation of poverty using the resources of ICT.

### 4. Objectives of the ICT Trust Fund

The ICT Trust Fund has identified a number of issues that it will support: a) community empowerment, b) advocacy building, and c) formulation of best practices. Following are the objectives for each of the three issues.

#### 4.1 Community Empowerment

- Use the United Nations Information Technology Services (UNITeS) missions with their volunteer activities to train groups in marginalized, disadvantaged communities in ICT for development.
- Use all existing IT resources for poverty reduction, giving citizens easy access to information.
- Extend ICT to remote communities to help bridge the gap between the haves and have nots through various knowledge dissemination projects.
- Encourage IT clubs to develop local community-specific content for.
- Promote IT programs that include underprivileged members of the community
- Suggest various strategies for sustaining IT projects
- Use IT to achieve development goals such as courses for illiteracy eradication

*In developing nations, ICT has increased the opportunities for local communities, civil society and the private sector to actively participate in emerging social and economic processes.*

<sup>13</sup>The report is a compilation of a set of interviews conducted with representatives of the main stakeholders affiliated or responsible for the projects European Cooperation Center Department (Ministry of International Cooperation), Guido Benevento-Development Cooperation Advisor; Marco Spada-Program Manager and Yassin Mubarak-Financial Expert (Technical Support Unit of the Italian-Egyptian Debt for Development Swap), Reem El Saadi-Assistant Program Coordinator and Max Giger-Executive Director (Egyptian Swiss Development Fund), Sherif El Tokali (United Nations Development Programme) and Mohab Hallouda-Executive Director (ICT to Foster Egypt's Sustainable Human Development Program, Ministry of Communications and Information Technology).

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### 4.2 Advocacy Building

- Raise awareness of ICT and its relevance to poverty alleviation.
- Encourage the leveraging of resources within the local community.
- Support the implementation of reform policies in the ICT sector.
- Promote partnerships among the public sector, the private sector and civil society organizations through public-private sector partnership (PPP) agreements.
- Encourage franchising of selected ICT projects to small entrepreneurs.

### 4.3 Formulation of Best Practices

- Develop award systems for sharing experience, knowledge and lessons learned.
- Exchange information among different stakeholders (governments, civil society organizations, the private sector, United Nations agencies and other international organizations) in order to create a viable ICT action plan for Egypt.

## 5. ICT Trust Fund Organizational Structure

The ICT Trust Fund has a management team that is supported by two committees, the steering committee and the management committee. The executive management of the fund is performed by three units, divided into management, technical assistance and operations and program support.

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<sup>14</sup> The United Nations Development Programme's fundamental mission in Egypt is to support poverty eradication initiatives that advocate sustainable human development policies; support ways to create jobs, protect the environment; and promote sound governance.

<sup>15</sup> The collaboration of the Italian and Egyptian governments reflects the consolidated bonds between the two nations. The Italian Cooperation promotes projects in Egypt financed by bilateral financing (the Debt-for-Development Swap Program) as well as through NGOs in Italy.

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### 6. ICT Trust Fund Projects Overview

The ICT Trust Fund to foster Egypt's sustainable human development program is a structured initiative aimed at fighting poverty through the use of ICT. The program consists of five interrelated and complementary projects that are divided into two main categories. The first category comprises two projects and provides ICT access points to the local communities; the Smart Schools Network Project (SSNP) and the Mobile IT Clubs project (MITC). The second category comprises three projects and provides applications support to the beneficiaries; the Community Knowledge Generation and Electronic Library project (CKGeL), the Illiteracy Eradication project (IE) and the Community Portal Development project (CDP).

The five projects have a common objective: to use ICT to foster Egypt's sustainable human development program. All projects complement each other with a supply chain of services and activities that, combined together, provide added value to the community of beneficiaries. For example, in the case of the ICT for illiteracy eradication, mobile IT clubs and the community learning centers (CLC) of the SSN provide the CD-ROMs in an electronic library available to the community.

All five projects of the program are formulated to provide a set of benefits to the community and to contribute to the socio-economic development of Egypt. The goals are: a) exposure to emerging ICT, b) community development, c) documentation and dissemination of local knowledge, d) development of research capacities, and e) illiteracy eradication. These benefits are intended to reach a wide variety of stakeholders in rural areas to help minimize and close the digital gap within Egypt's societal structure. Such stakeholders and beneficiaries are students, youth groups accessing IT clubs, local entrepreneurs, community groups, and illiterate citizens.

The management of the ICT Trust Fund has identified a number of vital partners for achieving success, continuity, growth and sustainability: NGOs, civil society organizations, IT clubs, and cultural, educational and youth organizations. Together with such wide variety of partners, a number of potential activities have been identified: a) training of principle intermediaries, b) subsidizing illiteracy eradication classes, c) providing

*The ICT Trust Fund to foster Egypt's sustainable human development program is a structured initiative aimed at fighting poverty through the use of ICT.*

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the required technology infrastructure and equipment, d) subsidizing costs of effective ICT deployment, and e) creating incentives for the community to get people to try the new, and perhaps unfamiliar, technologies.

### 7. ICT to foster Egypt's Sustainable Human Development Program

Following is a detailed description of each of the five projects: overview, objectives, concept, achievements, challenges and success stories.

#### 7.1 Community Knowledge Generation and eLibrary (CKGeL)

The Community Knowledge Generation and eLibrary project is formulated to establish a comprehensive solution that allows the collection, validation, maintenance and distribution of information, to and from local communities, in a digital format, and disseminates it among all potential beneficiaries to enhance their research skills. This project <sup>18</sup> could also help fulfil the compelling need for Arabic electronic content.

##### 7.1.1 Objectives

- Improve the research abilities of students and teachers by encouraging article writing and other types of publication.
- Encourage citizens to gather, develop, and share a wealth of locally relevant knowledge.- Establish an electronic library to compile, document and exchange local experiences and knowledge.
- Formulate links between NGOs and local universities in collaboration with the community development portal (CDP) to encourage people to share their experience and abilities.
- Encourage active participation among communities in the region.

##### 7.1.2 Concept

The CKGeL project has formulated a competition scheme through a partnership with the Ministry of Education for the best articles written by students and teachers to promote the sharing of knowledge and experience at the local level. Experts from various fields and project partners select the topics to cater to local needs and to address socio-economic developmental ideas from various sectors. The partnership between WHO and the Egyptian Environmental Affairs Agency (EEAA)

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is one example of such a relationship. The issues and topics covered change to keep pace of the community's needs. In collaboration with NGOs, the project staff collect, document and publish socio-economic data from different sectors and provide it for free to the local community. Information relating to textile production, crafts, transportation and furniture industries are examples of the body of knowledge made available. Over 107 articles have been published in this category.

### 7.1.3 Achievements <sup>17</sup>

Since the inception of the project, 3261 articles from Egypt's 27 provinces (including the city of Luxor) have been submitted, filtered and posted on the eLibrary website at [www.fekrzad.com](http://www.fekrzad.com) <sup>18</sup>. This was the result of twelve competitions (to date) which were managed with state-of-the-art ICT. These tools included a text-to-speech (TTS) engine that enabled illiterate and blind users to access locally generated content, and also English-to-Arabic translation tools that let users benefit from the extensive electronic resources available in English. These articles are being shared with the community via free access. More competitions are planned and a daily tracking system for article submissions is in place to monitor the remarkably high level of participation from the community. According to the assessment of the project so far, article submitters were distributed almost equally between men and women, with one gender leading submissions in some provinces and the other leading in the rest. The winners of the competitions receive prizes contributed by various project partners and from the private sector.

The CKGeL project is currently in the process of developing partnership agreements with major NGOs, universities and community centers in the provinces of Alexandria, Assiout, El-Menya, Damietta and El-Gharbeya. Additionally, the project management is formulating a plan for capacity building through seminars and workshops to replicate the workshop that was held in February 2005 in collaboration with the Environment Friends Organization of Alexandria. Attended by representatives of 11 NGOs, it spread the awareness of [www.fekrzad.com](http://www.fekrzad.com) and the deployment of ICT for socio-economic development in general.

<sup>16</sup> The first competitions covered topics related to health and the environment in collaboration with the WHO and the EEAA respectively.

<sup>17</sup> The status of the achievements of the Community Knowledge Generation and Electronic Library Project is reported as of June 30, 2005.

*The CKGeL project is currently in the process of developing partnership agreements with major NGOs, universities and community centers in the provinces of Alexandria, Assiout, El-Menya, Damietta and El-Gharbeya.*

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### 7.1.4 Challenges

The CKGeL project faces a number of challenges, including a) strengthening community development activities and effectively promoting knowledge sharing, b) attaching existing structures and networks to those of the community development portal project, c) raising awareness of its activities in the local community and d) improving services provided to the local community.

### 7.2 Smart Schools Network Pilot Project (SSNP)

The Smart Schools Network Pilot project was formulated to introduce innovative teaching-learning methods by using ICT-based applications, content creation, school administration software (including web-based applications) and interactive tools to facilitate communication among different stakeholders (teachers, school administrators, parents and students).

The project aims to transform the role of the teacher from information provider to facilitator. Classes will be held after working hours in a Community Learning Center. The pilot phase covers 38 public and experimental schools. It is hoped that the lessons learned from testing different smart school models will trigger a nation-wide adoption of it by the government of Egypt, which hopefully would be the first step toward modernisation of the Egyptian school system.

#### 7.2.1 Objectives

- Introduce ICT in preparatory schools to ensure that all students are computer literate.
- Qualify students and teachers for the International Computer Driving License (ICDL).
- Improve teaching and educational methods (eLearning).
- Transform the school into a productive unit and a Community Learning Center (CLC) that is a learning hub for the community.
- Automate the school administration processes
- Improve communication with different stakeholders including administrators, teachers and parents, through ICT tools.

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<sup>18</sup> [www.fekrzad.com](http://www.fekrzad.com) can be used as a tool by different organizations wishing to organize a competition that addresses local community development.

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### 7.2.2 Concept

The SSNP project is designed to provide an effective learning environment for administrators, teachers and student, with a state-of-the-art ICT infrastructure. The SSN serves its students during school hours and extends its services to the local community after school hours when it turns into a CLC. The project intends to provide computing and networking facilities to enable school administrators and teachers as well as students to benefit from various ICT tools, including a customized school management system, computing peripherals, and digital library. The services offered by the pilot project include Internet research skills and content creation training for teachers, and ICT training for school staff (operating systems, software applications, database administration, hardware and network maintenance, and technical support). The applications include the school's portal serving students, teachers, and administrators as well as the school's database, containing information relating to student affairs, teachers, administrators and classroom procedures such as schedules and exam results.

The schools' implementation models rely on two formulas with respect to the provision of different services. Currently such services are supplied by a consortium of educational service providers (in 35 schools) or by NGOs ( in 3 schools). These services include oversight of the infrastructure and management of the school operations and logistics. Table 6 demonstrates the total number of trainees.

### 7.2.3 Achievements

During the first phase of the project, 495 teachers and administrators attended training sessions to qualify for the international computer driving license (ICDL), a program coordinated with the Ministry of Education and UNESCO. Among the qualified personnel, 20 staff members(4%) have already obtained their ICDL license. Moreover, 11 school libraries were digitized and 25 community interactive portals were designed and published. The staff was trained to update them and provide technical support as well as update the school management system databases and launch the CLC operation.

During the second phase of the project, 924 school staff were trained, and two additional portals were designed and launched. The technology infrastructure is expected to be completed in the third phase.

*Moreover, 11 school libraries were digitized and 25 community interactive portals were designed and published.*

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TABLE 6

Smart Schools Network Pilot Project Total Number Expected to be Trained (Phase II and Beyond)						
Provinces	Schools	Students	Teachers	Staff	Labs	PCs
Phase I Education Service Provider (ESP) Model (Completed)						
Giza	4	2,021	174	49	11	343
Northern Alexandria, Behera and Marsa Matrouh	7	2,985	231	41	17	446
Phase II Education Service Provider (ESP) Model (in progress)						
Delta Monofiya, Gharbeya, Dakahliya, Kafr El Sheikh	7	4,270	1,192	109	21	576
Middle Minya, Assiut	4	2,788	205	28	14	367
Southern Sohag, Qena, Luxor, Aswan	7	3,869	300	56	19	509
Cairo	6	1,287	258	18	12	336
Phase III NGO Model (in progress)						
Siwa	3	1,128	41	6	4	100
Total	38	18,348	2,401	307	98	2,677

During the different phases of the project, over 5500 electronic mail accounts were created for students, teachers and school staff, which demonstrates the growing use of the technology. The project has reached many of Egypt's provinces and cities, including Siwa, Marsa Matrouh, Tanta, Alexandria, Giza, Cairo, El Menya, Assiout, Sohag, Qena, Luxor, and Aswan. More provinces are expected to join the project in the near future.

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### 7.2.4 Challenges

The SSNP faces a number of challenges, including a) mobilizing capital investments to repeat the smart schools model in more schools, and b) identifying a sound business model and a way to produce revenue for the operation of CLC.

### 7.2.5 Success Stories

Forty students from the SSNP project were finalists in the [www.fekrzad.com](http://www.fekrzad.com) competition of the CKGeL initiative ; six of these students (15%) were winners. Moreover, some of the educational content for the competition was developed and produced by the SSNP staff. The beneficiaries of the project, students and staff, acquired their competitive skills by attending or teaching classes aided by ICT, a demonstrable benefit of their involvement. ICT Trust Fund projects have helped scholars and administrators become more technology-oriented.

### 7.2.6 Community Development Portal (CDP)

The Community Development Portal project is formulated to promote human development by increasing awareness of ICT and by making it more accessible and affordable to all citizens. This empowers local communities to gain access to useful information, widens their horizons and increases their career opportunities ([www.kenanaonline.com](http://www.kenanaonline.com)).

#### 7.3.1 Objectives

- Develop a comprehensive portal of information related to socio-economic development issues.
- Promote and mobilize the local community to use the CDP.
- Assist citizens in rural and urban areas to use ICT to help improve their skills, employment opportunities, income, health, education, agricultural work, and general knowledge.
- Help communities to move towards the knowledge-based society

#### 7.3.2 Concept

The CDP project supplies information on socio-economic development, employment, social services, and governance to the users of the IT clubs and other Internet-enabled information platforms in Egypt through a web-based portal. The concept is based on the formulation of information providers with three layers of channels including providers, partnerships and community-generated content.

*The CDP project supplies information on socio-economic development, employment, social services, and governance to the users of the IT clubs and other Internet-enabled information platforms in Egypt through a web-based portal.*

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The project provides useful information on local, sectoral, regional and national issues through [www.kenanaonline.com](http://www.kenanaonline.com). At the local level, information might include crop prices, announcements, vocational training opportunities and capacity development. Business information might include market prices, job opportunities, feasibility studies, home business, marketing, and legal issues. Regional information might relate to health and welfare, such as common diseases, preventive measures, personal hygiene, wellness programs, anti-smoking promotion, drug addiction, handicapped programs, women's health, pregnancy and child care. At the national level information might relate to currency exchange rates, legislation, human rights, gender studies, history, science, and tourism.

### 7.3.3. Achievements

Since the inception of the project, there have been many partnerships formed. The National Council for Population and Development (NCPD) established 23 pilot IT clubs/NGO networks<sup>19</sup> in 3 provinces. Partners included the Women's Business Development Center (WBDC), WHO, and the National Council for Childhood and Motherhood (NCCM). Moreover, a number of training sessions and orientation sessions were conducted for IT clubs and NGO staff in the provinces of El-Menya, Damietta and El-Gharbeya. Local content was developed in collaboration with IT clubs and NGOs.

### 7.3.4 Challenges

The CDP project faces a number of challenges including a) formulation of a sustainability plan that is dependent on the traffic generated and relevant to the local community, b) identifying a business model to generate revenue through sponsors and advertisers; and c) developing dynamic and interactive portal content that could draw more traffic.

### 7.3.5 Success Stories

With guidance from the CDP, a group of small and medium-sized businesses in the province of El-Gharbeya published an article about the production of honey on [www.kenanaonline.com](http://www.kenanaonline.com).

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<sup>19</sup> The number of NGOs trained in IT clubs are as of January 2005.

<sup>20</sup> The status of the achievements of the Community Development Portal Project is reported as of June 30, 2005.

## IV. ICT for Development (ICT4D) Projects: The Case of Italy

The project is also considered a success on a macro level since www.kenanaonline.com has published<sup>20</sup> over 4500 pages of content and has received over 1,598,835 hits in traffic.

### 7.3.6 Illiteracy Eradication (IE)

The Illiteracy Eradication Project was formulated to develop mechanisms using ICT tools to eradicate illiteracy by teaching people to read and write the basic Arabic language.

#### 7.4.1 Objectives

- Provide the curriculum required by the General Authority for Literacy and Adult Education (GALAE) for illiteracy eradication on multimedia tools (CD-ROMs) and on the World Wide Web.
- Train instructors and trainers to utilize technology-based solutions in illiteracy eradication classes.
- Encourage the community to utilize new technology-based solutions.

#### 7.4.2 Concept

In Egypt, more than 30% of the population is illiterate, and the percentage is higher among women. It is one of the major barriers to economic and social development. The Ministry of Communication and Information Technology in collaboration with the UNDP, GALAE and the National Council for Women (NCW)<sup>21</sup> formulated the IE project to produce, adapt and apply innovative ICT to work towards abolishing illiteracy. Literacy rates reflect the ability of the community at the macro level to access knowledge and how easily individuals at the micro level can participate effectively in various societal and economical issues.

The concept of the IE project relies on the deployment of advanced ICT tools and techniques to convert the learning materials used in literacy classes into a simple, interactive computer-based tutorial that teaches basic skills. These tutorials can be accessed through the Internet, or distributed by the IT Club network, or in the GALAE classes. Training instructors is a vital element of the project and is being monitored by a committee represented by all collaborative parties.

*The concept of the IE project relies on the deployment of advanced ICT tools and techniques to convert the learning materials used in literacy classes into a simple, interactive computer-based tutorial that teaches basic skills.*

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<sup>21</sup> The National Council for Women (NCW) was established in 2000 with the purpose of advancing the status of Egyptian women including rights to education, health services, employment, marital and family life, voting and political participation, and nomination for public office amongst other issues.

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### 7.4.3 Achievements<sup>22</sup>

During the first phase of the project, the material of the first book in the IE curriculum<sup>23</sup> was converted into an electronic format. Thirty four trainers (ten in an intensive program and twenty four in the regular program) completed the course. The project began with a pilot conducted in seven different classes in the provinces of Fayoum and El-Kalioubeya, which have high illiteracy rates. The objective of the pilot project was to see if using ICT tools worked to a) encourage students to enroll in IE classes, b) get students to attend classes and minimize drop-out rates; and c) assess the progress of the students.

During the second phase of the project, it is expected that the two remaining books required by GALAE will be completed in their new digital format; using the CD-ROMs through twelve NGOs in eight additional governorates; training 59 new instructors; expansion of the existing partnership network of the project to include more, private and public sector entities and NGOs that can help spread the project throughout Egypt.

The objective of the project is to have 500 courses; train and certify at least ten previously illiterate students for every class. After the GALAE books were converted into a digital format of CDs, there was a 70% success rate in the GALAE exam; 50 students have been certified by GALAE. Future research will follow up to determine how many students who used the CD study materials passed the exam and then found jobs where they used their new skills.

### 7.4.4 Project Assessment

In 2004, a study was conducted by the Social Research Center (SRC) of the American University in Cairo (AUC)<sup>24</sup> to assess the results of the pilot project, the impact of using ICT in teaching literacy and explore the attitudes of teachers about using ICT in literacy classes, noting any barriers that seemed to affect the delivery process. The study assessed both teachers and students across two phases, before and after using the technology-based solutions. Of interest were students' attendance records and comprehension, and teachers' retention rates.

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<sup>22</sup> The status of the achievements of the Illiteracy Eradication Project is reported as of June 30, 2005.

<sup>23</sup> The curriculum includes 3 different books according to the GALAE

<sup>24</sup> The study was conducted during the 3rd quarter of 2004.

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The study compared 145 students in seven IE classes in which the new technology was used, to a sample of 162 students in six traditional classes from the same provinces (Fayoum and El Kalioubeya) The study used a set of three different questionnaires for the classes, teachers and students. The questionnaires contained a variety of open- and closed-end questions that asked different demographic, social, and educational questions about students and teachers; their difficulties with and motivations for using ICT in literacy classes.

The analysis of the study phase prior to use of the technology-based solution indicated that the majority of both teachers and students expected that using IT will increase attendance, minimize drop-out rates and improve teaching. Ninety percent of the students from both types of classes (traditional and technology-based) indicated that using ICT will lead to a) better understanding of the material, b) motivate more illiterate people to join classes; and c) disseminate more information and knowledge. The remaining 10% (mainly from traditional classes) believed it would minimize student-teacher interactions. Some of the teachers believed that technology-based classes would negatively affect interaction with students, minimize handwriting practices and be difficult for older illiterates.

*Ninety percent of the students from both types of classes (traditional and technology-based) indicated that using ICT will lead to a) better understanding of the material, b) motivate more illiterate people to join classes; and c) disseminate more information and knowledge.*

## *IV. ICT for Development (ICT4D) Projects: The Case of Italy*

Analysis of the study phase after using the technology-based solution yielded a number of findings: attendance in the new technology-based classes was at 86% compared to 57% in the traditional classes. The study indicated that in Fayoum province, 80% of the sample tested from the technology-based classes had successfully passed the GALAE exam compared to 40% from the traditional classes. Moreover, the findings showed that using IT improved literacy, measurable in the amount of time needed to pass the GALAE exam.

The majority of the students said that computing and ICT will encourage more students to enroll and minimize drop-out rates. Ninety four percent said they will encourage their illiterate friends to attend classes; 27% believed that the revision process is easy and accessible anytime; 50% were impressed with the quality of education provided, and 75% were comfortable with using the technology tool during the learning process. Students also gave a variety of reasons for wanting to use computers, including clearer explanation (64%), more information access (22%), and faster learning (14%). One of the students said that “technology solutions help to avoid the embarrassment faced by slow learners in traditional classes because it is a self-based learning mechanism.”

The feedback from instructors was very similar to that of the students. They were convinced that the enrollment of students would go up and drop-out rates would decrease. Fifty seven percent believed that the technology-based solution was better and easier than the traditional way to teach reading; 71% believed it was a much better technique to teach mathematics and 86% believed it was a more interesting platform for learning in general, and a way to save time without compromising on the quality of education.

The majority of instructors believed that IT can help them complete the curriculum included in the three required IE books in five months, instead of nine. One of the instructors said that “it is an attractive teaching mechanism that speeds up and improves the learning process.. The study showed that ICT for illiteracy eradication programs was well worth the increase in cost, because the results were superior to those attained in traditional classes, and moreover more efficiently produced.

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If these programs were implemented more widely in Egypt, there would be major advances both in the medium- and long term ranges.

The study recommended that IT solutions be more widely used in illiteracy eradication classes in schools that either have the technology infrastructure already in place or have collaborations with NGOs or IT clubs. Additionally, having a pool of well-trained instructors is essential to the program's success and longevity. The study also recommended that the remaining two books required to complete the GALAE curriculum be converted into the multimedia format.

### 7.4.5 Challenges

The IE project has a number of challenges facing its proper implementation. The modern learning environment is technology-based, and classrooms need a complete technology infrastructure (networking, computing and other peripherals that augment the communication between instructor and student). These challenges have been gradually turned into opportunities since the launch of the pilot project phase.

### 7.4.6 Success Stories

Within the scope of the IE project, two success stories have been documented to date. "Gamalat," a 45 year-old woman who attended the pilot project in El-Kalioubeya, and successfully passed the GALAE exam in 2004 upon completing the first CD-ROM she studied. She is currently enrolled in preparatory school and is helping her daughter do her homework. "Mostafa," a 17 year-old, was a school drop-out, but attended the pilot project classes, successfully passed the GALAE exam and is now waiting for his certificate. Partnerships with NGOs and synergy with those partners are key factors for this type of success.

### 7.4.7 Mobile IT Club (MITC)

The Mobile Information Technology Club project was formed to establish mobile technology units to expose teachers and students to computer literacy, complementing the SSNP project in suburban and rural areas that are not equipped with the ICT infrastructure. The project uses buses and caravans equipped with media labs that stop at communities for two-week sessions, providing technology-related services.

*The majority of the students said that computing and ICT will encourage more students to enroll and minimize drop-out rates.*

## IV. ICT for Development (ICT4D) Projects: The Case of Italy

### 7.5.1 Objectives

- Introduce ICT to communities in rural areas.
- Overcome the scarcity of computers in remote areas.
- Spread awareness of ICT and the Internet throughout the provinces.
- Increase exposure of ICT to students, teachers, and community members.

### 7.5.2 Concept

The MITCs spread awareness of ICT to communities by helping people to develop basic computer skills, and providing training on end-user applications such as word processing, spreadsheets, and graphics. The project supports school curricula through the conversion of educational material to CD-ROMs, enhancement of Internet skills such as browsing and e-mail, as well as training public sector employees—all without using a classroom. The mobile clubs can be found in isolated areas where IT clubs do not exist and there is no ICT infrastructure. The portfolio of beneficiaries includes students, youth groups, and community members.

The MITCs visit communities, where they organize community awareness campaigns in coordination with the Ministry of Communication and Information Technology. The goal is to raise the awareness of IT and to try to establish IT clubs in these locations.

### 7.5.3 Achievements <sup>25</sup>

The status of the achievements of the Mobile IT Clubs is reported as of June 30, 2005.

There are two MITCs currently touring areas underserved with technology in Egypt. The first visited El Rouda village in the governorate of El-Menya, where through the MITC, citizens learned about ICT, accessed educational and developmental training programs, and used the Internet. The MITC then went to Damaris Village (El Menya), Abou Korbas village (El Menya) and the province of Qena. The second MITC visited El Obour city (El Kalioubeya) and 10th of Ramadan City (El Sharkeya). Table 7 enumerates the visits and the visitors' use of the mobile IT club.

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<sup>25</sup> The status of the achievements of the Mobile IT Clubs is reported as of June 30, 2005.

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TABLE 7

Mobile IT Clubs Project Achievements			
Visits	Location	Duration	Number of Visitors
First Mobile Unit			
1	El Rouda Village (El Menya)	3 Weeks	1,674
2	Qena (Qena)	4 Weeks	2,110
3	Damaris Village (El Menya)	10 Days	92
4	Abou Korbass Village (El Menya)	3 Weeks	750
Total Visitors			4,626
Second Mobile Unit			
1	El Obour City (El Kaliyoubeya)	3 Weeks	1,905
2	10th of Ramadan City (El Sharkeya)	2 Weeks	692
Total Visitors			2,597
Grand Total			7,223

#### 7.5.4 Challenges

The MITCs project has a number of challenges related to the expected return on investment. Although the returns are high, the mechanism for the project's sustainability is not yet defined, and although attracting advertisers and sponsors could be part of the solution, this has not been planned, defined or deployed yet.

#### 7.5.5 Success Stories

Within the scope of the MITC project, "Sohaila," a 6-year old girl, visited the MITC during its first visit to El Menya and learned basic computing skills. During the second visit of the club, her mother indicated that Sohaila had asked her father to buy her a personal computer, which was funded by the Ministry of Communication and Information Technology's "computer for every home" project.

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### 8. Other ICT Projects

Two additional projects deployed ICT components: a) the Rural Development Communication Network in Egypt Project, and b) the Family Health Rural Database Project. Both projects are funded by the Italian Debt for Development Swap Program.

#### 8.1 Rural Development Communication Network in Egypt Project

This project was implemented in collaboration with the Ministry of Agriculture and Food and Agriculture Organization (FAO) on Rural Development Communication Network in Egypt. The project represented 1% of the total debt swap with Italy, with a total value of 9.2 million Egyptian pounds. The duration of the project is 3 years.

##### 8.1.1 Objectives

- Develop a sustainable operational and dynamic information system to respond to stakeholders' requirements in poor communities.
- Identify, assess and train personnel from different target communities.
- Identify relevant topics for exchange; define and establish a knowledge management system.

##### 8.1.2 Achievements<sup>26</sup>

This project has implemented the management and organizational structure ; 83 staff have been trained in various computing applications. The technology infrastructure has been installed and coupled with the Rural Development Communication Network (RADCON) Information System (based upon the original system VERCON) that was developed for target groups.

Ongoing is the formulation of the project's business plan, evaluation of the training program and the development of an attractive user interface to target groups. Also, an awareness campaign is being developed to motivate and encourage communities to exchange knowledge and utilize IT solutions. The project is progressing well, and is present in over nineteen provinces in Egypt.

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<sup>26</sup> The status of the achievements of the Rural Development Communication Network in Egypt Project is reported as of June 30, 2005.

## IV. ICT for Development (ICT4D) Projects: The Case of Italy

### 8.2 Family Health Rural Database Project

This project was implemented in collaboration with the Ministry of Health and Population, and concerns family health. While its main activities are not ICT development, the use of ITC is modernizing and improving its operations. The project represented 4% of the total debt swap, with a total value of 34 million Egyptian pounds. The duration of the project is 2 years. The project is being conducted in the governorates of El-Behera and El-Kalioubeya.

The objectives include assisting in the reorganization of the family healthcare services (mainly in the automation of data), maintaining a database for record-keeping.

### 9. Conclusions and Recommendations

The ICT projects that foster Egypt's sustainable human development programs within the Italian Debt for Development Swap have been successful in spreading awareness and use of ICT in some of Egypt's 26 provinces, particularly those that are the most remote and underprivileged. The ICTs introduced and disseminated by the different projects for IE, Arabic content development, the establishment of smart schools and the development of MITCs have all been highly valued by beneficiaries. With more ICT applications in more locations, overall growth will result in many more success stories. The potential for socio-economic development through the deployment of ICT, especially in remote and underprivileged areas, will hopefully encourage the implementation of more projects.

The recommendations clearly emphasize the need to address the issues of outreach and sustainability coupled with win-win partnerships. Collaborative working arrangements should be formed between community stakeholders and NGOs, groups from the private sector, public sector and government institutions. Successful penetration of ICT at a more diversified and macro level could benefit a core group of people that could inspire the greater community, hence realizing a multiplier effect that could contribute more effectively to socio-economic development.

*The potential for socio-economic development through the deployment of ICT, especially in remote and underprivileged areas, will hopefully encourage the implementation of more projects.*

## V. Lessons Learned and Implications

A number of conclusions and lessons can be drawn from the Egyptian debt-for-development swap agreements with Italy and Switzerland in general, and more specifically, from the successful Italian ICT4D case. These lessons can offer guidance to other nations that are about to embark on similar experiences. Before offering comments and recommendations, a caveat is in order.

Based on the literature review, fieldwork and interviews conducted, the authors conclude that it is very hard to quantify and trace the results of the debt-swap agreements studied at the macro level. However, at the micro level, we conclude from the Italian ICT4D case that progress is being made and recorded.

With this in mind, the authors can offer the following recommendations. Lessons are based on a comparison between the Swiss and Italian agreements and are drawn from two main categories.

### A) Debt-Exchange Transaction Mechanism in General

**Lesson 1: Having a solid, forward-looking strategy for managing debt in place is a prerequisite to the success of swap agreements.**

An important reason for the success that Egypt is experiencing with its Italian and Swiss partners in their swap agreements is that the initiative was undertaken by Egypt within the broader framework of the country's overall debt management strategy.

**Lesson 2: It is important for debtor countries to feel that swapping mechanisms are additional tools to foreign aid, and not a substitute for it.**

Similarly, the Italian and Swiss debt exchanges were part of their overall foreign assistance and debt relief strategies. In other words, both countries made it a point in their agreements that swap financing will not count against the existing foreign aid budget allocated for Egypt.

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<sup>27</sup> In essence, there is no real money transfer from the Egyptian government to the CBE counterpart fund, it is only a nominal transfer on the books.

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**Lesson 3: Counterpart funds are better placed with private banks that generate interest revenues, and not with debtor government's central banks.**

As was earlier mentioned in Section II of this report, a counterpart fund will be opened as a conduit for the swap transactions. The Swiss swap stipulated that the funds be transferred through a single up-front transaction deposited in a savings interest-bearing account with the Commercial International Bank (CIB). In contrast, the Italian agreement was constructed so that a series of incremental transactions, paid out as required, is made over a period of five years. These payments follow a monthly debt repayment schedule instituted by the Paris Club and is deposited with the Central Bank of Egypt (CBE) and pays no interest<sup>27</sup>. The choice depends on whether the debtor country can generate enough domestic currency to meet its obligations all at once, and the flexibility and risk aversion of the creditor country. Both the Italians and the Swiss have agreed that the Swiss single, up-front transaction proved to be more successful, mainly because of the interest revenues.

The Swiss counterpart fund collects interest over time, which gives it more value for more projects, whereas the Italian fund does not have this feature. Furthermore, according to the Italian experience with the CBE, there is a lag between the time funds are requested and delivery. In other words, the pay-as-you-go approach has not proved to be efficient in the Egyptian case and has imposed higher transaction costs on both Egypt and Italy.

**Lesson 4: Indexing volatile currencies of debtor countries against the U.S. dollar or the euro is recommended to avoid loss of value in the counterpart fund.**

Even though the Swiss single payment transaction has shown a higher rate of success than the Italian pay-as-you go transaction, it still had a few problems. As stipulated in any swap agreement, payments are always made at the current foreign exchange spot rate. When the debtor country has a volatile currency, the single payment system becomes riskier for creditor countries. This has been the case with the Swiss fund; a few years after the money was deposited by Egypt in the CIB, the Egyptian government floated the pound, which resulted in 30% devaluation against the U.S. dollar. Creditor nations can reduce such

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a risk by indexing volatile currencies against the dollar to safeguard the value of their fund in case of local currency devaluation. Of course, it is important that this contingency be written into the swap agreement.

### **Lesson 5: All stakeholders participate in governing the counterpart fund.**

Governance of the counterpart fund is extremely important to its credibility, survival and performance. Both the Italian and Swiss funds are governed by bilateral committees, with representation divided between Egypt, Italy and Switzerland respectively. No serious problems have been reported from any of the stakeholders. One important suggestion is that a national coalition of well-established, neutral NGOs be included to act as a representative to the NGO community. These neutral NGOs would be involved in governing the funds, and making sure that projects are adequately matched with their respective proper organizations. The only question is: are Egyptian NGOs ready for such a task?

### **Lesson 6: NGOs and government entities of debtor countries should have the required capacities to implement projects.**

According to the Egyptian Swiss Development Fund (ESDF) 2004 Annual Report, there were major problems in dealing with Egyptian NGOs. "From the inception of their fund in 1996 until 2001, the Swiss approach was based on responding to community needs through proposals submitted by NGOs. This process proved to have major drawbacks. First, the limited interventions due to immature NGOs resulted in minimal impact on society in spite of the existing need. Second, inadequate opportunities for linkage among different entities such as NGOs, government agencies and other donors meant that projects were scattered throughout the nation with no geographic focus." (ESDF, p.6) The real problem faced by the donor community and ESDF was Egypt's NGO absorption capacity. It did not match the Fund's goal to disburse resources within a time frame of ten years. ESDF first resorted to the umbrella approach, whereby strong NGOs (CARE, Terre des Hommes, CEOSS) with adequate management, administrative and training capacity were contracted as implementing organizations to carry out medium to large projects with a large number of local subcontractor NGOs. Only when it was realized that these high caliber NGOs were rather limited in number

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and repeated contracts of a maximum of three projects per organization was set by policy regulations, ESDF was forced to search for a different development approach, otherwise it would not be able to complete the disbursement of the Fund's resources per its mandate. This eventually led ESDF to design the "Cluster Approach," in which three to six medium-sized qualified NGOs were selected to coordinate and implement large projects under ESDF monitoring and direct field supervision. All Cluster Projects are executed independently in direct collaboration with local government offices.

### **Lesson 7: Debt-swap agreements should ensure additionality.**

One of the major criticisms that debt-swap agreements face is that they might replace the debtor country's social spending, rather than add to it. When the Italians and Swiss were asked how they would ensure additionality, they responded that it is nearly impossible to prove that any one project would or would not have been financed in the absence of the swap agreement. Zyllicz (1998) recommends that creditor nations track additionality by examining the historical spending baseline of the debtor country. A three-year moving average should be taken for each sector, and monitored to see if the spending falls below this baseline. If spending for the year falls below the baseline, then swap-generated projects should not be considered.

As a simple exercise, we tracked for additionality in the ICT sector, as it is the sector used in this report. The latest figures<sup>28</sup> show an 54.2 million Egyptian pounds capital investment in the ICT sector versus a three-year moving average of 51 million Egyptian pounds. The increase in investments is consistent with Zyllicz's (1998) recommendations. The Italian swap contribution cannot claim the entire responsibility for the rise in figures, yet the conclusion is a positive one.

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<sup>28</sup> Source: General Authority for Investment and Free Zones (GAFI)

## *V. Lessons Learned and Implications*

### **B) Project Implementation**

**Lesson 8: Technical Committees (TC) responsible for identifying activities to be carried out in the debtor countries should have broad representation.**

One of the most important tasks in creating a debt swap agreement is the identification of activities to be carried out in the debtor country. Both the Italian and Swiss funds have instituted Technical Committees (TC) that serve as the advisory body. TCs review and comment on proposed concept papers/proposals, and make recommendations. TC members are usually drawn from a large pool of stakeholders. For example: the Swiss fund's TC includes representation from the Ministry of International Cooperation (MIC), the Swiss Embassy, the Egyptian Federation of NGOs, Alexandria Business Association, the Social Fund, the National Council of Childhood and Mother Care, and UNICEF. We believe that this large representation can help to ensure that the activities specified be part of the debtor country's relevant sector needs.

**Lesson 9: Focusing on a specified and well defined debt-swap model of allocation of funds is easier to implement and assess**

The Egyptian-Italian swap has agreed to allocate funds based on three different methods of distribution. First, activity distribution: 26%, 24%, 9%, 16%, 8%, 7%, 5%, and 5% were allocated for Small and Middle Enterprises (SMEs), rural development, water resources and water management, education, social development, poverty alleviation, health and environment respectively<sup>29</sup>. Second, geographical area: 35%, 24%, 16%, 2%, 2% and 21% were distributed to the Delta area, Greater Cairo, Upper Egypt, Sinai, Fayoum, and the national level respectively. Finally, beneficiaries: 60%, 16%, 21%, 2% and 1% went to Ministries, other governmental institutions, UN Agencies, Egyptian NGOs, and Italian NGOs respectively. On the other hand, the Egyptian-Swiss agreement is only focusing on sector enhancement in general but is flexible to become more narrowly implemented. The ESDF general sectors are employment, environment, and social service enhancement with 40%, 40% and 20% allocated respectively. While ESDF's sector coverage is

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<sup>29</sup> Sometimes activities and sectors overlap; choice of allocation of funds and categorizing the projects is made under one criteria to eliminate any confusion.

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broadly defined, area focus nevertheless took place during the early course of the project based on field experiences and prevailing statistics on poverty indicators. In the meantime, job creation mainly involves micro-lending; environment encompasses sanitation and water in rural areas and solid waste handling in urban areas; the social service sector was mandated from the very beginning to cover primary health (preventive health and access to health facilities) and basic education services (literacy). Therefore, the Italian and Swiss models with their different ways of distributions make it easier to focus on narrower issues and to define indicators against which progress can be evaluated.

**Lesson 10: It is extremely important to select good TC advisors of funds so that they can effectively identify and evaluate projects and grant proposals.**

A selection criterion for proposed projects is an essential duty for a fund's secretariat. Both the Italian and Swiss sides have done an excellent job in performing their required tasks. Their TCs include a full spectrum of qualified professional staff with development experience, a good degree of common sense, and the ability to have confidence in others.

**Lesson 11: Monitoring and evaluations of funds should be built into the swap agreement to allow for adjustments when needed.**

Financial and technical monitoring and evaluation are a requirement for the survival of the fund and the sustainability of its projects. Both the Italian and Swiss funds have very similar processes. According to the ESDF 2004 annual report, stakeholders have to report their expenditures quarterly. Monitoring is done with a mid-term and final audit that indicates the financial performance of the implementer, and avoids any mismanagement of funds. On the technical side, all projects are required to submit a quarterly technical report, which specifies achievement, activities and results according to the work plan targets. Each project must first file their logical framework, then submit a work plan followed by a resource allocation sheet, and finally a budget. Progress reports are required every three months. Both the Italian and Swiss funds report problems with these processes, as Egyptian stakeholders, especially NGOs, have very poor financial skills. Ethical problems have also been reported. The Swiss fund has provided financial training, seminars and workshops for NGO boards of directors.

## *VI. Concluding Remarks*

It is important to conclude that Even though the total amount of debt relief that Egypt received from its debt-swap agreements is small (1.6% of Egypt's external debt), it undoubtedly freed up additional resources that were invested in solving social problems. This report demonstrates first, that Egypt has gained valuable knowledge from its debt-swap involvement (how to structure transactions, establish counterpart funds and select projects) and advocates for pursuing more of these swap agreements. Second, Egypt's experience, illustrated by the ICT4D Case Study, shows that using debt swaps to achieve development goals is both reasonable and feasible. It is believed that this report can serve as an example for other middle-income countries to benefit from the experience as well.

To help the greatest number of people, it is essential to focus on sectors and industries that yield immediate returns to communities. In Egypt's case, ICT projects were selected to enhance economic growth because their efficacy has been observed in other places for the last three decades. Throughout the 1990s and into the new millennium, these technologies have become not just beneficial, but essential for any country that wishes to maximize its human resources and be competitive in the global economy. It is imperative that information technologies be available to every segment of a population without discrimination. Such situations can only be avoided through a continuous, comprehensive and effective learning process that can capitalize on emerging ICT. Investing in people, the most important commodity of the 21st century, is the key to development. "Humanware" is the most vital building block in the ICT infrastructure, more important than hardware, software and electronic networks. The Millennium Development Goals (MDGs) declared by the United Nations can only be realized when people are able to learn essential information, and then to use or disseminate it.

ICT projects affect different aspects of life, and provide a variety of opportunities for social inclusion depending how they are designed, deployed, and accessed. The use of debt swap for development with various social levels of stakeholders has many positive implications that are reflected in the society at large. Being part of the development and implementation of projects that directly affect the way the community lives engages people in the process, and contributes to the development of the sectors. The digital and technology gap is minimized.

## *VI. Concluding Remarks*

Using debt swaps in ICT projects is also seen as an attempt to benefit from the volume element that could be realized in specific sectors through capitalizing on the advantages enabled by such technologies. This could include education, capacity and community development. Remote, rural communities need access to information; it is an necessary for their development. The debt-swap mechanisms put opportunities into the hands of these communities, giving them this access and training their citizens how to use it. On a final note, as was mentioned earlier, the concept of debt swaps, like any other, has its blessings as well as its drawbacks. In Egypt, the main benefits came from the fact that the sector developed was in line with the broader government's socio-economic policies. New economic and social opportunities were initiated for various groups such as women, underprivileged rural communities, and low-wage, low-skilled workers. Many success stories, such as the ICT4D case study presented in this report, have realized their targeted objectives. . This debt swap model should be widely replicated to involve various other sectors, which would hopefully yield similar successes on a macro level. This work is left for future researchers.

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## VII. References

### Glossary of Terms

**Additionality:** New investment generated through debt conversion. Debt-equity swaps can be used to promote foreign investment in priority sectors of the economy and to stimulate privatization or non-traditional exports. Debt-for-development swaps can attract additional donor assistance.

**Bilateral debt conversion agreement:** A legal agreement between a debtor government and a creditor government regarding the conversion of debt.

**Commercial (private) debt:** Debt owed to private sector creditors, including commercial banks, bond holders, and export and trading companies (includes bonds, loans, and promissory notes).

**Counterpart fund:** In exchange for debt cancellation, a debtor government agrees to redeem a part of the debt called in local currency, which it pays into a counterpart fund. The legal framework for counterpart funds has typically been established through bilateral debt reduction agreements negotiated between creditor and debtor countries. They are most often governed by representatives of both civil society (local NGOs or other private institutions) and governmental institutions. The resources held in a counterpart fund are used to finance development activities and to strengthen the capacity of local organizations. They may also help to establish sustainable financing mechanisms such as loan guarantee funds.

**Debt conversion agreement:** A legal agreement between the investor and the debtor government describing the terms, procedures and obligations of both parties to a debt conversion. In conversion involving bilateral debt, the agreement is between the creditor government and the debtor government.

**Debt-for-child development swap:** Debt-for-development swaps funding programs benefiting children. UNICEF was the leader in implementing these swaps.

**Debt-for-debt swap:** The exchange of one type of debt for another type with different terms.

## VII. References

**Debt-for-development swap:** The cancellation of external debt in exchange for funding for development projects (child development, conservation/environment, education, health, etc.) in the debtor country (also called debt-for-aid).

**Debt donation:** A creditor agrees to donate debt for a not-for-profit investor in debt swaps.

**Debt-for-education swap:** Debt-for-development swaps funding programs benefiting education. Scholarship programs for Latin American students were funded through debt-for-education swaps.

**Debt-equity swap:** The cancellation of external debt in exchange for equity investment in a domestic company or privatized public enterprise.

**Debt-for-exports swap:** The cancellation of external debt in exchange for local currency to purchase goods of the debtor country for export.

**Debt-for-health swap:** Debt-for-development swaps for health programs. For example, the River Blindness Foundation increased its funding for river blindness eradication in Nigeria through debt-for-health swaps. The HIID recently argued that additional resources from debt relief should be directed to HIV/AIDS prevention.

**Debt-for-nature (environment) swap:** The cancellation of external debt in exchange for local currency that is used to finance conservation or environmental protection projects.

**Non-Paris Club creditors:** Debt owed to bilateral creditors that are not members of the Paris Club of creditors.

**Paris Club:** The Paris Club is an ad hoc group of official bilateral creditors that meets periodically to negotiate rescheduling agreements with debtor countries. The French Treasury serves as the Secretariat for the Paris Club.

**Paris Club debt swap clause:** A clause that has been included in most Paris Club agreed minutes (framework agreements between a debtor and its Paris Club creditors) since 1991. The clause currently allows for conversion on a voluntary basis of 100% of ODA loans and up to the highest of 30% or SDR 40 million for non-concessional loans. (On an exceptional basis).

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